

**MANSFIELD ENHANCEMENT ACADEMY**

**RICHLAND COUNTY, OHIO**

**BASIC**

**FINANCIAL STATEMENTS**

*FOR THE FISCAL YEAR ENDED*

*JUNE 30, 2006*





Mary Taylor, CPA  
Auditor of State

Board of Directors  
Mansfield Enhancement Academy  
53 West Fourth Street  
Mansfield, Ohio 44906

We have reviewed the *Independent Auditor's Report* of the Mansfield Enhancement Academy, Richland County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 8, 2007

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**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Directors  
Mansfield Enhancement Academy  
53 West Fourth Street  
Mansfield, Ohio 44906

We have audited the accompanying financial statements of Mansfield Enhancement Academy (the "Academy"), Richland County, Ohio, a component unit of Mansfield City School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy'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 the 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 respective financial position of the Mansfield Enhancement Academy, as of June 30, 2006, and the changes in financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3, the Academy had a restatement of beginning net assets due to a change in its capitalization threshold.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2007, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report  
Mansfield Enhancement Academy  
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
January 27, 2007

**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The management's discussion and analysis of the Mansfield Enhancement Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets were \$495,856 at June 30, 2006.
- The Academy had operating revenues of \$1,107,690, operating expenses of \$1,054,373 and non-operating revenues of \$317,578 for fiscal year 2006. Total change in net assets for the fiscal year was an increase of \$370,895.

**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 Academy's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

**Reporting the Academy's 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 2006?" 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 will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.



**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The table below provides a summary of the Academy's net assets for fiscal year 2006 and 2005.

	<b>Net Assets</b>	
	<u>2006</u>	<u>Restated 2005</u>
<b><u>Assets</u></b>		
Current assets	\$ 496,695	\$ 159,611
Total assets	<u>496,695</u>	<u>159,611</u>
<b><u>Liabilities</u></b>		
Current liabilities	<u>839</u>	<u>34,650</u>
Total liabilities	<u>839</u>	<u>34,650</u>
<b><u>Net Assets</u></b>		
Restricted	63,294	-
Unrestricted	<u>432,562</u>	<u>124,961</u>
Total net assets	<u>\$ 495,856</u>	<u>\$ 124,961</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Academy's net assets totaled \$495,856.

A portion of the Academy's net assets, \$63,294, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$432,562 may be used to meet the Academy's ongoing obligation to the students and creditors. The increase in net assets of \$370,895 can be attributed to revenues increasing at a faster pace than expenses. The Academy's current assets consist of cash and cash equivalents. The Academy's current liabilities are accounts payable. The Academy's accounts payables decreased in 2006 due to the timing of payments; the Academy paid most of their obligations for fiscal year 2006 before year-end. There were more obligations outstanding at the end of fiscal year 2005, resulting in an increased amount of current liabilities in 2005.

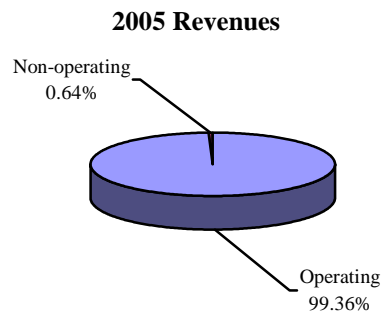
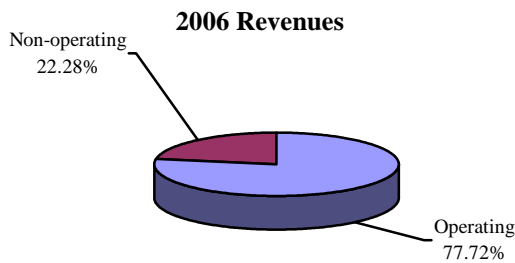
**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The table below shows the changes in net assets for fiscal year 2006 and 2005.

	<b>Change in Net Assets</b>	
	<u>2006</u>	<u>Restated 2005</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 1,107,690	\$ 463,071
Total operating revenue	<u>1,107,690</u>	<u>463,071</u>
<b><u>Operating Expenses:</u></b>		
Purchased services	791,216	271,329
Materials and supplies	<u>263,157</u>	<u>69,781</u>
Total operating expenses	<u>1,054,373</u>	<u>341,110</u>
<b><u>Non-operating Revenues:</u></b>		
Federal and State grants	305,000	3,000
Interest revenue	<u>12,578</u>	<u>-</u>
Total non-operating revenues	<u>317,578</u>	<u>3,000</u>
Change in net assets	370,895	124,961
Net assets at beginning of year	<u>124,961</u>	<u>-</u>
Net assets at end of year	<u>\$ 495,856</u>	<u>\$ 124,961</u>

The charts below illustrate the revenues and expenses for the Academy during fiscal 2006 and 2005. The Academy had increased enrollment in fiscal year 2006, which resulted in an increase in state foundation revenue and also increased operating expenses. In fiscal year 2006, the Academy also received federal and state grants through the Ohio Department of Education and the Federal Charter School Program.



