



Dave Yost • Auditor of State

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mansfield City School District
Richland County
856 W. Cook Road
Mansfield, Ohio 44906

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Mansfield City School District, Richland County, Ohio, (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

The District did not provide sufficient evidence regarding the amounts disclosed in Note 8 to the basic financial statements for Capital Asset additions, deductions and depreciation expense; stated at \$3,938,321, (\$2,700,867) and \$4,402,984, respectively, as well as the effect of these items on Governmental Activities expenses. The District had an independent capital asset appraisal performed during fiscal year 2012 which supports the reported June 30, 2012 capital asset balances. However, the District did not account for capital asset additions and deductions from the fiscal year beginning through the appraisal date and did not restate its July 1, 2011 balances accordingly. As a result, we were unable to satisfy ourselves regarding amounts disclosed for capital asset additions, disposals, depreciation expense, and Governmental Activities expenses by other auditing procedures.

In our opinion, except for the effects, if any, of adjustments to financial statement amounts or revisions to disclosures of not accounting for the current year activity of capital asset additions, disposals and depreciation in the governmental activities as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Mansfield City School District, Richland County, Ohio, as of June 30, 2012, and the changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Mansfield City School District, Richland County, Ohio, as of June 30, 2012 and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19 to the financial statements, the District has experienced reoccurring losses and has a negative Fund Balance in its General Fund. In addition, the District was declared to be in a state of "Fiscal Watch" by the Auditor of State on December 8, 2006. Note 19 describes management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. As a result of our limited procedures, we believe management's discussion and analysis does not conform to Governmental Accounting Standards Board guidelines, because as discussed in paragraph three, the District did not provide sufficient evidence regarding the amounts disclosed in the basic financial statements for Capital Asset additions, deductions and depreciation expense. We do not express an opinion or provide any assurance on management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Federal Awards Receipts and Expenditures Schedule

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the 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 basic financial statements. The Federal Awards Receipts and Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

January 18, 2013

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**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The management's discussion and analysis of the Mansfield City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District'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 District's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net assets of governmental activities decreased \$7,416,804 which represents a 12.39% decrease from 2011.
- General revenues accounted for \$50,795,130 in revenue or 77.70% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$14,578,053 or 22.30% of total revenues of \$65,373,183.
- The District had \$71,665,462 in expenses related to governmental activities and a \$1,124,525 payment to Ohio School Facilities Commission reported as a special item in governmental activities; only \$14,578,053 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$50,795,130 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and the debt service fund. The general fund had \$53,047,592 in revenues and other financing sources and \$53,708,265 in expenditures and other financing uses. During fiscal year 2012, the general fund's fund balance decreased \$660,673 from a balance of \$494,384 to a deficit of \$166,289.
- The debt service fund had \$1,282,161 in revenues and \$1,740,350 in expenditures. The debt service fund's fund balance decreased \$458,189 from \$8,955,151 to \$8,496,962.

Using the 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 District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *statement of net assets* and *statement of activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds and the only governmental funds reported as major funds.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets and the statement of activities answer this question. These statements include *all (non-fiduciary) 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 District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the general fund and debt service fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the statement of net assets and the statement of activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for a self-insurance program for employee health benefits. The basic proprietary fund financial statements can be found on pages 21-23 of this report.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets on pages 24 and 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 27-89 of this report.

The District as a Whole

The statement of net assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2012 and 2011.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current and other assets	\$ 39,552,635	\$ 44,867,268
Capital assets, net	<u>50,246,100</u>	<u>53,411,630</u>
Total assets	<u>89,798,735</u>	<u>98,278,898</u>
<u>Liabilities</u>		
Current liabilities	22,020,568	22,079,640
Long-term liabilities	<u>15,321,544</u>	<u>16,325,831</u>
Total liabilities	<u>37,342,112</u>	<u>38,405,471</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	39,386,102	41,178,429
Restricted	12,430,751	17,655,289
Unrestricted	<u>639,770</u>	<u>1,039,709</u>
Total net assets	<u>\$ 52,456,623</u>	<u>\$ 59,873,427</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the District's assets exceeded liabilities by \$52,456,623.

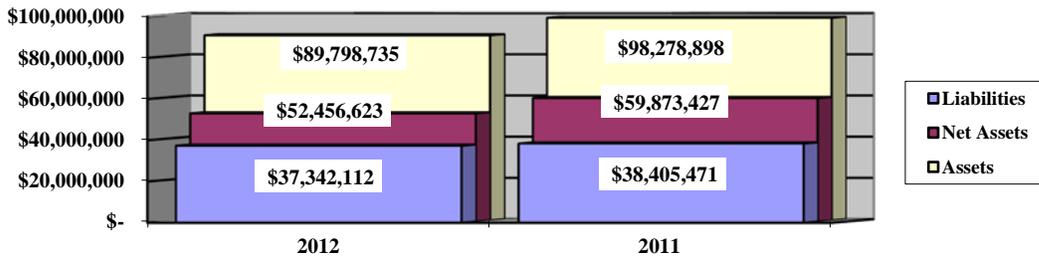
**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

At year-end, capital assets represented 55.95% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. Capital assets, net of related debt to acquire the assets at June 30, 2012, were \$39,386,102. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$12,430,751, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is \$639,770.

Governmental Activities



The table below shows the change in net assets for fiscal year 2012 and 2011.

Change in Net Assets

	Governmental Activities 2012	Governmental Activities 2011
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,770,934	\$ 1,728,432
Operating grants and contributions	12,711,134	16,223,730
Capital grants and contributions	95,985	-
General revenues:		
Property taxes	18,365,544	15,955,077
Grants and entitlements	30,886,092	30,502,993
Investment earnings	61,726	160,063
Other	1,481,768	1,358,998
Total revenues	<u>\$ 65,373,183</u>	<u>\$ 65,929,293</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Change in Net Assets

