THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

The Mollie Kessler School
Mahoning County
118 East Wood Street
Youngstown, Ohio 44503

To the Board of Directors:

We have audited the accompanying financial statements of The Mollie Kessler School, Mahoning County, Ohio (the "School"), as of and for the year ended June 30, 2004, which comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of The Mollie Kessler School, Mahoning County, as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments"*, GASB Statement No. 37, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"*, and GASB Statement No. 38 *"Certain Financial Statement Note Disclosure"*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

June 8, 2005

This discussion and analysis of The Mollie Kessler School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- The School uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

- In total, net assets decreased by $28,419.

- Revenues totaled $467,426 in 2004. Of this total, $423,342 or 91 percent consisted of operating revenues while non-operating revenues accounted for $44,084 or 9 percent of total revenues. $398,306 or 85 percent was derived from the State Community School Foundation Program, Special Education Weighted Formula and Parity Aid.

- Expenses totaled $495,845 during the fiscal year. Salaries and fringe benefits accounted for $341,529 or 69 percent of this total while purchased services, materials and supplies, depreciation and other operating expense made up $154,316 or 31 percent.

Using this Annual Financial Report

This annual report consists of two parts, the MD&A and the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets and a statement of cash flows. Since the School only uses one fund for its operations, the entity wide and fund presentations information is the same.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially in 2004?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. The School finished fiscal year 2004 with net assets totaling $181,364.

This statement reports the School's net assets, however, in evaluating the overall position of the School's non-financial information such as changes in the condition of the School's capital assets will also need to be evaluated.

Table 1 provides a summary of the School's net assets for 2004 compared to 2003:

Table 1
Net Assets

	2004	2003
Assets		
Current and Other Assets	$88,878	$244,857
Capital Assets, Net	164,809	22,864
Total Assets	253,687	267,721
Liabilities		
Accounts Payable	649	2,095
Accrued Wages	40,609	24,823
Contracts Payable	8,000	8,000
Intergovernmental Payable	23,065	23,020
Total Liabilities	72,323	57,938
Net Assets		
Invested in Capital Assets	164,809	22,864
Unrestricted	16,555	186,919
Total Net Assets	$181,364	$209,783

Total assets decreased by $14,034 during fiscal year 2004. This decrease can be attributed mostly to decreases in cash and cash equivalents and intergovernmental receivable.

Total liabilities increased by $14,385 during fiscal year 2004. The increase in liabilities is due primarily to the School hiring two new employees during the fiscal year which increased accrued wages. By comparing assets and liabilities, one can see the overall position of the School has slightly decreased as evidenced by the decrease in net assets of $28,419.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004 as well as revenue and expense comparisons to the previous fiscal year.

Table 2
Revenues and Expenses

	2004	2003
Operating Revenues:		
Foundation Payments	$398,306	$274,052
Charges for Services	15,485	17,085
Miscellaneous	9,551	9,780
Non-Operating Revenues:		
Operating Grants	43,748	436,939
Interest	336	450
Total Revenues	467,426	738,306
Operating Expenses:		
Salaries	267,074	210,196
Fringe Benefits	74,455	65,768
Purchased Services	112,803	139,311
Materials and Supplies	17,979	97,266
Depreciation	9,884	5,716
Other	13,650	10,266
Total Expenses	495,845	528,523
Increase (Decrease) in Net Assets	(28,419)	209,783
Net Assets Beginning of Year	209,783	0
Net Assets End of Year	$181,364	$209,783

Although the School relies heavily upon the State Community School Foundation Program to support its operations, the School actively solicits and receives additional grant and entitlement funds to help offset some operating costs.

Salaries and fringe benefits increased during the fiscal year by $56,878 and $8,687 respectively, due to the School hiring two new employees. These increases were offset by decreases in purchased services and materials and supplies in the amounts of $26,508 and $79,287 respectively, for an overall decrease in expenses in the amount of $32,678.

