

**Tomorrow Center Community
School
Morrow County, Ohio**

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2016



Dave Yost • Auditor of State

Board of Directors
Tomorrow Center Community School
3700 CR 168
Cardington, OH 43315

We have reviewed the Independent Auditor's Report of the Tomorrow Center Community School, Morrow County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Tomorrow Center Community School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 9, 2017

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Morrow County, Ohio
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March 21, 2017

To the Board of Directors
Tomorrow Center Community School
Morrow County, Ohio
121 Nichols Street
Cardington, Ohio 43315

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Tomorrow Center Community School, Morrow County, Ohio, (the Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Tomorrow Center Community School
Independent Auditor's Report
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tomorrow Center Community School, Morrow County, Ohio, as of June 30, 2016, and the changes in its financial position and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4–7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2017 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Millersburg, Ohio

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**Tomorrow Center Community School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

The management's discussion and analysis of the Tomorrow Center Community School's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, net position was \$475,369 at June 30, 2016, a decrease of \$240,974 from 2015.
- The Center had operating revenues of \$1,013,063 and operating expenses of \$1,483,597 for fiscal year 2016. The Center's operating loss and change (decrease) in net position for the fiscal year were \$470,534 and \$240,974, respectively.
- The Center terminated the sponsorship agreement with Mount Gilead Exempted Village School District and is no longer reported as a component unit. Subsequent to the fiscal year ended June 30, 2015 the Center entered into a sponsorship agreement with Cardington Lincoln Local School District for a five year period effective July 1, 2016.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Center's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the Center, including all short-term and long-term financial resources and obligations.

Reporting the Center Financial Activities

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2016?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net position* and changes in that position. This change in net position is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The Statement of Cash Flows reflects how the center finances and meets cash flow needs.

**Tomorrow Center Community School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

The table below provides a summary of the Center's net position for 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Assets:		
Current and Other Assets	\$386,431	\$682,404
Capital Assets	<u>88,938</u>	<u>118,291</u>
Total Assets	<u>475,369</u>	<u>800,695</u>
Liabilities:		
Current Liabilities	<u>0</u>	<u>84,352</u>
Total Liabilities	<u>0</u>	<u>84,352</u>
Net Position:		
Investment in Capital Assets	88,938	118,291
Restricted	4,495	3,457
Unrestricted	<u>381,936</u>	<u>594,595</u>
Total Net Position	<u>\$475,369</u>	<u>\$716,343</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Center's net position totaled \$475,369, a 34% decrease from fiscal year 2015.

The decrease in federal grants receivable combined with a decrease in foundation revenue received contributed to the decrease in current assets. AP decrease due to timing of disbursements.

At year end, capital assets represented 19% of total assets. Capital assets consisted of furniture and equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

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**Tomorrow Center Community School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

The table below shows the changes in net position for fiscal year 2016 and 2015.

	<u>Change in Net Position</u>	
	<u>2016</u>	<u>2015</u>
Operating Revenues:		
State Foundation	\$980,573	\$1,099,219
Other Revenues	<u>32,490</u>	<u>17,654</u>
Total Operating Revenues	<u>1,013,063</u>	<u>1,116,873</u>
Operating Expenses:		
Contract Services	1,341,920	1,080,571
Materials and Supplies	83,052	58,228
Depreciation	29,353	38,928
Other Expenses	<u>29,272</u>	<u>25,370</u>
Total Operating Expenses	<u>1,483,597</u>	<u>1,203,097</u>
Operating Income (Loss)	<u>(470,534)</u>	<u>(86,224)</u>
Non-Operating Revenues:		
Investment Earnings	157	511
State and Federal Grants	<u>229,403</u>	<u>5,033</u>
Total Non-Operating Revenues	<u>229,560</u>	<u>5,544</u>
Special Item	0	(450,000)
Change in Net Position	<u>(240,974)</u>	<u>(530,680)</u>
Net Position - Beginning of Year	<u>716,343</u>	<u>1,247,023</u>
Net Position - End of Year	<u>\$475,369</u>	<u>\$716,343</u>

State Foundation operating revenue decrease is due to a decrease in enrollment. Contract Services increase is due to rent payments to Cardington-Lincoln LSD. Special Item one time termination payment was recorded in the prior year. Increase in State and Federal Grants is due to an increase in Title I and Food Service Grant Revenue.