	<u>Governmental Activities 2012</u>	<u>Governmental Activities 2011</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 18,254,929	\$ 17,515,045
Special	8,429,773	8,959,341
Vocational	1,227,683	1,093,219
Adult/Continuing	344,615	295,197
Other (community schools, open enrollment, tuition, etc.)	12,211,736	12,200,750
Support services:		
Pupil	3,873,533	3,797,117
Instructional staff	3,007,763	2,678,525
Board of education	18,815	21,212
Administration	3,340,448	3,271,485
Fiscal	1,230,241	1,128,274
Business	622,005	889,335
Operations and maintenance	8,526,318	6,145,098
Pupil transportation	2,638,807	2,204,185
Central	2,186,641	2,188,411
Operations of non-instructional services:		
Other non-instructional services	1,970,225	2,264,765
Food service operations	2,214,583	2,044,491
Extracurricular activities	828,974	1,024,745
Interest and fiscal charges	<u>738,373</u>	<u>731,366</u>
Total expenses	<u>71,665,462</u>	<u>68,452,561</u>
Special item:		
Refund to OSFC	<u>(1,124,525)</u>	<u>-</u>
Change in net assets	(7,416,804)	(2,523,268)
Net assets at beginning of year	<u>59,873,427</u>	<u>62,396,695</u>
Net assets at end of year	<u><u>\$ 52,456,623</u></u>	<u><u>\$ 59,873,427</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$7,416,804. Total governmental expenses of \$71,665,462 were offset by program revenues of \$14,578,053 and general revenues of \$50,795,130. Program revenues supported 20.34% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements from the State. These revenue sources represent 75.34% of total governmental revenue.

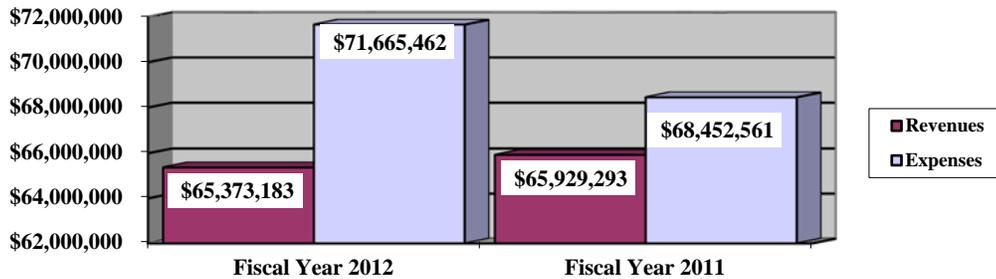
**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The largest expense of the District is for instructional programs. Instruction expenses totaled \$40,468,736 or 56.47% of total governmental expenses for fiscal year 2012. The District also had a \$1,124,525 payment to Ohio School Facilities Commission reported as a special item in governmental activities.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2012 and 2011.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>
Program expenses				
Instruction:				
Regular	\$ 18,254,929	\$ 16,592,655	\$ 17,515,045	\$ 15,273,088
Special	8,429,773	2,693,912	8,959,341	2,363,604
Vocational	1,227,683	723,467	1,093,219	579,503
Adult/Continuing	344,615	181,648	295,197	(14,295)
Other (community schools, open enrollment, tuition, etc.)	12,211,736	12,189,916	12,200,750	11,613,767
Support services:				
Pupil	3,873,533	3,200,177	3,797,117	3,024,387
Instructional staff	3,007,763	2,091,382	2,678,525	1,706,862
Board of education	18,815	18,815	21,212	21,212
Administration	3,340,448	3,066,977	3,271,485	2,602,937
Fiscal	1,230,241	1,193,335	1,128,274	737,022
Business	622,005	622,005	889,335	807,441
Operations and maintenance	8,526,318	8,302,093	6,145,098	6,136,737
Pupil transportation	2,638,807	2,365,697	2,204,185	1,921,653
Central	2,186,641	1,268,993	2,188,411	767,320
Operations of non-instructional services:				
Other non-instructional services	1,970,225	1,304,540	2,264,765	1,602,077
Food service operations	2,214,583	13,350	2,044,491	(47,098)
Extracurricular activities	828,974	520,074	1,024,745	672,816
Interest and fiscal charges	738,373	738,373	731,366	731,366
Total expenses	<u>\$ 71,665,462</u>	<u>\$ 57,087,409</u>	<u>\$ 68,452,561</u>	<u>\$ 50,500,399</u>

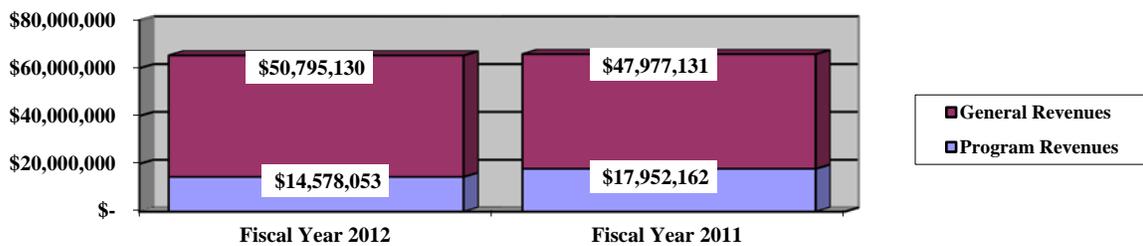
**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The dependence upon tax and other general revenues for governmental activities is apparent, 80.02% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 79.66%. The District's taxpayers and unrestricted grants and entitlements from the State, are the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2012 and 2011.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 16) reported a combined fund balance of \$11,665,099, which is lower than last year's total of \$16,847,089. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2012 and 2011.

	Fund Balance (deficit) <u>June 30, 2012</u>	Fund Balance <u>June 30, 2011</u>	<u>(Decrease)</u>
General	\$ (166,289)	\$ 494,384	\$ (660,673)
Debt Service	8,496,962	8,955,151	(458,189)
Other Governmental	<u>3,334,426</u>	<u>7,397,554</u>	<u>(4,063,128)</u>
Total	<u>\$ 11,665,099</u>	<u>\$ 16,847,089</u>	<u>\$ (5,181,990)</u>

General Fund

The District's general fund balance decreased \$660,673. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 16,174,181	\$ 15,581,917	3.80 %
Tuition	988,323	671,862	47.10 %
Earnings on investments	87,151	137,592	(36.66) %
Intergovernmental	33,944,478	33,480,591	1.39 %
Other revenues	<u>1,797,322</u>	<u>1,929,256</u>	(6.84) %
Total	<u>\$ 52,991,455</u>	<u>\$ 51,801,218</u>	2.30 %
<u>Expenditures</u>			
Instruction	\$ 33,880,064	\$ 33,040,761	2.54 %
Support services	16,648,575	15,354,504	8.43 %
Operation of non-instructional services	1,352,468	1,485,127	(8.93) %
Extracurricular activities	<u>681,158</u>	<u>819,466</u>	(16.88) %
Total	<u>\$ 52,562,265</u>	<u>\$ 50,699,858</u>	3.67 %

The increase in tuition is due to an increase in open enrollment. The decrease in interest revenue is due to a decrease in interest rates on the District's investments. The increase in instruction and support services expenditures is due to the increase in personnel costs.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

The District amended the budgeted revenues for the general fund during the year. For the general fund, original budgeted revenues and other financings sources were \$52,622,595 and final budgeted revenues and other financing sources were \$54,122,595. The actual revenues and other financing sources for fiscal year 2012 totaled \$54,373,573, which were \$250,978 more than the final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) were \$52,193,148 and final budgeted appropriations were \$55,664,426. The actual budget basis expenditures and other financing uses for fiscal year 2012 totaled \$54,549,132, which was \$1,115,294 lower than the final budgeted appropriations.

