TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

THE TOMMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY

TABLE OF CONTENTS

THIS PAGE INTENTIONALLY LEFT BLANK

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Tomorrow Center Community School
Morrow County
145 ½ N. Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

To the Board of Directors:

We have audited the accompanying basic financial statements of the Tomorrow Center Community School, Morrow County, Ohio, (the School), a component unit of Mount Gilead Exempted Village School District, Morrow County, Ohio as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. 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 *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 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 that our audit provides a reasonable basis for our 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, a component unit of Mount Gilead Exempted Village School District, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 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, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

March 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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, 2004. 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.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets were $358,818 at June 30 2004.
- The Center had operating revenues of $475,479 and operating expenses of $532,828 for fiscal year 2004. Operating loss and the change in net assets for the fiscal year was $(57,349) and $127,099, respectively.

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 Assets* and *Statement of Revenues, Expense and Changes in Net Assets* 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 Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, 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 assets* and changes in those assets. This change in net assets 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. Theses statements can be found on pages 7 and 8 of this report. The statement of cash flows can be found on page 9.

The table below provides a summary of the Center's net assets for 2004 and 2003

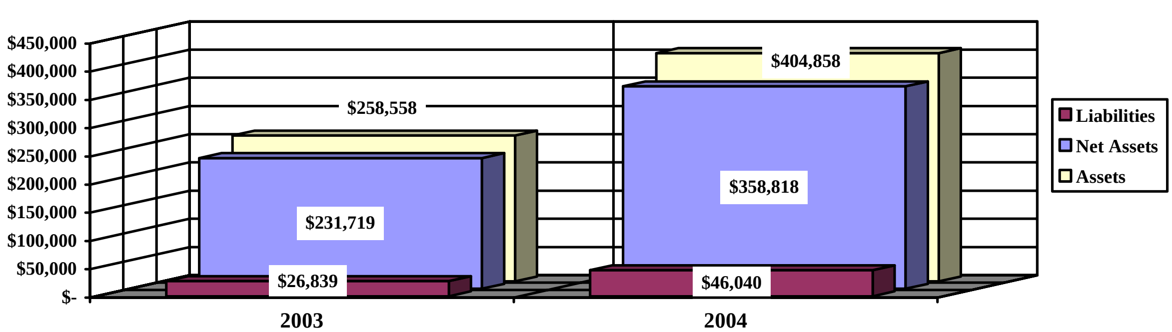
Net Assets

	2004	2003
Assets		
Current assets	$ 357,423	$ 244,477
Capital assets, net	47,435	14,081
Total assets	404,858	258,558
Liabilities		
Liabilities	46,040	26,839
Total liabilities	46,040	26,839
Net Assets		
Invested in capital assets	47,435	14,081
Restricted	30,196	-
Unrestricted	281,187	217,638
Total net assets	$ 358,818	$ 231,719

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Center's net assets totaled $358,818, a 54.85% increase over fiscal 2003. This increase is largely due to the increase in state foundation receipts collected during the year based on increased enrollment in school and the purchase of computer equipment.

At year-end, capital assets represented 11.72% 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.

Net Assets



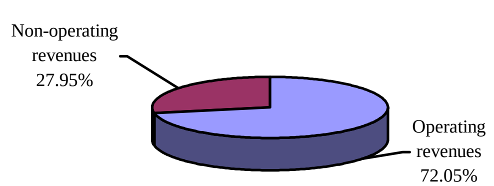
The table below shows the changes in net assets for fiscal year 2004.

Change in Net Assets

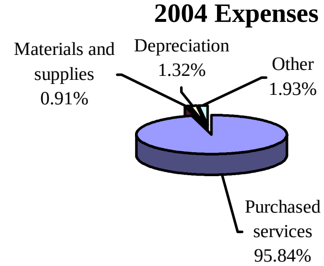
	2004	2003
Operating Revenues:		
State foundation	$ 475,479	$ 341,812
Total operating revenue	475,479	341,812
Operating Expenses:		
Contract services	510,638	314,895
Materials and supplies	4,838	15,486
Depreciation	7,042	1,565
Other	10,310	1,625
Total operating expenses	532,828	333,571
Non-operating revenues:		
State and federal grants	155,925	189,300
Other local revenue	28,523	34,178
Total non-operating revenues	184,448	223,478
Change in net assets	$ 127,099	$ 231,719

The charts below illustrate the revenues and expenses for the Center during fiscal years 2004 and 2003. Overall operating revenues and expenditures increased in 2004 due to the increase in students enrolled at the Center during its second full year of operation.