Capital Assets

At June 30, 2016, the Center had \$88,938 invested in furniture and equipment net of accumulated depreciation. The net decrease in capital assets was due to current year depreciation expense exceeded current year additions. See Note 5 to the basic financial statements for more detail on capital assets.

**Tomorrow Center Community School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Current Financial Related Activities

The Center is a conversion community school sponsored by the Cardington-Lincoln Local School District. The Center entered into a new agreement with Cardington-Lincoln Local School District during 2016.

Like most traditional schools, the Center is a labor-intensive endeavor. Unlike traditional schools however, a community school cannot levy any taxes and must survive on State and Federal revenues and donations. At this time, the Center relies solely on the resources provided through State and Federal funding.

The Center is committed to operating within its financial means, and to working with the local community and agencies, it serves to provide the required educational programs for these students.

Contacting the Center's Financial Management

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the resources it receives. If you have any questions, or concerns, about this report or need additional financial information, contact the Mid-Ohio ESC at 890 West 4th Street Mansfield, Ohio 44906.

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Tomorrow Center Community School

Statement of Net Position

June 30, 2016

	Tomorrow Center
Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$306,891
Receivables:	
Intergovernmental	<u>79,540</u>
Total Current Assets	<u>386,431</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net	<u>88,938</u>
Total Noncurrent Assets	<u>88,938</u>
Total Assets	<u>475,369</u>
Liabilities:	
Accrued Wages and Benefits	<u>0</u>
Total Liabilities	<u>0</u>
Net Position:	
Investment in Capital Assets	88,938
Restricted:	
Federally Funded Programs	<u>4,495</u>
Unrestricted	<u>381,936</u>
Total Net Position	<u><u>\$475,369</u></u>

See accompanying notes to the basic financial statements.

Tomorrow Center Community School
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended June 30, 2016

	Tomorrow Center
Operating Revenues:	
State Foundation	\$980,573
Other Revenues	<u>32,490</u>
Total Operating Revenues	<u>1,013,063</u>
Operating Expenses:	
Contract Services	1,341,920
Materials and Supplies	83,052
Depreciation	29,353
Other Expenses	<u>29,272</u>
Total Operating Expenses	<u>1,483,597</u>
Operating Income (Loss)	<u>(470,534)</u>
Non-Operating Revenues (Expenses):	
Investment Earnings	157
State and Federal Grants	<u>229,403</u>
Total Non-Operating Revenues (Expenses)	<u>229,560</u>
Change in Net Position	<u>(240,974)</u>
Net Position - Beginning of Year	<u>716,343</u>
Net Position - End of Year	<u>\$475,369</u>

See accompanying notes to the basic financial statements.

Tomorrow Center Community School
 Statement of Cash Flows
 For the Fiscal Year Ended June 30, 2016

	<u>Tomorrow Center</u>
Cash Flows from Operating Activities:	
Cash Received from State Foundation	\$1,013,063
Cash Payments from Contractual Services	(1,426,272)
Cash Payments for Materials and Supplies	(83,052)
Cash Payments for Other Expenses	<u>(29,272)</u>
Net Cash Provided (Used) by Operating Activities	<u>(525,533)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Received from State and Federal Grants	<u>253,157</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>253,157</u>
Cash Flows from Investing Activities:	
Earnings on Investments	<u>157</u>
Net Cash Provided (Used) by Cash Flows from Investing Activities	<u>157</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(272,219)
Cash and Cash Equivalents - Beginning of Year	<u>579,110</u>
Cash and Cash Equivalents - End of Year	<u>\$306,891</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(\$470,534)
Adjustments:	
Depreciation	29,353
Changes in Assets & Liabilities:	
Increase (Decrease) in Due to Primary Government	<u>(84,352)</u>
Net Cash Provided (Used) by Operating Activities	<u>(\$525,533)</u>

See accompanying notes to the basic financial statements.