Debt Service Fund

The debt service fund balance decreased \$458,189 during the course of fiscal year 2012. The debt service fund had revenues of \$1,282,161 and expenditures of \$1,740,350. This decrease is a result of debt payments exceeding tax revenues during fiscal year 2012.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the District had \$50,246,100 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and textbooks. This entire amount is reported in governmental activities.

The following table shows fiscal year 2012 balances compared to 2011:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 4,935,051	\$ 5,135,808
Construction in Progress	278,018	504,796
Land improvements	1,641,493	1,618,120
Building and improvements	41,474,335	44,505,646
Furniture and equipment	1,520,347	1,255,322
Vehicles	396,856	355,620
Textbooks	<u>-</u>	<u>36,318</u>
Total	<u>\$ 50,246,100</u>	<u>\$ 53,411,630</u>

The overall decrease in capital assets of \$3,165,530 is due to depreciation expense of \$4,402,984 and disposals of \$2,196,071 (net of accumulated depreciation) exceeding capital outlays of \$3,433,525 in the fiscal year.

See Note 8 to the basic financial statements for detail on the District's capital assets.

Debt Administration

At June 30, 2012, the District had \$11,815,112 in general obligation bonds and capital lease obligations outstanding. Of this total, \$1,197,833 is due within one year and \$10,617,279 is due in more than one year. The following table summarizes the bonds and capital lease obligations outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities	Governmental Activities
	<u>2012</u>	<u>2011</u>
Capital lease obligation	\$ 30,811	\$ 46,860
General obligation bonds - 1999	-	21,830
General obligation bonds - 2007	<u>11,784,301</u>	<u>12,746,801</u>
Total	<u>\$ 11,815,112</u>	<u>\$ 12,815,491</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

At June 30, 2012, the District's overall legal debt margin was \$34,414,132 with an unvoted debt margin of \$408,635. See Note 10 to the basic financial statements for detail on the District's debt administration.

Current Financial Related Activities

The School District relies heavily on its local property taxpayers. The District passed an operating levy in November 2007. Additionally, the residents of the District approved an Emergency Levy in 1993. This Emergency Levy has been renewed two times since that date. The last renewal of this levy was in March 2008. The residents of the District also passed a continuing Permanent Improvement Levy in 1996. The Mansfield Board of Education passed a resolution on February 8, 2012 determining the necessity of levying the renewal of the tax in the amount of \$4,000,000 for the November 2012 election. The renewal levy was defeated in the November 2012 election. The District and the Board are determining the necessary actions for the District to remain solvent despite the significant loss of property tax funding for future years.

Real estate and personal property tax collections have shown little change. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mil would pay \$35.00 annually in taxes. If three years later, the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mils and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 28.20% of revenues for governmental activities for the District in fiscal year 2012.

The District has also been affected by increased delinquency rates and changes in personal property tax structure (utility deregulation) and commercial business/property uncertainties. Management has diligently planned expenses so that the last levy has stretched longer than the four years it was originally planned for. This has been made increasingly difficult with mandates in gifted education, rising utility costs, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. The District has not anticipated any meaningful growth in State revenue. The concern is that the State redistributes state funding based upon each district's property wealth. This has a significant impact on the District. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. In addition, the District's systems of budgeting and internal controls are well regarded. All of the District's financial abilities will be needed to meet the challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rosetta Stephens, Treasurer, Mansfield City School District, 856 W. Cook Road, Mansfield, Ohio 44907.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government	Component Units		
	Governmental Activities	Mansfield Enhancement Academy	Interactive Media and Construction, Inc.	Mansfield Elective Academy
Assets:				
Equity in pooled cash and investments.	\$ 14,423,900	\$ 91,314	\$ 385,955	\$ 144,934
Receivables:				
Property taxes	22,921,390	-	-	-
Accounts.	43,514	-	-	-
Accrued interest	25,587	-	-	-
Intergovernmental	1,788,642	74,985	70,168	130,389
Prepayments	22,415	2,509	3,206	1,070
Materials and supplies inventory.	180,340	-	-	-
Unamortized bond issuance costs	146,847	-	-	-
Capital assets:				
Land and construction in progress.	5,213,069	-	-	-
Depreciable capital assets, net.	45,033,031	17,255	15,651	4,243
Capital assets, net	<u>50,246,100</u>	<u>17,255</u>	<u>15,651</u>	<u>4,243</u>
Total assets.	<u>89,798,735</u>	<u>186,063</u>	<u>474,980</u>	<u>280,636</u>
Liabilities:				
Accounts payable.	178,637	668	40	-
Contracts payable.	204,748	-	-	-
Accrued wages and benefits	4,749,398	-	-	-
Pension obligation payable.	1,084,762	-	-	-
Intergovernmental payable	271,703	33,118	897	-
Unearned revenue	14,563,759	-	-	-
Accrued interest payable	33,561	-	-	-
Claims payable.	934,000	-	-	-
Long-term liabilities:				
Due within one year.	1,565,085	-	-	-
Due in more than one year.	13,756,459	-	-	-
Total liabilities	<u>37,342,112</u>	<u>33,786</u>	<u>937</u>	<u>-</u>
Net Assets:				
Invested in capital assets, net of related debt.	39,386,102	17,255	15,651	4,243
Restricted for:				
Capital projects	2,906,128	-	-	-
Classroom facilities maintenance	252,117	-	-	-
Debt service.	8,734,983	-	-	-
Locally funded programs	50,158	-	-	-
State funded programs.	141,636	-	-	-
Federally funded programs	119,668	29,339	612	138,949
Student activities	13,999	-	-	-
Other purposes	212,062	-	-	-
Unrestricted.	<u>639,770</u>	<u>105,683</u>	<u>457,780</u>	<u>137,444</u>
Total net assets	<u>\$ 52,456,623</u>	<u>\$ 152,277</u>	<u>\$ 474,043</u>	<u>\$ 280,636</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Program Revenues

