



**Auditor of State  
Betty Montgomery**



**YOUNGSTOWN COMMUNITY SCHOOL  
MAHONING COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Youngstown Community School  
Mahoning County  
50 Essex Street  
Youngstown, Ohio 44502

To the Governing Board:

We have audited the Balance Sheet of the Youngstown Community School, Mahoning County, (the School), a division of Developing Potential Inc., as of June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and the Statement of Cash Flows as of and for the year ended June 30, 2003. 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 Youngstown Community School, Mahoning County, a division of Developing Potential Inc., as of June 30, 2003, and the results of its operations 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 December 31, 2003 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.

We performed our audit to form an opinion on the financial statements of the School, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 31, 2003

**Youngstown Community School**

*Balance Sheet*

*As of June 30, 2003*

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**Assets**

*Current Assets*

|  |           |
|--|-----------|
| Equity in Pooled Cash and Cash Equivalents | \$711,291 |
| Receivables:                               |           |
| Accounts                                   | 1,330     |
| Intergovernmental                          | 4,747     |
|  | <hr/>     |
| <i>Total Current Assets</i>                | 717,368   |

*Non-Current Asset*

|  |                           |
|--|---------------------------|
| Fixed Assets (Net of Accumulated Depreciation) | 3,967,343                 |
|  | <hr/>                     |
| <i>Total Assets</i>                            | <u><u>\$4,684,711</u></u> |

**Liabilities and Fund Equity**

*Current Liabilities*

|                                  |          |
|----------------------------------|----------|
| Accounts Payable                 | \$10,681 |
| Accrued Wages and Benefits       | 118,509  |
| Intergovernmental Payable        | 17,265   |
|                                  | <hr/>    |
| <i>Total Current Liabilities</i> | 146,455  |

*Long-Term Liabilities*

|                                    |           |
|------------------------------------|-----------|
| Compensated Absences Payable       | 83,949    |
| Capital Leases Payable             | 3,774,910 |
|                                    | <hr/>     |
| <i>Total Long-term Liabilities</i> | 3,858,859 |

|                          |           |
|--------------------------|-----------|
| <i>Total Liabilities</i> | 4,005,314 |
|--------------------------|-----------|

**Fund Equity**

|  |                           |
|--|---------------------------|
| Retained Earnings                        |                           |
| Unreserved                               | 679,397                   |
|  | <hr/>                     |
| <i>Total Liabilities and Fund Equity</i> | <u><u>\$4,684,711</u></u> |

See accompanying notes to the financial statements

**Youngstown Community School**  
*Statement of Revenues, Expenses and  
 Changes in Retained Earnings  
 For the Year Ended June 30, 2003*

|  |                         |
|--|-------------------------|
| <hr/> <hr/>                                    |                         |
| <b>Operating Revenues</b>                      |                         |
| Foundation Payments                            | \$1,469,263             |
| Charges for Services                           | 153,826                 |
| Other Operating Revenues                       | <u>175</u>              |
| <i>Total Operating Revenues</i>                | <u>1,623,264</u>        |
| <br><b>Operating Expenses</b>                  |                         |
| Salaries                                       | 922,133                 |
| Fringe Benefits                                | 211,180                 |
| Purchased Services                             | 270,235                 |
| Materials and Supplies                         | 115,573                 |
| Depreciation                                   | 156,966                 |
| Other Operating Expenses                       | <u>23,628</u>           |
| <i>Total Operating Expenses</i>                | <u>1,699,715</u>        |
| <br><i>Operating Loss</i>                      | <u>(76,451)</u>         |
| <br><b>Non-Operating Revenues (Expenses)</b>   |                         |
| Operating Grants                               | 371,106                 |
| Interest                                       | 5,437                   |
| Interest and Fiscal Charges                    | <u>(234,391)</u>        |
| <i>Total Non-Operating Revenues (Expenses)</i> | <u>142,152</u>          |
| <br><i>Net Income</i>                          | 65,701                  |
| <br><i>Retained Earnings Beginning of Year</i> | <u>613,696</u>          |
| <br><i>Retained Earnings End of Year</i>       | <u><u>\$679,397</u></u> |