The School has carefully planned its financial existence by forecasting its revenues and expenditures over the next five fiscal years.

Capital Assets

Table 3
Capital Assets at June 30 (Net of Depreciation)

	2004	2003
Building Improvements	$145,958	$0
Furniture and Equipment	18,851	22,864
Total	$164,809	$22,864

At the end of fiscal year 2004, the School had $164,809 invested in building improvements and furniture and equipment. The increase in capital assets during the fiscal year was due to the School utilizing the grant award from fiscal year 2003 to purchase and install a new elevator to help make the School handicapped accessible.

For more information on the School's capital assets, see Note 7 of the basic financial statements.

Debt

The School had no outstanding general obligation debt at June 30, 2004.

School Outlook

The Mollie Kessler School continues to maintain a high level of service to our at risk student population. We completed the second year of our five year contract with the Ohio Department of Education with 55 students. We will reach our contracted total student population of 60 students next year.

The Mollie Kessler School received a designation of Academic Watch during the fiscal year 2004 school year report card, due to our small testing population comprised of 95 percent learning disabled students.

The School's average cost per pupil is slightly above the state average due to our commitment to spend our funding on our students. The Mollie Kessler School Board and administration closely monitor the School's revenues and expenditures and are doing everything in their power to make sure every dollar is being used efficiently and effectively.

The financial future of The Mollie Kessler School is stable. At this time, the growth in State revenue will balance the anticipated growth in expenses.

Contacting the School's Financial Management

This financial report is designed to provide our community with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Leslie A. Brown, Treasurer at The Mollie Kessler School, 118 E. Wood St., Youngstown, OH 44503. The Treasurer may also be contacted by phone at (330) 746-3095 or by email at MKES_LB@ACCESS-K12.org.

The Mollie Kessler School

Statement of Net Assets

June 30, 2004

Assets	
Cash and Cash Equivalents	$49,908
Accounts Receivable	1,340
Intergovernmental Receivable	34,549
Prepaid Items	3,081
Depreciable Capital Assets, Net	164,809
Total Assets	253,687
Liabilities	
Accounts Payable	649
Contracts Payable	8,000
Accrued Wages Payable	40,609
Intergovernmental Payable	23,065
Total Liabilities	72,323
Net Assets	
Invested in Capital Assets	164,809
Unrestricted	16,555
Total Net Assets	$181,364

See accompanying notes to the basic financial statements

The Mollie Kessler School

Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

Operating Revenues	
Foundation Payments	$398,306
Charges for Services	15,485
Other Operating Revenues	9,551
Total Operating Revenues	423,342
Operating Expenses	
Salaries	267,074
Fringe Benefits	74,455
Purchased Services	112,803
Materials and Supplies	17,979
Depreciation	9,884
Other Operating Expenses	13,650
Total Operating Expenses	495,845
Operating Loss	(72,503)
Non-Operating Revenues	
Operating Grants	43,748
Interest	336
Total Non-Operating Revenues	44,084
Change in Net Assets	(28,419)
Net Assets Beginning of Year	209,783
Net Assets End of Year	$181,364

See accompanying notes to the financial statements

The Mollie Kessler School

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$398,306
Cash Received from Customers	15,495
Cash Received from Other Operating Sources	27,014
Cash Payments to Suppliers for Goods and Services	(101,885)
Cash Payments to Employees for Services	(267,056)
Cash Payments for Employee Benefits	(80,552)
Cash Payments for Other Operating Expenses	(38,456)
Net Cash Used for Operating Activities	(47,134)
Cash Flows from Noncapital Financing Activities	
Cash Received from Operating Grants	160,867
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(151,829)
Cash Flows from Investing Activities	
Interest on Investments	336
Net Decrease in Cash and Cash Equivalents	(37,760)
Cash and Cash Equivalents Beginning of Year	87,668
Cash and Cash Equivalents End of Year	$49,908

(continued)

The Mollie Kessler School

Statement of Cash Flows (continued)