	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Instruction:				
Regular	\$ 18,254,929	\$ 899,295	\$ 762,979	\$ -
Special	8,429,773	184,052	5,551,809	-
Vocational	1,227,683	-	504,216	-
Adult/continuing.	344,615	2,421	160,546	-
Other	12,211,736	-	21,820	-
Support services:				
Pupil.	3,873,533	-	673,356	-
Instructional staff	3,007,763	-	916,381	-
Board of education	18,815	-	-	-
Administration.	3,340,448	-	273,471	-
Fiscal.	1,230,241	-	36,906	-
Business.	622,005	-	-	-
Operations and maintenance	8,526,318	14,065	114,175	95,985
Pupil transportation.	2,638,807	47,679	225,431	-
Central	2,186,641	-	917,648	-
Operation of non-instructional services:				
Other non-instructional services . .	1,970,225	-	665,685	-
Food service operations	2,214,583	314,672	1,886,561	-
Extracurricular activities.	828,974	308,750	150	-
Interest and fiscal charges	738,373	-	-	-
Total governmental activities	<u>\$ 71,665,462</u>	<u>\$ 1,770,934</u>	<u>\$ 12,711,134</u>	<u>\$ 95,985</u>
Component Units				
Mansfield Enhancement Academy. . .	\$ 693,187	\$ -	\$ 415,079	\$ -
Interactive Media and Construction, Inc.	492,349	-	275,620	-
Mansfield Elective Academy.	497,866	-	270,618	-
Total business-type activities	<u>\$ 1,683,402</u>	<u>\$ -</u>	<u>\$ 961,317</u>	<u>\$ -</u>

General Revenues:

Property taxes levied for:	
General purposes	
Special revenue.	
Debt service.	
Capital projects.	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Miscellaneous	

Total general revenues

Special Item:

Refund to Ohio School Facilities Commission	
--	--

Total general revenues and special items.

Change in net assets

Net assets at beginning of year.

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Assets**

Primary Government	Component Units		
Governmental Activities	Mansfield Enhancement Academy	Interactive Media and Construction, Inc.	Mansfield Elective Academy
\$ (16,592,655)	\$ -	\$ -	\$ -
(2,693,912)	-	-	-
(723,467)	-	-	-
(181,648)	-	-	-
(12,189,916)	-	-	-
(3,200,177)	-	-	-
(2,091,382)	-	-	-
(18,815)	-	-	-
(3,066,977)	-	-	-
(1,193,335)	-	-	-
(622,005)	-	-	-
(8,302,093)	-	-	-
(2,365,697)	-	-	-
(1,268,993)	-	-	-
(1,304,540)	-	-	-
(13,350)	-	-	-
(520,074)	-	-	-
(738,373)	-	-	-
(57,087,409)	-	-	-
-	(278,108)	-	-
-	-	(216,729)	-
-	-	-	(227,248)
-	(278,108)	(216,729)	(227,248)
16,556,416	-	-	-
181,513	-	-	-
754,501	-	-	-
873,114	-	-	-
30,886,092	308,860	150,924	250,447
61,726	155	754	364
1,481,768	-	-	-
50,795,130	309,015	151,678	250,811
(1,124,525)	-	-	-
49,670,605	309,015	151,678	250,811
(7,416,804)	30,907	(65,051)	23,563
59,873,427	121,370	539,094	257,073
\$ 52,456,623	\$ 152,277	\$ 474,043	\$ 280,636

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments.	\$ 2,446,962	\$ 8,383,927	\$ 3,376,207	\$ 14,207,096
Receivables:				
Property taxes.	20,571,917	946,158	1,403,315	22,921,390
Accounts	23,211	-	20,303	43,514
Accrued interest	25,587	-	-	25,587
Intergovernmental.	425,024	-	1,363,618	1,788,642
Prepayments.	22,415	-	-	22,415
Materials and supplies inventory.	151,325	-	29,015	180,340
Due from other funds	149,865	-	-	149,865
Restricted assets:				
Equity in pooled cash and cash equivalents	4,982	-	-	4,982
Total assets	<u>\$ 23,821,288</u>	<u>\$ 9,330,085</u>	<u>\$ 6,192,458</u>	<u>\$ 39,343,831</u>
Liabilities:				
Accounts payable	\$ 133,657	\$ -	\$ 44,980	\$ 178,637
Contracts payable.	-	-	204,748	204,748
Accrued wages and benefits.	3,878,994	-	870,404	4,749,398
Compensated absences payable	62,111	-	-	62,111
Intergovernmental payable	233,967	-	37,736	271,703
Unearned revenue.	13,108,051	561,541	894,167	14,563,759
Deferred revenue	5,623,095	271,582	519,072	6,413,749
Pension obligation payable	947,702	-	137,060	1,084,762
Due to other funds	-	-	149,865	149,865
Total liabilities.	<u>23,987,577</u>	<u>833,123</u>	<u>2,858,032</u>	<u>27,678,732</u>
Fund Balances:				
Nonspendable:				
Materials and supplies inventory.	151,325	-	29,015	180,340
Prepays.	22,415	-	-	22,415
Restricted:				
Debt service	-	8,496,962	-	8,496,962
Capital improvements	-	-	2,608,610	2,608,610
Classroom facilities maintenance	-	-	198,991	198,991
Food service operations	-	-	278,233	278,233
Non-public schools	-	-	137,436	137,436
Targeted academic assistance	-	-	84,830	84,830
School bus purchases.	4,982	-	-	4,982
Extracurricular.	-	-	13,999	13,999
Other purposes.	-	-	118,751	118,751
Unassigned (deficit).	(345,011)	-	(135,439)	(480,450)
Total fund balances (deficit).	<u>(166,289)</u>	<u>8,496,962</u>	<u>3,334,426</u>	<u>11,665,099</u>
Total liabilities and fund balances	<u>\$ 23,821,288</u>	<u>\$ 9,330,085</u>	<u>\$ 6,192,458</u>	<u>\$ 39,343,831</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total governmental fund balances		\$ 11,665,099
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		50,246,100
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Property taxes receivable	\$ 5,901,414	
Accrued interest receivable	10,635	
Intergovernmental receivable	501,700	
Total	6,413,749	6,413,749
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		(722,178)
Bond issuance costs are not recognized in the funds.		146,847
Unamortized premiums on bond issuance costs are not recognized in the funds.		(925,454)
Unamortized amounts on refundings are not recognized in the funds.		778,609
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(33,561)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(11,784,301)	
Capital lease obligations	(30,811)	
Compensated absences	(3,297,476)	
Total	(15,112,588)	(15,112,588)
Net assets of governmental activities		\$ 52,456,623