**Tomorrow Center Community School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

Note 1 - Description of the Center

Tomorrow Center Community School (the "Center") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Center is an approved tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect their tax exempt status. The Center's objective is to deliver a comprehensive educational program of high quality, tied to State and national standards, that includes therapeutic opportunities which can be delivered to students in the grades 3 through 12. The Center is a public school that provides an alternative to the traditional educational setting. The Center serves a student population who are identified as at risk due to drug and/or alcohol involvement, severe emotional disturbance, multiple disabilities, partial hospitalization, or as an alternative to suspension/expulsion. The Center, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Center may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Center was certified by the State of Ohio Secretary of State as a non-profit organization on April 23, 2002. The Center entered into a sponsorship contract with Cardington-Lincoln Local Schools for a 5 year period effective July 1, 2015. The Sponsor is responsible for evaluating the performance of the Center and has the authority to deny renewal of the contract at its expiration.

The Center operates under the direction of a five-member Board of Directors. The Center's Board of Directors is appointed by the following agencies on a pro-rated basis. Cardington-Lincoln Local Schools Board of Education (2) representatives, if a Cardington-Lincoln Local Schools Board Member is appointed said member(s) will serve as a non-voting ex officio member(s), Mid-Ohio Educational Service Center (1) representative, Morrow County Job and Family Services (1) representative, Central Ohio Mental Health Center (1) representative, Morrow County Council of Alcohol and Drugs or any successor agency. The Sponsor's treasurer shall be a non-voting ex officio member of the Center's Board of Directors. Directors each serve a two year term. A resignation or vacancy on the Board of Directors will be appointed for the remaining term by the agency that has representation. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Center has developed a cooperative arrangement with the Sponsor.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center's significant accounting policies are described below.

**Tomorrow Center Community School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises and focuses on the determination of operating income, changes in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, all liabilities and deferred inflows are included on the statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Center's contract with its Sponsor. The contract between the Center and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Chapter 5705.

Cash and Cash Equivalents

All monies received by the Center are deposited in a demand deposit account.

Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Center maintains a capitalization threshold of \$500 for nontechnical and audio/visual equipment and \$200 for technical and audiovisual equipment. The Center does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over five to fifteen years.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Center. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Center. All revenues and expenses not meeting this definition are reported as non-operating.

**Tomorrow Center Community School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Investment in capital assets, consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Intergovernmental Revenue

The Center currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Federal and State grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expense requirements, in which the resources are provided to the Center on a reimbursement basis.

The Center participates in various programs through the Ohio Department of Education. These include the Title I, Title II-A, IDEA and Race to the Top grant.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Income Taxes

The Center is exempt from Federal income tax as an exempted affiliate of a governmental unit. Accordingly, no income tax expense is recorded in the accompanying financial statements.

Generally accepted accounting principles require the Center to evaluate the level of uncertainty related to whether tax positions taken will be sustained upon examination. Any positions taken that do not meet the more-likely-than-not threshold must be quantified and recorded as a liability for unrecognized tax benefits in the accompanying financial statement of net position along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of revenues, expenses and changes in net position. The Center believes that none of the tax positions taken would materially impact the financial statements and no such liabilities have been recorded.

Tomorrow Center Community School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 3 – Deposits

At June 30, 2016, the carrying amount of all Center deposits was \$306,891. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$61,848 of the Center’s bank balance of \$311,848 was exposed to custodial risk, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

Note 4 – Receivables

Receivables at June 30, 2016, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectable in full.

Note 5 – Capital Assets

A summary of capital assets at June 30, 2016 follows:

	<u>Beginning Balance</u>			<u>Ending Balance</u>
	<u>Additions</u>		<u>Deletions</u>	
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$452,487	\$0	\$0	\$452,487
Less Accumulated Depreciation	(334,196)	(29,353)	0	(363,549)
Capital Assets, Net	<u>\$118,291</u>	<u>(\$29,353)</u>	<u>\$0</u>	<u>\$88,938</u>

Note 6 – Related Party Transactions

In addition, during fiscal year ended June 30, 2016, the Center paid \$80,790 to its former sponsor, Mount Gilead Exempted Village Schools, for contracted services accrued in the previous fiscal year.