**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Current Financial Related Activities**

The Academy has entered into a service contract for fiscal year 2007 with its Sponsor, Mansfield City School District. In agreement with this contract, the Academy shall utilize certain resources converted to the Academy's use by the Sponsor, including but not limited to portions of the Sponsor's facilities, staff, equipment, instructional materials, curriculum, and educational strategy, as determined to be appropriate by the Sponsor, at the Sponsor's sole discretion.

In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for State and Federal funds that are made available to finance its operations.

**Contacting the Digital Academy's Financial Management**

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Mansfield Enhancement Academy, 53 West Fourth Street, Mansfield, Ohio 44906 or email [mans\\_treas@ncocc-k12.org](mailto:mans_treas@ncocc-k12.org).

**BASIC  
FINANCIAL STATEMENTS**

**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

<b>Assets:</b>	
Current assets:	
Cash and cash equivalents . . . . .	\$ 496,695
<hr/>	
Total assets . . . . .	496,695
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	839
<hr/>	
Total liabilities . . . . .	839
<b>Net Assets:</b>	
Restricted for:	
Federally funded programs . . . . .	63,294
Unrestricted. . . . .	432,562
<hr/>	
Total net assets . . . . .	\$ 495,856
<hr/>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 1,107,690
Total operating revenues . . . . .	<u>1,107,690</u>
<b>Operating expenses:</b>	
Purchased services . . . . .	791,216
Materials and supplies . . . . .	<u>263,157</u>
Total operating expenses . . . . .	<u>1,054,373</u>
Operating income . . . . .	<u>53,317</u>
<b>Non-operating revenues:</b>	
Federal and state grants . . . . .	305,000
Interest income . . . . .	<u>12,578</u>
Total non-operating revenues . . . . .	<u>317,578</u>
Change in net assets . . . . .	370,895
<b>Net assets at beginning of year (restated) . .</b>	<u>124,961</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ 495,856</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<b>Cash flows from operating activities:</b>	
Cash received from State foundation. . . . .	\$ 1,107,690
Cash payments to suppliers for goods and services . .	(825,866)
Cash payments for materials and supplies . . . . .	(262,318)
	19,506
 <b>Cash flows from noncapital financing activities:</b>	
Federal and state grants. . . . .	305,000
	305,000
 <b>Cash flows from investing activities:</b>	
Interest received . . . . .	12,578
	12,578
Net cash provided by investing activities . . . . .	337,084
Net increase in cash and cash equivalents . . . . .	159,611
<b>Cash and cash equivalents at beginning of year . . .</b>	<u>496,695</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u>\$ 496,695</u>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 53,317
Changes in assets and liabilities:	
Decrease in accounts payable. . . . .	(33,811)
	19,506
Net cash provided by operating activities . . . . .	<u>\$ 19,506</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE ACADEMY**

The Mansfield Enhancement Academy (the "Academy") is a non-profit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 to address the needs of students who have met some graduation requirements but have failed to successfully complete all requirements necessary for the attainment of the high school diploma or graduation equivalence diploma. The Academy is nonsectarian in its programs, admission policies employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy is an innovative initiative that will be a cooperative effort with Mansfield City School District (the "Sponsor"). It is a conversion community school sponsored by the Mansfield City School District. The Academy will use the latest technology to reach a diverse student population. This population includes, but is not limited to students ages 17 through 22 with 14 or more high school credits, a 12<sup>th</sup> plus grade level status, a risk of dropping out of high school, and a failure to obtain a GED. Enrollment is limited to students within the attendance area of the Mansfield City School District.

The Academy was approved for sponsorship under contract resolution on June 9, 2004, with the Sponsor for a period of five years commencing on the first day of the 2004-2005 academic year. The Sponsor has designated three of its administrative officers to represent the Sponsor in the occupants' official capacities as members of the Academy's Board of Directors. The individuals who hold such office with the Sponsor shall be formally instructed by the Sponsor that, as directors of the Academy, they are to represent the Sponsor and its interests. From time to time in its discretion, the Sponsor may substitute other administrative positions for those previously designated for this purpose.

Pursuant to the Sponsor's authority under section 3314.08(G) of the Ohio Revised Code to provide the Academy with services, the Sponsor shall be the fiscal agent of the Academy and shall direct the Sponsor's treasurer to serve as the Academy's Treasurer. The Sponsor shall evaluate the performance of the Academy according to the standards set forth in the Assessment and Accountability Plan. The Sponsor is not legally responsible for the final outcome of the community school. Upon dissolution of the Academy, any assets remaining shall be conveyed to the Sponsor.