See accompanying notes to the financial statements



**Youngstown Community School**  
*Statement of Cash Flows*  
For the Year Ended June 30, 2003

|   |                         |
|---|-------------------------|
| <b>Cash Flows from Operating Activities</b>                       |                         |
| Cash Received from State of Ohio                                  | \$1,469,263             |
| Cash Received from Customers                                      | 153,062                 |
| Cash Received from Other Operating Sources                        | 175                     |
| Cash Payments to Suppliers for Goods and Services                 | (376,967)               |
| Cash Payments to Employees for Services                           | (852,107)               |
| Cash Payments for Employee Benefits                               | (201,665)               |
| Cash Payments for Other Operating Expenses                        | <u>(23,628)</u>         |
| <i>Net Cash Provided by Operating Activities</i>                  | <u>168,133</u>          |
| <b>Cash Flows from Noncapital Financing Activities</b>            |                         |
| Cash Received from Operating Grants                               | <u>391,168</u>          |
| <b>Cash Flows from Capital and Related Financing Activities</b>   |                         |
| Payments for Capital Acquisitions                                 | (16,285)                |
| Capital Lease Principal Payments                                  | (185,609)               |
| Capital Lease Interest Payments                                   | <u>(234,391)</u>        |
| <i>Net Cash Used for Capital and Related Financing Activities</i> | <u>(436,285)</u>        |
| <b>Cash Flows from Investing Activities</b>                       |                         |
| Interest on Investments   | <u>5,437</u>            |
| <i>Net Increase in Cash and Cash Equivalents</i>                  | 128,453                 |
| <i>Cash and Cash Equivalents Beginning of Year</i>                | <u>582,838</u>          |
| <i>Cash and Cash Equivalents End of Year</i>                      | <u><u>\$711,291</u></u> |

(continued)

**Youngstown Community School**  
*Statement of Cash Flows (continued)*  
*For the Year Ended June 30, 2003*

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***Reconciliation of Operating Loss to Net Cash  
Provided by Operating Activities***

|  |                         |
|--|-------------------------|
| <i>Operating Loss</i>                            | <u>(\$76,451)</u>       |
| <i>Adjustments:</i>                              |                         |
| Depreciation                                     | 156,966                 |
| Increase in Accounts Receivable                  | (764)                   |
| <i>Increase in Liabilities:</i>                  |                         |
| Accounts Payable                                 | 8,841                   |
| Accrued Wages and Benefits                       | 33,105                  |
| Compensated Absences Payable                     | 36,921                  |
| Intergovernmental Payable                        | <u>9,515</u>            |
| <i>Total Adjustments</i>                         | <u>244,584</u>          |
| <i>Net Cash Provided by Operating Activities</i> | <u><u>\$168,133</u></u> |

See accompanying notes to the financial statements

**Youngstown Community School**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**Note 1 - Description of the School and Reporting Entity**

Youngstown Community School (the School) is a school as provided for by Ohio Revised Code Chapters 3314 and 1702 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 Youngstown Community 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 Developing Potential Inc. on July 17, 1998. The Ohio Department of Education approved the proposal and entered into a contract with Developing Potential Inc. which provided for the commencement of School operations on September 8, 1998.

The School operates under a seven-member Board of Developers. Of the seven-member Board, one of the Board members was appointed by Developing Potential Inc. 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 Developers controls the School's one instructional/support facility staffed by eleven non-certified personnel, twenty-three certificated full time teaching personnel, four certified part time personnel, one full time certified principal and one full time licensed treasurer who provide services to two hundred forty students.

Developing Potential Inc. qualifies as a tax exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Developing Potential Inc. also operates the Mill Creek Children's Center, a pre-school primarily for children of low-income, working parents. Separate accounting records are maintained for the Mill Creek Children's Center and a separate governing authority is accountable for the activities of the Mill Creek Children's Center. 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.