**Tomorrow Center Community School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

For fiscal year ended June 30, 2016, contract services expenses through Cardington-Lincoln Local Schools were as follows:

Purchased Administrative Services	294,220
Utility Expenses	<u>5,000</u>
	<u><u>\$299,220</u></u>

The above transactions are related party transactions since these services are purchased through the Sponsor, Cardington-Lincoln Local Schools.

Note 7 – Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center is covered under the liability and property polices of the Cardington-Lincoln Local Schools.

Total Policy coverage - includes the following:

Blanket Building and Personal Property limit (\$1,000 deductible)	\$46,298,977
Equipment Breakdown (\$1,000 deductible)	\$438,023
Inland Marine (\$500 deductible)	\$1,000,000
Auto Liability & Uninsured/underinsured motorist	\$5,000
Medical payments	\$1,000,000
Public Employee Dishonesty (\$500 deductible)	\$50,000
General school district liability	\$2,000,000
Per occurrence	\$1,000,000
Umbrella Coverage	2,000,000
Per occurrence	\$1,000,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from fiscal year 2015.

Note 8 - Contingencies

Litigation

The Center is not involved in any other litigation that, in the opinion of management, would have a material effect on the financial statements.

Tomorrow Center Community School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. This amount is immaterial and not reflected in the fiscal year 2016 financial statements. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 and June 30, 2016 foundation funding; therefore the final financial statement impact is not determinable at this time. ODE and management believe this will result in a receivable to or liability of the Center.

Grants

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2016.

Note 9 - Service Contract

North Central Ohio ESC and the Center have entered into a service contract agreement. This agreement states that the Center will contract for educational services from North Central Ohio ESC. North Central Ohio ESC agreed to provide the requested services and receive reimbursements for the Center pursuant to Ohio Revised Code Section 3317.11 as follows:

1. Instructional services for the intensive day treatment program
2. Instructional services for the High School S.E.D. program
3. Instructional services for the Recovery/Alcohol program
4. Instructional services for the Suspension Alternative program
5. Collaboration for staff development programs for certified and non-certified staff
6. Planning and consultative services for curriculum development
7. Psychological services as needed for re-evaluations and initial multi-factored evaluations
8. Fiscal services including payroll, retirement, and insurance
9. Student services including E.M.I.S., Nursing, Speech, Guidance and Therapy
10. Classroom space and administrative services
11. Custodial services
12. Food services
13. Transportation services
14. Supervision/Director services
15. Office Management services
16. Classroom aides for instructional areas
17. Technology support

In fiscal year 2016, payments were made by the Center to North Central Ohio ESC totaling \$834,657. These represent payments for reimbursements for services provided by North Central Ohio Esc to the Center.

**Tomorrow Center Community School
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

Note 10 – Operating Lease

On July 3, 2015 the Center moved into a building located at 3700 County Road 168 Cardington, Ohio 43315, which is leased by Cardington-Lincoln Local School District for a five year period. Base rent was \$24,500 a month or \$294,000 for the year which included custodial services, grounds maintenance, utility costs, snow removal and waste removal in addition to the rights to the building. On April 11, 2016 the Center and Cardington-Lincoln modified their rental agreement. Beginning fiscal year 2017 the Center still pays rent to Cardington-Lincoln Local School District at a lower rate per an informally agreed upon amount between the Center and Cardington-Lincoln Local School District.

March 21, 2017

To the Board of Directors
Tomorrow Center Community School
Morrow County, Ohio
121 Nichols Streets
Cardington, Ohio 43315

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tomorrow Center Community School, Morrow County, Ohio (the Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated March 21, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Independent Auditor's Report on Internal Control over Financial Reporting and on
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Millersburg, Ohio



Dave Yost • Auditor of State

TOMORROW CENTER COMMUNITY SCHOOL

MORROW COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED
MAY 23, 2017