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 16,174,181	\$ 710,100	\$ 995,748	\$ 17,880,029
Tuition	988,323	-	-	988,323
Transportation fees	47,679	-	-	47,679
Earnings on investments	87,151	-	301	87,452
Charges for services	-	-	314,672	314,672
Extracurricular	156,365	-	152,385	308,750
Classroom materials and fees	42,358	-	-	42,358
Rental income	14,065	-	-	14,065
Contributions and donations	41,886	-	150	42,036
Contract services	55,087	-	-	55,087
Other local revenues	1,439,882	-	143,009	1,582,891
Intergovernmental - state	33,872,039	572,061	952,252	35,396,352
Intergovernmental - federal	72,439	-	8,698,643	8,771,082
Total revenues	<u>52,991,455</u>	<u>1,282,161</u>	<u>11,257,160</u>	<u>65,530,776</u>
Expenditures:				
Current:				
Instruction:				
Regular	14,543,255	-	1,680,569	16,223,824
Special	5,777,701	-	2,024,868	7,802,569
Vocational	1,173,020	-	25,000	1,198,020
Adult/continuing	173,771	-	168,001	341,772
Other	12,212,317	-	20,510	12,232,827
Support services:				
Pupil	2,882,765	-	740,041	3,622,806
Instructional staff	1,921,845	-	949,592	2,871,437
Board of education	20,509	-	-	20,509
Administration	2,733,956	-	278,640	3,012,596
Fiscal	1,139,895	17,956	60,653	1,218,504
Business	528,312	-	89,589	617,901
Operations and maintenance	4,097,571	-	3,957,251	8,054,822
Pupil transportation	2,105,951	-	428,193	2,534,144
Central	1,217,771	-	935,736	2,153,507
Operation of non-instructional services:				
Other non-instructional services	1,352,468	-	578,612	1,931,080
Food service operations	-	-	2,133,889	2,133,889
Extracurricular activities	681,158	-	158,540	839,698
Facilities acquisition and construction	-	-	9,506	9,506
Debt service:				
Principal retirement	-	1,216,830	16,049	1,232,879
Interest and fiscal charges	-	505,564	4,198	509,762
Total expenditures	<u>52,562,265</u>	<u>1,740,350</u>	<u>14,259,437</u>	<u>68,562,052</u>
Excess (deficiency) of revenues over (under) expenditures	<u>429,190</u>	<u>(458,189)</u>	<u>(3,002,277)</u>	<u>(3,031,276)</u>
Other financing sources (uses):				
Sale of capital assets	56,137	-	63,674	119,811
Transfers in	-	-	1,833,036	1,833,036
Transfers (out)	<u>(1,146,000)</u>	<u>-</u>	<u>(1,833,036)</u>	<u>(2,979,036)</u>
Total other financing sources (uses)	<u>(1,089,863)</u>	<u>-</u>	<u>63,674</u>	<u>(1,026,189)</u>
Special Item:				
Refund to Ohio School				
Facilities Commission	-	-	(1,124,525)	(1,124,525)
Net change in fund balances	<u>(660,673)</u>	<u>(458,189)</u>	<u>(4,063,128)</u>	<u>(5,181,990)</u>
Fund balances at beginning of year	494,384	8,955,151	7,397,554	16,847,089
Fund balances (deficit) at end of year	<u>\$ (166,289)</u>	<u>\$ 8,496,962</u>	<u>\$ 3,334,426</u>	<u>\$ 11,665,099</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds \$ (5,181,990)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$ 3,433,525	
Current year depreciation	(4,402,984)	
Total		(969,459)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.

(2,196,071)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	485,515	
Earnings on investments	(25,461)	
Intergovernmental	(490,990)	
Total		(30,936)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. Principal payments during the year were:

Bonds	1,216,830	
Capital leases	16,049	
Total		1,232,879

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:

Decrease in accrued interest payable	3,888	
Accreted interest on capital appreciation bonds	(232,500)	
Amortization of bond issuance costs	(9,525)	
Amortization of bond premiums	60,030	
Amortization of deferred charges	(50,504)	
Total		(228,611)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

5,259

An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

(47,875)