These financial statements present only the financial activity and balances of the Youngstown Community School and not Developing Potential Inc. or the Mill Creek Children's Center.

**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 utilizes enterprise fund accounting. The more significant of the School's accounting policies are described below.

**A. Basis Of Presentation**

Enterprise fund accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Youngstown Community School**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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***B. Measurement Focus and Basis of Accounting***

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 are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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 used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when 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 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.

***D. 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 balance sheet as "Equity in Pooled Cash and Cash Equivalents". The School has no investments.

***E. Fixed Assets and Depreciation***

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of two hundred fifty 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, furniture and equipment is computed using the straight-line method over an estimated useful life of five to ten years and the building is depreciated over an estimated useful life of thirty years.

***F. Intergovernmental Revenues***

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) 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.

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.

**Youngstown Community School**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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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 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.

**G. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. Employees of the School District cannot carry over vacation balances from one year to the next.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School's termination policy.

**Note 3 - Deposits and Investments**

At fiscal year-end, the carrying amount of the School's deposits was \$711,291 and the bank balance was \$752,642. \$139,891 of the bank balance was covered by federal depository insurance and \$612,751 was collateralized by the financial institution's public entity deposit pool.

**Note 4 - Receivables**

Receivables at June 30, 2003, consisted of intergovernmental grants and accounts receivable. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs.

**Note 5 - Fixed Assets**

A summary of the School's fixed assets at June 30, 2003, follows:

|                               |                           |
|-------------------------------|---------------------------|
|                               | <u>Totals</u>             |
| Building                      | \$4,105,953               |
| Furniture and Equipment       | <u>182,632</u>            |
| Total Fixed Asset             | 4,288,585                 |
| Less Accumulated Depreciation | <u>(321,242)</u>          |
| Net Fixed Assets              | <u><u>\$3,967,343</u></u> |

**Youngstown Community School**  
*Notes to the Financial Statements*  
For the Fiscal Year Ended June 30, 2003

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**Note 6 – Capital Leases**

In prior fiscal years, the School entered into a lease agreement with Developing Potential Inc. for its building, furniture and equipment (See Note 14). The School’s lease obligation met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases”. The building and furniture and equipment has been capitalized in the amounts of \$4,105,953 and \$29,312, respectively, the present value of the minimum lease payments at the inception of the lease. The book value as of June 30, 2003 was \$3,832,223 and \$19,541, respectively. The following is a schedule of the future long-term minimum lease payments required under the capital lease and present value of the minimum lease payments is as follows:

| Year ending June 30,                    |             |
|---|-------------|
| 2004                                    | \$420,000   |
| 2005                                    | 420,000     |
| 2006                                    | 420,000     |
| 2007                                    | 420,000     |
| 2008                                    | 420,000     |
| 2009-2013                               | 2,100,000   |
| 2014-2016                               | 1,260,000   |
| Total minimum lease payments            | 5,460,000   |
| Less: Amount representing interest      | 1,685,090   |
| Present value of minimum lease payments | \$3,774,910 |

**Note 7 - 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 2003, the School contracted with Gallagher Pipino, Incorporated for general and professional liability insurance with a \$1,000,000 each occurrence limit, \$2,000,000 annual aggregate with a \$250 deductible and Accordia Insurance for business personal property with a limit of \$448,000 and a deductible of \$500.

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in coverage from last year.

***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 by a factor of approximately one percent.

***C. Employee Benefits***

The School has contracted with Anthem Blue Cross/Blue Shield to provide employee medical benefits. The School pays 100 percent of the monthly premium for single coverage but has no family plan. For fiscal year 2003, the School’s premiums varied per employee. An employee may add a spouse or child but the employee pays the entire premium.

**Youngstown Community School**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**Note 8 - 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 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. That 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 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School's 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 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 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, 2003, 2002 and 2001 were \$23,324, \$4,912 and \$5,823 respectively; 71.70 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

***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.

**Youngstown Community School**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. 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, 2003, 2002 and 2001 were \$78,531, \$41,840 and \$18,869 respectively; 87.25 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$8,115 made by the School and \$5,930 made by the plan members.