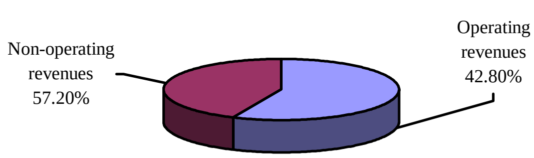
2004 Revenues



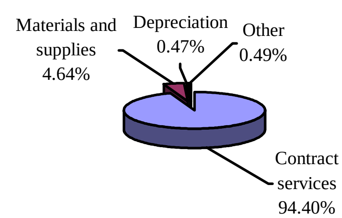
2004 Expenses



2003 Revenues



2003 Expenses



Capital Assets

At June 30, 2004, the Center had $47,435 invested in furniture and equipment. See Note 5 to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The Center is a conversion community school sponsored by the Mt. Gilead Exempted Village School District. The sponsorship currently runs through 2007. It is anticipated that this sponsorship will be renewed.

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 revenues and donations. At this time the Center relies solely on the resources provided through State funding. There are no immediate financial concerns outside of controlling health insurance premiums and utility costs. That being stated, the Center's five-year forecast is very healthy and no budgetary cuts are projected in the upcoming five-years.

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 Steve Earnest, Treasurer, at Tomorrow Center, 145 ½ North Cherry Street, Mt. Gilead, OH 43338, or e-mail Stephen_e@treca.org.

THE TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY, OHIO

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets:		
Current assets:		
Equity in pooled cash and cash equivalents. . .	$	230,483
Receivables:		
Intergovernmental		125,000
Prepayments		1,940
Total current assets		357,423
Noncurrent assets:		
Capital assets, net		47,435
Total assets.		404,858
Liabilities:		
Accounts payable.		46,040
Total liabilities		46,040
Net Assets:		
Invested in capital assets, net of related debt.		47,435
Restricted for:		
Other purposes		30,196
Unrestricted		281,187
Total net assets	$	358,818

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THE TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Operating revenues:	
State foundation.	$ 475,479
Total operating revenues	475,479
Operating expenses:	
Contract services	510,638
Materials and supplies	4,838
Depreciation	7,042
Other	10,310
Total operating expenses	532,828
Operating loss	(57,349)
Nonoperating revenues:	
State and federal grants	155,925
Other local revenue	28,523
Total nonoperating revenues.	184,448
Change in net assets	127,099
Net assets at beginning of year	231,719
Net assets at end of year.	$ 358,818

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THE TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Cash flows from operating activities:		
Cash received from state foundation	$	475,479
Cash payments for contractual services		(491,437)
Cash payments for materials and supplies		(4,838)
Cash payments for other expenses		(12,250)
Net cash used in operating activities		(33,046)
Cash flows from noncapital financing activities:		
Cash received state and federal grants		135,925
Cash received from other local revenue		28,523
Net cash provided by noncapital financing activities.		164,448
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(40,396)
Net cash used in capital and related financing activities.		(40,396)
Net increase in cash and cash equivalents		91,006
Cash and cash equivalents at beginning of year . . .		139,477
Cash and cash equivalents at end of year.	$	230,483
Reconciliation of operating loss to net cash provided used in operating activities:		
Operating loss	$	(57,349)
Adjustments:		
Depreciation.		7,042
Changes in assets and liabilities:		
(Increase) in prepayments		(1,940)
Increase in accounts payable		19,201
Net cash used in operating activities	$	(33,046)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

NOTE 1 - DESCRIPTION OF THE SCHOOL

The 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 12th. 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 was approved for operation under a contract with the Mount Gilead Exempted Village School District (the "Sponsor") for a five year period commencing October 30, 2002. 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 seven-member Board of Directors. The Center Board of Directors is appointed by the following agencies on a pro-rated basis. Mt. Gilead Exempted Village School District Board of Education (2) representatives, if a Mount Gilead Exempted Village School Board Member is appointed said member(s) will serve as a non-voting ex officio member(s), Mount Gilead Exempted Village School District (2) representatives, 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 conversion school's Board of Directors. Board of Directors will each serve a (2) 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 is a component unit of Mount Gilead Exempted Village School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Center has utilized existing programs within the existing structure of the Mount Gilead Exempted Village School District.