Change in net assets of governmental activities \$ (7,416,804)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 15,970,762	\$ 16,430,383	\$ 16,877,414	\$ 447,031
Tuition	596,499	613,666	990,072	376,406
Transportation fees	55,405	57,000	61,525	4,525
Earnings on investments	262,447	270,000	161,908	(108,092)
Rental income	8,068	8,300	14,065	5,765
Contributions and donations	26,245	27,000	28,750	1,750
Contract services	90,398	93,000	55,087	(37,913)
Other local revenues	800,950	824,000	1,196,827	372,827
Intergovernmental - state	34,248,511	35,234,146	33,856,109	(1,378,037)
Intergovernmental - federal	62,210	64,000	67,181	3,181
Total revenues	<u>52,121,495</u>	<u>53,621,495</u>	<u>53,308,938</u>	<u>(312,557)</u>
Expenditures:				
Current:				
Instruction:				
Regular	16,601,795	17,738,644	15,349,042	2,389,602
Special	4,429,593	4,732,921	5,628,007	(895,086)
Vocational	1,077,648	1,151,443	1,171,044	(19,601)
Other	11,667,074	12,466,006	12,357,335	108,671
Support services:				
Pupil	2,848,541	3,043,602	2,889,632	153,970
Instructional staff	1,590,942	1,699,886	1,904,333	(204,447)
Board of education	20,693	22,110	18,164	3,946
Administration	2,498,042	2,669,102	2,816,951	(147,849)
Fiscal	827,201	883,846	1,193,546	(309,700)
Business	726,735	776,500	530,812	245,688
Operations and maintenance	4,093,116	4,373,402	4,203,832	169,570
Pupil transportation	1,789,132	1,911,647	2,090,733	(179,086)
Central	678,388	724,842	1,260,864	(536,022)
Operation of non-instructional services	1,309,138	1,398,784	1,380,781	18,003
Extracurricular activities	534,198	570,779	503,144	67,635
Total expenditures	<u>50,692,236</u>	<u>54,163,514</u>	<u>53,298,220</u>	<u>865,294</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,429,259</u>	<u>(542,019)</u>	<u>10,718</u>	<u>552,737</u>
Other financing sources (uses):				
Refund of prior year's expenditures	500,000	500,000	904,498	404,498
Refund of prior year's receipts	(912)	(912)	(912)	-
Transfers in	-	-	104,000	104,000
Transfers (out)	(1,500,000)	(1,500,000)	(1,250,000)	250,000
Sale of capital assets	1,100	1,100	56,137	55,037
Total other financing sources (uses)	<u>(999,812)</u>	<u>(999,812)</u>	<u>(186,277)</u>	<u>813,535</u>
Net change in fund balance	429,447	(1,541,831)	(175,559)	1,366,272
Fund balance at beginning of year	1,364,474	1,364,474	1,364,474	-
Prior year encumbrances appropriated	296,498	296,498	296,498	-
Fund balance at end of year	<u>\$ 2,090,419</u>	<u>\$ 119,141</u>	<u>\$ 1,485,413</u>	<u>\$ 1,366,272</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Assets:	
Current assets:	
Equity in pooled cash and investments.	\$ 211,822
Total assets	<u>211,822</u>
Liabilities:	
Claims payable	<u>934,000</u>
Total liabilities	<u>934,000</u>
Net assets:	
Unrestricted (deficit)	<u>(722,178)</u>
Total net assets (deficit).	<u>\$ (722,178)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
 RICHLAND COUNTY, OHIO**
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 PROPRIETARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 7,904,893
Total operating revenues	<u>7,904,893</u>
Operating expenses:	
Purchased services.	980,682
Claims	8,118,086
Total operating expenses.	<u>9,098,768</u>
Operating loss.	<u>(1,193,875)</u>
Transfer in	<u>1,146,000</u>
Change in net assets.	(47,875)
Net assets (deficit) at beginning of year . . .	<u>(674,303)</u>
Net assets (deficit) at end of year.	<u>\$ (722,178)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 7,904,893
Cash payments for contractual services	(980,682)
Cash payments for claims	<u>(7,861,086)</u>
Net cash used in operating activities	<u>(936,875)</u>
Cash flows from noncapital financing activities:	
Cash received from transfers in	<u>1,146,000</u>
Net cash provided by noncapital financing activities.	<u>1,146,000</u>
Net increase in cash and cash equivalents.	209,125
Cash and cash equivalents at beginning of year	2,697
Cash and cash equivalents at end of year	<u><u>\$ 211,822</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (1,193,875)
Changes in assets and liabilities:	
Increase in claims payable.	<u>257,000</u>
Net cash used in operating activities.	<u><u>\$ (936,875)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Current assets:		
Equity in pooled cash and investments.	\$ 26,525	\$ 61,339
Receivables:		
Accounts	-	95
Total assets.	26,525	\$ 61,434
Liabilities:		
Due to students.	-	\$ 61,434
Total liabilities	-	\$ 61,434
Net assets:		
Held in trust for scholarships	26,525	
Total net assets	\$ 26,525	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MANSFIELD CITY SCHOOL DISTRICT
 RICHLAND COUNTY, OHIO**
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Private Purpose Trust
	Scholarship
Net assets at beginning of year	\$ 26,525
Net assets at end of year.	\$ 26,525

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Mansfield City School District (the "District") was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is a city school district as defined by Section 311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members and is responsible for providing public education to residents of the District. The District employs 395 certified employees and 225 non-certified employees who provide services to 3,500 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District 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 District also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental activities and proprietary fund provided it does not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading. Based upon the application of these criteria, the District has three component units. The basic financial statements of the reporting entity include those of the District (the primary government) and the component units.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The following organizations are described due to their relationship to the District:

DISCRETELY PRESENTED COMPONENT UNITS

The Mansfield Enhancement Academy

The Mansfield Enhancement Academy (the "Academy") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. The Academy is a conversion community school that addresses 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 governed by a five member Board of Directors. The District appoints three of the five Board of Directors. The Academy Board of Directors may adopt budgets, hire and fire employees and receive funding from the Ohio Department of Education. The District is the sponsoring District of the Academy. The District is able to impose its will upon the operations for the Academy, therefore, the Academy is presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Academy at 856 W. Cook Road, Mansfield, Ohio 44907. Information about this component unit is presented in Note 21 to the basic financial statements.

Interactive Media and Construction, Inc.

The Interactive Media and Construction, Inc. (the "IMAC") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. The IMAC is a conversion community school that is designed for high school students to obtain their high school diploma through a college preparatory curriculum. The IMAC provides a challenging curriculum, community/parental support, motivation through career skills and pay for work. The IMAC is governed by a five member Board of Directors. The District appoints three of the five Board of Directors. The IMAC Board of Directors may adopt budgets, hire and fire employees and receive funding from the Ohio Department of Education. The District is the sponsoring District of the IMAC. The District is able to impose its will upon the operations for the IMAC, therefore IMAC is presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the IMAC at 856 W. Cook Road, Mansfield, Ohio 44907. Information about this component unit is presented in Note 20 to the basic financial statements.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

The Mansfield Elective Academy

The Mansfield Elective Academy (the "Elective Academy") is a legally separate, non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03. The Elective Academy is a conversion community school that addresses the needs of students "at-risk" in Kindergarten through the eighth grade. The mission of the Elective Academy is to provide elementary and middle school students living within a guardian family setting a comprehensive educational program that helps meet the academic, psycho-social and emotional needs of the students and offers support to their caregivers and the school community. The Elective Academy is governed by a five member Board of Directors. The District appoints three of the five Board of Directors. The Elective Academy Board of Directors may adopt budgets, hire and fire employees and receive funding from the Ohio Department of Education. The District is the sponsoring District of the Elective Academy. The District is able to impose its will upon the operations for the Elective Academy, therefore, the Elective Academy is presented as a discretely presented component unit of the District. Separately issued financial statements can be obtained from the Treasurer of the Elective Academy at 856 W. Cook Road, Mansfield, Ohio 44907. Information about this component unit is presented in Note 22 to the basic financial statements.