**Note 9 - 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 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 is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, 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 \$6,105 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition,



**Youngstown Community School**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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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 2003, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits during the 2003 fiscal year equaled \$16,644.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

### **Note 10 - Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending on length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment, but does not carry forward year to year. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate 1.25 days per month in a twelve month period. Sick leave may be accumulated to a maximum of 180 days for certified and classified employees. Upon retirement, employees receive payment for the total sick leave accumulation.

### **Note 11 - 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, 2003.

#### ***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 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 for oral argument on November 18, 2003. The effect of this suit, if any on the Youngstown Community School is not presently determinable.

**Youngstown Community School**  
*Notes to the Financial Statements*  
*For the Fiscal Year Ended June 30, 2003*

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**Note 12 – 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 system 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 13 – Purchased Services**

For the fiscal period of July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors as follows:

|                              |                         |
|------------------------------|-------------------------|
| Professional Services        | \$12,146                |
| Speech Services              | 21,910                  |
| Health Aid Services          | 15,645                  |
| Fiscal Services              | 2,531                   |
| Professional Development     | 13,331                  |
| Security Services            | 1,009                   |
| Charges for Audit            | 5,922                   |
| Contracted for Food Services | 64,085                  |
| Building Insurance           | 888                     |
| Transportation Services      | 1,705                   |
| ACCESS Fees                  | 2,622                   |
| Utilities                    | 64,914                  |
| Repair and Maintenance       | 61,779                  |
| Garbage Removal              | <u>1,748</u>            |
| Total Purchased Services     | <u><u>\$270,235</u></u> |

**Note 14 – Related Party Transaction**

The Youngstown Community School entered into a lease agreement with Developing Potential Inc. for its building, furniture and equipment (See Note 6). Youngstown Community School is a division of Developing Potential Inc.

YOUNGSTOWN COMMUNITY SCHOOL  
MAHONING COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003

| Federal Grantor/<br>Pass Through Grantor<br>Program Title     | Pass Through<br>Entity<br>Number | Federal<br>CFDA<br>Number | Receipts          | Disbursements     |
|---|----------------------------------|---------------------------|-------------------|-------------------|
| <b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>                  |                                  |                           |                   |                   |
| <i>Passed Through Ohio Department of Education:</i>           |                                  |                           |                   |                   |
| Nutrition Cluster:  |                                  |                           |                   |                   |
| National School Breakfast Program                             | LLP4-2003                        | 10.553                    | \$ 38,896         | \$ 38,896         |
| National School Lunch Program                                 | 05PU-2003                        | 10.555                    | 72,219            | 72,219            |
| Total U.S. Department of Agriculture - Nutrition Cluster      |                                  |                           | 111,115           | 111,115           |
| <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>                    |                                  |                           |                   |                   |
| <i>Passed Through Ohio Department of Education:</i>           |                                  |                           |                   |                   |
| Special Education Cluster:                                    |                                  |                           |                   |                   |
| Special Education Grants to States<br>(IDEA Part B) - 2003    | 6BSF-2002                        | 84.027                    | 15,734            | 15,734            |
| (IDEA Part B) - 2002  | 6BSF-2002-P                      | 84.027                    | 1,440             | 1,440             |
| Total - Special Education Cluster                             |                                  |                           | 17,174            | 17,174            |
| Grants to Local Educational Agencies<br>(ESEA Title I) - 2002 | C1S1-2002                        | 84.010                    | 9,272             | 18,574            |
| (ESEA Title I) - 2003   | C1S1-2003                        | 84.010                    | 182,112           | 182,881           |
| Total - CFDA #84.010  |                                  |                           | 191,384           | 201,455           |
| Drug-Free Schools Grant<br>'2002                              | DRS1-2002                        | 84.186                    | 286               | 846               |
| '2003   | DRS1-2003                        | 84.186                    | 1,274             | 504               |
| Total - CFDA #84.186  |                                  |                           | 1,560             | 1,350             |
| Title II  | MSS1-2002                        | 84.281                    | 204               | 1,587             |
| Title II - A  | TRS1-2003                        | 84.367                    | 31,150            | 31,150            |
| Title II - D  | TJS1-2003                        | 84.318                    | 4,114             | 5,102             |
| Innovative Educational Program<br>Strategies - 2002           | C2S1-2002                        | 84.298                    | 1,067             | 1,348             |
| Strategies - 2003   | C2S1-2003                        | 84.298                    | 1,063             | 1,063             |
| Total - CFDA #84.298  |                                  |                           | 2,130             | 2,411             |
| Title VI - R (2002)   | CRS1-2002                        | 84.340                    | 1,300             | 2,567             |
| Title VI - R (2002)   | PGS1-2002                        | 84.340                    | 643               | 643               |
| Total - CFDA #84.340  |                                  |                           | 1,943             | 3,210             |
| Total Department of Education                                 |                                  |                           | 249,659           | 263,439           |
| <b>Totals</b>   |                                  |                           | <b>\$ 360,774</b> | <b>\$ 374,554</b> |