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 also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Center has elected not to apply FASB Statement and Interpretations issued after November 30, 1989. The Center's significant accounting policies are described below.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Basis of Presentation

The Center's 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 Center uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows reflects how the Center finances meet its cash flows needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which the Center receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. Expenses are recognized at the time they are incurred.

C. 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 Section 5705, unless specifically provided in the School'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 Section 5705.

D. Cash and Investments

All monies received by the Center are deposited in Mount Gilead Exempted Village School District's (the Sponsor) demand deposit account. No specific cash and investments of the Sponsor are assigned to the Center. Cash balances on hand with the sponsor are maintained as part of the sponsor's cash pool. For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Assets, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. 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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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. Equipment is depreciated over five to fifteen years.

F. 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.

G. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are 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 assets are available.

I. Intergovernmental Revenue

The Center currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education, the State Community School Grant, the Electronic Management Information System Grant and the Ohio School Net Professional Development Grant. Revenues received from the State Foundation Program are recognized as operating revenues in the accompanying financial statements. Grants and entitlements 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 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 Center on a reimbursement basis.

J. 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.

NOTE 3 - ACCOUNTABILITY

Changes in Accounting Principles

For fiscal year 2004, the Center 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 for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB Statement No. 34 creates new basic financial statements for reporting on the Center's financial activities. The basic financial statements include government-wide financial statements prepared on the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management's Discussion and Analysis.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

The implementation of these statements had no effect on net assets at June 30, 2003.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The Center has agreed to follow state statute investment requirements of its sponsor, Mt. Gilead Exempted Village School District. At June 30, 2004, the Center had no investments. However, the carrying amount of cash in the sponsor's cash pool is noted below.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year-end the carrying amount of the Center's deposits on hand with the Sponsor was $230,483. The balance was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.81, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the Center. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

NOTE 5 - CAPITAL ASSETS

A summary of capital assets at June 30, 2004 follows:

	Balance 6/30/03	Additions	Disposals	Balance 6/30/04
Furniture and equipment	$ 15,646	$ 40,396	$ -	$ 56,042
Less: accumulated depreciation	(1,565)	(7,042)	-	(8,607)
Net capital assets	$ 14,081	$ 33,354	$ -	$ 47,435

NOTE 6 - INTERGOVERNMENTAL RECEIVABLES

The Center participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded $150,000 during the year ended June 30, 2004 to offset start-up costs of the Center. Revenue received from this program is recognized as state and federal grants in the accompanying financial statements. Of this award, $125,000 was receivable at June 30, 2004. This amount is presented as an intergovernmental receivable on the financial statements. All intergovernmental receivables are considered collectible in full due to the current year guarantee of Federal funds.

NOTE 7 - CONTRACT SERVICES—RELATED PARTY TRANSACTIONS

For fiscal year ended June 30, 2004, contract services expenses were as follows:

Employee payroll	$ 238,702
Employee fringe benefits	83,375
Purchased instructional services	76,986
Purchased administrative services	13,443
Utility expenses	37,699
Other purchased services	60,433
Total	$ 510,638

The above transactions are related party transactions since these services are purchased through the Sponsor, Mount Gilead Exempted Village School District as described in Note 10.

NOTE 8 - 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. On December 23, 2003, the Center obtained liability insurance from Indiana Insurance Company. A summary of the Center's insurance coverage follows:

Coverage	Limits of Coverage	Deductible
General liability:		
Each occurrence	$ 1,000,000	$ 0
Annual aggregate	2,000,000	0
Commercial umbrella:		
Each occurrence	1,000,000	0
Annual aggregate	1,000,000	0
Employee benefits liability:		
Each occurrence	1,000,000	3,000
Annual aggregate	3,000,000	3,000
Ohio employer's liability:		
Each occurrence	1,000,000	0
Annual aggregate	2,000,000	0

NOTE 8 - RISK MANAGEMENT- (Continued)

School leader's errors and omissions:		
Each occurrence	1,000,000	2,500
Annual aggregate	1,000,000	2,500
School law enforcement liability:		
Each occurrence	500,000	2,500
Annual aggregate	500,000	2,500

Settled claims after December 23, 2003 resulting from these risks have not exceeded commercial insurance coverage. Management is not aware of any material pending claims that were incurred before December 23, 2003 that would affect the Center.