JOINTLY GOVERNED ORGANIZATION

Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG")

The COG is a jointly governed organization among 16 school districts, 1 educational service center and a career center. The COG is an association of public school districts within the boundaries of Ashland, Crawford, Huron, Marion, Morrow, Richland, Seneca, and Wyandot counties. The COG was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each member school district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Cooperative Assembly consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Cooperative Assembly. During fiscal year 2012, the District paid \$186,368 to the COG for various services. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

INSURANCE PURCHASING POOL

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (the "GRP") was established through the Ohio Association of School Business Officials (OASBO) as a group purchasing pool.

The Executive Director of the OASBO, or his designee, serves as coordinator of the GRP. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The following are the District's major governmental funds:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt service fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund.

Internal service fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund accounts for a self-insurance program for employee health benefits.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid over statement of revenues and expenses. Interfund services provided and used are not eliminated in the process of consolidation.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund 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 District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - 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. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). 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 year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2012 are recorded as deferred revenue on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Richland County Budget Commission for rate determination.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenditures of the District. The appropriation resolution, at the fund level must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures for general fund, the District has elected to present its respective budgetary statement comparison at the fund and function level of expenditures.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget amounts reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from the prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

During fiscal year 2012, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, U.S. Treasury notes, a U.S. Government money market and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2012.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2012 amounted to \$87,151, which includes \$74,888 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expended when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

On the fund financial statements, reported material and supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food, purchased food and non-food supplies.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District’s capitalization threshold is \$5,000 for general capital assets. The District 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.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	10 - 40 years
Buildings and improvements	10 - 40 years
Furniture and equipment	5 - 20 years
Vehicles	13 years
Textbooks	5 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from loans to cover negative cash balances at June 30 are classified as “due to/due from other funds”. These amounts are eliminated in the governmental activities column on the statement of net assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”. Vacation benefits are accrued as a liability as the benefits are earned if the employee’s rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the District’s past experience of making termination payments.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2012 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital lease obligations are recognized on the fund financial statements when due.

L. Unamortized Issuance Cost/Bond Premium and Discount/Accounting Gain or Loss

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the statement of net assets.

Bond premiums are deferred and amortized over the term of the bonds using the straight-line method which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refundings resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 10.A.

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The restriction for other purposes consists of monies restricted by State statute for school bus purchases (See Note 17).

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

P. Estimates

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

Q. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by State statute for school bus purchases. See Note 17 for additional information regarding restricted assets.

R. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Interfund activity between governmental funds is eliminated in the statement of activities.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. During fiscal year 2012, the District recorded a special item due to the close-out of the Ohio School Facilities Commission (OSFC) project. During fiscal year 2012, the District paid OSFC \$1,124,525 in residual funds, including interest earnings.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the District has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the District.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the District.

B. Deficit Fund Balances

Fund balances at June 30, 2012 included the following individual fund deficits:

<u>Major Fund</u>	<u>Deficit</u>
General	\$ 166,289
<u>Nonmajor Funds</u>	
Public school preschool	17,540
Alternative education	3,137
Adult basic education	10,392
Education jobs	16,304
Race to the top	13
IDEA Part-B	79,485
Vocational education	6,841
School improvement stimulus-A	118
IDEA preschool grant for the handicapped	1,609
Internal service health benefits	722,178

The general fund is liable for any deficits in the nonmajor governmental funds and provides transfers when cash is required, not when accruals normally occur. The deficit fund balances for the nonmajor governmental funds resulted from adjustments for accrued liabilities. The deficit fund balance for the general fund also resulted from adjustments for accrued liabilities. The deficit balance in the general fund will be eliminated by resources not recognized or recorded at fiscal year end.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all District deposits was \$(139,058), exclusive of the \$5,393,422 in repurchase agreements included in investments. A liability was not recorded for the negative carrying amount of deposits because there was not actual overdraft, due to the "zero-balance" nature of the District's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, the District's entire bank balance of \$479,638 was covered by the FDIC.

B. Investments

As of June 30, 2012, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>24 to 60 months</u>
FNMA	\$ 2,559,702	\$ -	\$ 2,057,246	\$ -	\$ -	\$ 502,456
FHLB	701,621	100,484	101,565	-	-	499,572
FFCB	1,207,468	-	101,112	-	500,000	606,296
FHLMC	1,204,613	500,578	-	-	-	704,035
U.S. Treasury note	500,000	500,000	-	-	-	-
U.S. Government money market	3,081,996	3,081,996	-	-	-	-
Repurchase agreement	5,393,422	5,393,422	-	-	-	-
STAR Ohio	2,000	2,000	-	-	-	-
Total	<u>\$ 14,650,822</u>	<u>\$ 9,578,480</u>	<u>\$ 2,259,923</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 2,312,359</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less, unless matched to a specific obligation or debt of the District.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: The District's investments in federal agency securities, and the federal agency securities that underlie the District's repurchase agreement, were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio and the U.S. Government money market an AAAm money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the District's \$5,393,422 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the District. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FNMA	\$ 2,559,702	17.48
FHLB	701,621	4.79
FFCB	1,207,468	8.24
FHLMC	1,204,613	8.22
U.S. Treasury note	500,000	3.41
U.S. Government money market	3,081,996	21.04
Repurchase agreement	5,393,422	36.81
STAR Ohio	<u>2,000</u>	<u>0.01</u>
Total	<u>\$ 14,650,822</u>	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (139,058)
Investments	<u>14,650,822</u>
Total	<u>\$ 14,511,764</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per financial statements</u>	
Governmental activities	\$ 14,423,900
Private-purpose trust fund	26,525
Agency funds	<u>61,339</u>
Total	<u>\$ 14,511,764</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers consisted of the following at June 30, 2012, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Internal service fund	\$ 1,146,000
<u>Transfers from nonmajor governmental funds to:</u>	
Nonmajor governmental funds	<u>1,833,036</u>
Total	<u>\$ 2,979,036</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In accordance with the Ohio School Facilities Commission (OSFC) close-out process, the District transferred \$1,833,036 from the building fund (a nonmajor governmental fund) to the permanent improvement fund (a nonmajor governmental fund).