The accompanying notes to this schedule are an integral part of this schedule.

**YOUNGSTOWN COMMUNITY SCHOOL  
MAHONING COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
YEAR ENDED JUNE 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



**Auditor of State  
Betty Montgomery**

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

Youngstown Community School  
Mahoning County  
50 Essex Street  
Youngstown, Ohio 44502

To the Governing Board:

We have audited the financial statements of the Youngstown Community School, Mahoning County, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 31, 2003. 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 performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order 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.

Youngstown Community School  
Mahoning County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

This report is intended for the information and use of the audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 31, 2003



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Youngstown Community School  
Mahoning County  
50 Essex Street  
Youngstown, Ohio 44502

To the Governing Board:

#### Compliance

We have audited the compliance of Youngstown Community School, Mahoning County, (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2003.

### **Internal Control Over Compliance**

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Governing Board, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties



**Betty Montgomery**  
Auditor of State

December 31, 2003



**YOUNGSTOWN COMMUNITY SCHOOL  
MAHONING COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2003**

**1. SUMMARY OF AUDITOR'S RESULTS**

|                     |   |  |
|---------------------|---|--|
| <b>(d)(1)(i)</b>    | <b>Type of Financial Statement Opinion</b>  | Unqualified  |
| <b>(d)(1)(ii)</b>   | <b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>         | No   |
| <b>(d)(1)(ii)</b>   | <b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b> | No   |
| <b>(d)(1)(iii)</b>  | <b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>                       | No   |
| <b>(d)(1)(iv)</b>   | <b>Were there any material internal control weakness conditions reported for major federal programs?</b>              | No   |
| <b>(d)(1)(iv)</b>   | <b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>      | No   |
| <b>(d)(1)(v)</b>    | <b>Type of Major Programs' Compliance Opinion</b>   | Unqualified  |
| <b>(d)(1)(vi)</b>   | <b>Are there any reportable findings under § .510?</b>  | No   |
| <b>(d)(1)(vii)</b>  | <b>Major Programs (list):</b>   | Title I - CFDA #84.010<br>Nutrition Cluster - CFDA #10.553 -10.555 |
| <b>(d)(1)(viii)</b> | <b>Dollar Threshold: Type A\B Programs</b>  | Type A: > \$ 300,000<br>Type B: all others                         |
| <b>(d)(1)(ix)</b>   | <b>Low Risk Auditee?</b>  | No   |

|   |
|---|
| <b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|---|

|                       |             |
|-----------------------|-------------|
| <b>Finding Number</b> | <b>None</b> |
|-----------------------|-------------|

|  |
|--|
| <b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b> |
|--|

|                       |             |
|-----------------------|-------------|
| <b>Finding Number</b> | <b>None</b> |
|-----------------------|-------------|



**Auditor of State  
Betty Montgomery**

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**YOUNGSTOWN COMMUNITY 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  
MARCH 4, 2004**