For the Fiscal Year Ended June 30, 2004

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	($72,503)
Adjustments:	
Depreciation	9,884
(Increase) Decrease in Assets:	
Accounts Receivable	4,010
Prepaid Assets	(2,910)
Increase (Decrease) in Liabilities:	
Accounts Payable	(1,446)
Accrued Wages and Benefits	15,786
Intergovernmental Payable	45
Total Adjustments	25,369
Net Cash Used for Operating Activities	($47,134)

See accompanying notes to the financial statements

Note 1 - Description of the School and Reporting Entity

The Mollie Kessler School (the School) is a school as provided for by Ohio Revised Code Chapters 3314 and 1702 located within the Youngstown City School District. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Mollie Kessler School may sue and be sued in its own name, acquire facilities as needed and contract for services necessary for the operation of the School.

The creation of the School was initially proposed to the Ohio Department of Education by employees of the ACLD (Association for Children with Learning Disabilities) Learning Center and other members of the community on December 12, 2001. The Ohio Department of Education approved the proposal and entered into a contract with the Learning Center which provided for the commencement of School operations on September 9, 2002. The Ohio Department of Education is the School's sponsor.

The School operates under a seven-member Board of Directors appointed by The Mollie Kessler School Developers, the ACLD Learning Center. Of the seven member Board, one of the board members is also on the Board of the ACLD Learning Center. The Board 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 and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by six non-certified personnel, four certificated full time teaching personnel, one full time certified administrator and one full time treasurer who provide services to fifty-five students.

These financial statements present only the financial activity and balances of The Mollie Kessler School.

The School participates in one jointly governed organization, the Area Cooperative Computerized Educational Service System Council of Governments. This organization is presented in Note 11 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (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 School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School has elected not to apply FASB Pronouncements and Interpretations issued after November 30, 1989. The School utilizes enterprise fund accounting. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The School uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activity.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. 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 School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

E. Cash and Cash Equivalents

The School maintains an interest bearing depository account. All funds of the School are maintained in this account. This interest bearing depository account is presented in the Statement of Net Assets as Cash and Cash Equivalents. The School has no investments.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess 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.

Depreciation of the building improvements is computed using the straight-line method over the remaining useful lives of the related capital assets. Depreciation of the furniture, fixtures and equipment is computed using the straight-line method over an estimated useful life of five years.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as 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 School must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the School on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The review resulted in no over or under payment to the School.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded $150,000 in fiscal year 2003 to offset start-up costs of the School and to install an elevator to make the School handicapped accessible. Money received under this program is recognized as non-operating revenue in the accompanying financial statements, unless it is restricted for capital acquisitions in which case it is recognized as a capital contribution.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

H. Compensated Absences

Employees of the School receive no vacation days.

Each employee of the School is given three sick days per fiscal year which are forfeited if not used by year-end.

I. Net Assets

Net Assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School did not have any restricted net assets as of June 30, 2004.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the School, these revenues are foundation payments, charges for services and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses which do not meet these definitions are reported as nonoperating.

K. Estimates

The presentation of the financial statements in conformity with generally accepted accounting principles 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.

L. Federal Tax Exempt Status

On September 5, 2002, the School was granted status as an exempt organization under Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxes. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

Note 3 - Changes in Accounting Principle

For fiscal year 2004, the School has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosures" and GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units".

GASB 34 creates new basic financial statements for reporting on the School's financial activities.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the reporting entity of the School.

The implementation of these changes had no effect on net assts as it was previously reported.

Note 4 - Operating Lease

The Mollie Kessler School leases the building in which it operates from the ACLD School and Learning Center. The School has entered into a lease for this space for a period of one year from September 1, 2003, through August 31, 2004. The Mollie Kessler School is obligated to pay $2,750 per month and a lump sum due at June 30, 2004 of $15,250 for a total annual rent of $48,000. The lease is renewable annually.