NOTE 9 - CONTINGENCIES

A. 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 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 Center at June 30, 2004. Management is unaware of any material pending claims that may affect the fiscal 2004 school year.

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's Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed 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 for oral argument on November 18th, 2003. The effect of this suit, if any, on the Center is not presently determinable. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the states public educational system and the matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Center is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education 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. The Center does not have any significant adjustments to state funding for fiscal year 2005, as a result of the reviews which have been completed.

D. State School Funding Decision

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

NOTE 9 – CONTINGENCIES- (Continued)

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 its financial operations.

NOTE 10 - SERVICE CONTRACT

The Mount Gilead Exempted Village School District and the Center entered into a service contract effective for the 2003-2004 school year. This agreement states that the Center will contract for educational services from the Mount Gilead Exempted Village School District Board of Education and reimburse the Board of Education for these services. The Mount Gilead Exempted Village School District agreed to provide the requested services and receive reimbursement for the Center pursuit to Ohio Revised Code Section 3317.11.

Mount Gilead Exempted Village School District's Board of Education agreed to provide the following services for the Center:

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

The Mount Gilead Board of Education acts as the fiscal agent for the service agreement described above. As fiscal agent, the Board of Education shall enter into employment contracts with each certified teacher/administrator/aid whose services are to be shared with Mount Gilead Exempted Village School District. Other services may be provided based on mutual consent of both the Center and the Mount Gilead Exempted Village School District.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

The Center has contracted with its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the Center of the obligation for remitting pension contributions. The retirement systems consider the Center as the Employer-of-Record and the Center ultimately responsible for remitting contributions to each of the systems noted below:

A. School Employees Retirement System

The Center's Sponsor contributes on behalf of the Center to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2004, 9.09% of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17% was 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 Center's required contributions for pension obligations for the year ended June 30, 2004, were paid by the Center's Sponsor.

B. State Teachers Retirement System

The Center's Sponsor contributes on behalf of the Center to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during the fifth year of membership unless they permanently select the DC or Combined Plan.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The Center was required to contribute 14%; 13% was the portion used to fund pension obligations. As a comparison, 13% was used to fund pension obligations in 2003.

NOTE 11 - DEFINED BENEFIT PENSION PLANS- (Continued)

Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Center's required contributions for pension obligations to STRS for the year ended June 30, 2004 were paid by the Center's Sponsor.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The Center's Sponsor provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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 shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. The Center's costs were paid by the Center's Sponsor.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was $3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were $268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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% 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% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% 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 $24,500. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were $223.444 million 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 and SERS had approximately 62,000 participants receiving health care benefits. The Center's costs were paid by the Center's Sponsor.

THIS PAGE INTENTIONALLY LEFT BLANK

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Tomorrow Center Community School
Morrow County
145 ½ N. Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

To the Board of Directors:

We have audited the basic financial statements of Tomorrow Center Community School, Morrow County, Ohio, (the School), a component unit of Mount Gilead Exempted Village School District, Morrow County, Ohio, as of and for the year ended June 30, 2004, and have issued our report thereon dated March 10, 2005. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the School's management in a separate letter dated March 18, 2005.

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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the School's management in a separate letter dated March 18, 2005.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

This report is intended solely for the information and use of the management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

March 18, 2005

TOMORROW CENTER COMMUNITY SCHOOL
MORROW COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	**Ohio Rev. Code Section 3314.03(11)(b)—** The school did not purchase liability insurance.	No	Partially Corrected— Liability insurance secured December 23, 2003. Reissued in the Management Letter.
2003-002	**Auditor of State Bulletin 98-003—** The School did not have a complete set of distinguishable financial records	Yes	N/A

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

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.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 5, 2005