The service contract for the fiscal year 2005-2006 between the Academy and the Sponsor was also approved. In agreement with the contract, the Academy shall utilize certain resources converted to the Academy's use by the Sponsor, including but not limited to portions of the Sponsor's facilities, staff, equipment, instructional materials, curriculum, and educational strategy, as determined to be appropriate by the Sponsor, in the Sponsor's sole discretion. The price for services rendered by the Sponsor to the Academy is established as the Sponsor's "cost of providing such services including, without limitation, employee salaries and fringe benefits, equipment costs if any, and administrative overhead". All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.



**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the Academy 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 Academy also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements did not conflict with or contradict GASB pronouncements. The Academy had the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Academy elected not to apply these FASB Statements and Interpretations. The Academy's significant accounting policies are described below.

**A. Basis of Presentation**

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

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

**B. Measurement Focus**

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 statements of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy's finances and meets the cash flow needs of its enterprise activities.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy's basic financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded upon the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

**D. Budgetary Process**

The Academy shall operate in compliance with an annual budget which must be reviewed and approved by the Academy's Board of Directors. The Academy must maintain financial records in a similar manner to those records of the Sponsor. The Academy complies with the policies and procedures regarding internal financial controls which are apparent under GASB and FASB. Also, the Auditor of State provides financial policy and procedure guidance to the Academy.

**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

**E. Cash**

Cash held by the Academy is reflected as "Cash and cash equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2006, the Academy had no investments.

**F. Capital Assets**

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Academy increased the capitalization threshold from \$500 to \$5,000 during 2006. Based upon the capitalization threshold change, the Academy does not have any capital assets to report at June 30, 2006. The Academy does not have any infrastructure.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Furniture is depreciated over twenty years and computers are depreciated over five years.

**G. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation through the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide goods or services that are the primary activities of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

**I. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

The Academy also participates in the Federal Charter School Grant Program and the State Community Schools a Grant through the Ohio Department of Education.

**J. Estimates**

The preparation of basic 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.

**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 3 - ACCOUNTABILITY**

The beginning net assets have been restated due to a change in the capitalization threshold described in Note 2F. The adjustment for capital assets had the following effect on net assets as previously reported:

Net assets, July 1, 2005	\$163,006
Adjustment for capital assets	<u>(38,045)</u>
Restated net assets, July 1, 2005	<u>\$124,961</u>

**NOTE 4 - DEPOSITS**

At June 30, 2006, the carrying amount of all Academy deposits was \$496,695. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$398,626 of the Academy's bank balance of \$498,626 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

**NOTE 5 - CAPITAL ASSETS**

The capital asset balance has been restated due to a change in the capitalization threshold.

	Balance		Restated			Balance
	<u>06/30/05</u>	<u>Restatement</u>	<u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/06</u>
Capital assets, being depreciated:						
Equipment	\$ 47,556	\$ (47,556)	\$ -	\$ -	\$ -	\$ -
Less: accumulated depreciation	<u>(9,511)</u>	<u>9,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ 38,045</u>	<u>\$ (38,045)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 6 - PURCHASED SERVICES**

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Professional and technical services	\$ 499,738
Building rental	72,000
Support services	217,473
Travel and meetings	1,615
Communications	<u>390</u>
Total	<u>\$ 791,216</u>

**MANSFIELD ENHANCEMENT ACADEMY  
RICHLAND COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 7 - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2006, the Academy maintains comprehensive insurance coverage with a private carrier for property and general liability insurance. The Academy provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

**NOTE 8 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

**B. Litigation**

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on Mansfield Enhancement Academy 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.

**NOTE 9 - RELATED PARTY**

On June 9, 2004, three administrative employees of Mansfield City School District were appointed to the Board of Directors of the Academy. The Academy is a general population community school sponsored by the Mansfield City School District. For the June 30, 2006 school year, the Academy had an enrollment of 193 students.

**NOTE 10 - SERVICE AGREEMENT**

The Academy is contracting with the Sponsor to manage its operations for school years 2005 through 2010. All services are to be provided on a purchased service or reimbursement basis. The Academy paid \$737,743 in fiscal year 2006 to the Sponsor for educational services.

**NOTE 11 - SUBSEQUENT EVENT**

Effective January 2, 2007, Bart Griffith resigned as Treasurer of the Mansfield Enhancement Academy.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Directors  
Mansfield Enhancement Academy  
53 West Fourth Street  
Mansfield, Ohio 44906

We have audited the financial statements of the Mansfield Enhancement Academy (the “Academy”), Richland County, Ohio, a component unit the of the Mansfield City School District, as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated January 27, 2007. As disclosed in Note 3, the Academy had a restatement of beginning net assets due to a change in the capitalization threshold. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mansfield Enhancement Academy’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 an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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 certain matters that we have reported to the management of the Academy in a separate letter dated January 27, 2007.

Board of Directors  
Mansfield Enhancement Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mansfield Enhancement Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain matter that we reported to the management of the Mansfield Enhancement Academy in a separate letter dated January 27, 2007.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
January 27, 2007



Mary Taylor, CPA  
Auditor of State

**MANSFIELD ENHANCEMENT ACADEMY**

**RICHLAND 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 22, 2007**