Note 5 - Deposits and Investments

At fiscal year-end, the carrying amount of the School's deposits was $49,908 and the bank balance was $88,918. The entire amount of the bank balance was covered by federal depository insurance.

Note 6 - Receivables

Receivables at June 30, 2004, consisted of accounts receivable and intergovernmental grants. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs. All receivables are expected to be collected within one year.

Note 7 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 6/30/03	Additions	Reductions	Balance 6/30/04
Capital assets being depreciated				
Building improvements	$0	$149,700	$0	$149,700
Furniture, fixtures and equipment	28,580	2,129	0	30,709
Total capital assets being depreciated	28,580	151,829	0	180,409
Accumulated depreciation				
Building improvements	0	(3,742)	0	(3,742)
Furniture, fixtures and equipment	(5,716)	(6,142)	0	(11,858)
Total accumulated depreciation	(5,716)	(9,884)	0	(15,600)
Capital assets being depreciated, net	$22,864	$141,945	$0	$164,809

Note 8 - Risk Management

A. Property and Liability

The School 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. For fiscal year 2004, the School contracted with First Place Insurance Agency, Ltd. for general and professional liability insurance with a $1,000,000 each occurrence limit, $1,000,000 annual aggregate with a $500 deductible and for business personal property with a limit of $25,000 and a deductible of $500. No claims have been made by the School as of June 30, 2004.

B. Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll times the contribution rate established by Worker's Compensation for the School.

C. Employee Benefits

The School has contracted with the Anthem Blue Cross/Blue Shield Insurance Company to provide employee health, dental and life benefits. The School pays 100 percent of the monthly premium for single coverage but has no family plan. For fiscal year 2004, the School's premiums varied (depending on the age of the employee) for single coverage per employee per month. An employee may add a spouse or child but the employee pays the entire premium.

Note 9 - Pension Plans

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004 and 2003 were $10,028 and $6,536 respectively; 88.06 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004 and 2003 were $20,376 and $13,700 respectively; 60.02 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003. The School made no contributions to the DC and Combined Plans for fiscal year 2004.

Note 10 - Postemployment Benefits

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $1,567 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004 the balance in the Fund was $3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at $25,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled $7,017.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were $223,443,805 and the target level was $335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of $300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Note 11 - Jointly Governed Organization

The Area Cooperative Computerized Educational Service System (ACCESS) Council of Governments (COG) is a computer network which provides data services to twenty three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports COG based upon a per pupil charge, which was $26 for fiscal year 2004. The Mollie Kessler School paid $1,413 to COG during fiscal year 2004.

COG is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of COG including budgeting, appropriating, contracting and designating management. All of COG revenues are generated from charges for services and State funding.

Financial information can be obtained from the Treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 Debartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

Note 12 - Contingencies

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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 School at June 30, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the action on the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on The Mollie Kessler School is presently undeterminable.

Note 13 – State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The plan reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school funding scheme that is thorough and efficient…".

The School is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Note 14 – Purchased Services

For the period of July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	$63,414
Rent	48,000
Advertising	861
Postage	528
Total	$112,803

Note 15 – Related Party Transaction

During the fiscal year, The Mollie Kessler School paid $48,000 in rent to the ACLD Learning Center. Of the seven-member Board, one of the board members is also on the Board of the ACLD Learning Center.

This page intentionally left blank.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

The Mollie Kessler School
Mahoning County
118 East Wood Street
Youngstown, Ohio 44503

To the Board of Directors:

We have audited the financial statements of The Mollie Kessler School (the "School") as of and for the year ended June 30, 2004, which comprise the School's basic financial statements and have issued our report thereon dated June 8, 2005, wherein we noted the School adopted Governmental Accounting Standards Board (GASB) Statement Nos. 34, 37, and 38. 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 Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

We intend this report solely for the information and use of the audit committee, management, Board of Directors, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

June 8, 2005

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

THE MOLLIE KESSLER SCHOOL

MAHONING 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.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 30, 2005