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

- B.** Interfund balances at June 30, 2012 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 149,865</u>

The primary purpose of the interfund balances is to cover negative cash balances in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2012 are reported on the statement of net assets.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available as an advance at June 30, 2012 was \$2,193,549 in the general fund, \$113,035 in the debt service fund, \$123,829 in the permanent improvement fund (a nonmajor governmental fund) and \$25,804 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2011 was \$2,896,782 in the general fund, \$134,632 in the debt service fund, \$148,256 in the permanent improvement fund (a nonmajor governmental fund) and \$29,908 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2012 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been deferred.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 417,208,800	96.02	\$ 390,790,960	95.63
Public utility personal	<u>17,279,810</u>	<u>3.98</u>	<u>17,844,260</u>	<u>4.37</u>
Total	<u>\$ 434,488,610</u>	<u>100.00</u>	<u>\$ 408,635,220</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$68.65		\$71.35	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2012 consisted of taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net assets follows:

Governmental activities:

Taxes	\$ 22,921,390
Accounts	43,514
Intergovernmental	1,788,642
Accrued interest	<u>25,587</u>
Total	<u>\$ 24,779,133</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>07/01/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/12</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 5,135,808	\$ -	\$ (200,757)	\$ 4,935,051
Construction in progress	504,796	278,018	(504,796)	278,018
Total capital assets, not being depreciated	<u>5,640,604</u>	<u>278,018</u>	<u>(705,553)</u>	<u>5,213,069</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	3,301,832	335,357	-	3,637,189
Buildings and improvements	67,951,451	-	(3,822,203)	64,129,248
Furniture and equipment	6,175,990	3,178,946	-	9,354,936
Vehicles	2,128,873	146,000	(270,770)	2,004,103
Textbooks	3,043,838	-	(3,043,838)	-
Total capital assets, being depreciated	<u>82,601,984</u>	<u>3,660,303</u>	<u>(7,136,811)</u>	<u>79,125,476</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,683,712)	(311,984)	-	(1,995,696)
Buildings and improvements	(23,445,805)	(1,125,776)	1,916,668	(22,654,913)
Furniture and equipment	(4,920,668)	(2,913,921)	-	(7,834,589)
Vehicles	(1,773,253)	(51,303)	217,309	(1,607,247)
Textbooks	(3,007,520)	-	3,007,520	-
Total accumulated depreciation	<u>(34,830,958)</u>	<u>(4,402,984)</u>	<u>5,141,497</u>	<u>(34,092,445)</u>
Governmental activities capital assets, net	<u>\$ 53,411,630</u>	<u>\$ (464,663)</u>	<u>\$ (2,700,867)</u>	<u>\$ 50,246,100</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 2,283,588
Special	696,380
<u>Support services:</u>	
Pupil	233,865
Administration	409,564
Operations and maintenance	648,241
Pupil Transportation	51,303
Other non-instructional services	51,748
Food service operations	28,295
Total depreciation expense	<u>\$ 4,402,984</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 9 - CAPITAL LEASES

In a prior year, the District entered into a capitalized lease for security equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the permanent improvement fund (a nonmajor governmental fund).

The security equipment was below the District's capitalization threshold, so the equipment was not capitalized and the lease obligation is excluded from the net assets invested in capital assets net of related debt calculation. Principal payments in fiscal year 2012 totaled \$16,049 by the permanent improvement fund (a nonmajor governmental fund).

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2012.

Fiscal Year Ending June 30,	Amount
2013	\$ 20,247
2014	13,499
Total minimum lease payments	33,746
Less: amount representing interest	(2,935)
Total	\$ 30,811

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2012, the following changes occurred in governmental activities long term obligations:

	Balance Outstanding 07/01/11	Additions	Reductions	Balance Outstanding 06/30/12	Amounts Due in One Year
General obligation bonds - 1999	\$ 21,830	\$ -	\$ (21,830)	\$ -	\$ -
General obligation bonds - 2005	12,746,801	232,500	(1,195,000)	11,784,301	1,180,000
Capital lease obligation	46,860	-	(16,049)	30,811	17,833
Compensated absences	3,353,969	447,399	(441,781)	3,359,587	367,252
Total governmental activities	\$ 16,169,460	\$ 679,899	\$ (1,674,660)	15,174,699	\$ 1,565,085
Less: deferred charge on refunding				(778,609)	
Add: unamortized premium				925,454	
Total on statement of net assets				\$ 15,321,544	

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the general fund and the following nonmajor governmental funds: auxiliary services, Title VI-B, public preschool, poverty aid, alternative school, Title II-A, preschool handicapped, vocational education, Title I, drug free grant, food service and adult education. See Note 9 for detail on capital lease obligations.

- B.** On July 27, 2005, the District issued general obligation bonds to advance refund a portion of the Series 2000 current interest bonds. The issuance proceeds of \$15,342,930 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net assets.

The refunding issue is comprised of both current interest bonds, par value \$13,915,000, and capital appreciation bonds, par value \$300,000. The capital appreciation bonds mature on December 1, 2014 and December 1, 2015 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds maturing December 1, 2014 and 2015 are \$1,170,000 and \$1,115,000, respectively. Total accreted interest of \$924,301 has been included in the statement of activities.

The following is a schedule of activity for fiscal year 2012 on the 2005 series refunding bonds:

	<u>Balance</u> <u>07/01/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/12</u>
Current interest bonds	\$ 11,755,000	\$ -	\$(1,195,000)	\$ 10,560,000
Capital appreciation bonds	300,000	-	-	300,000
Accreted interest	<u>691,801</u>	<u>232,500</u>	<u>-</u>	<u>924,301</u>
Total refunding bonds	<u>\$ 12,746,801</u>	<u>\$ 232,500</u>	<u>\$(1,195,000)</u>	<u>\$ 11,784,301</u>

The reacquisition price exceeded the net carrying amount of the old debt by \$1,127,930. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the 2005 series refunding bonds:

Fiscal Year Ending June 30.	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 1,180,000	\$ 419,374	\$ 1,599,374	\$ -	\$ -	\$ -
2014	1,175,000	372,275	1,547,275	-	-	-
2015	-	348,775	348,775	170,000	1,000,000	1,170,000
2016	-	348,775	348,775	130,000	985,000	1,115,000
2017	1,065,000	327,475	1,392,475	-	-	-
2018 - 2022	5,120,000	1,007,362	6,127,362	-	-	-
2023 - 2027	1,830,000	169,712	1,999,712	-	-	-
2028	190,000	4,037	194,037	-	-	-
Total	\$ 10,560,000	\$ 2,997,785	\$ 13,557,785	\$ 300,000	\$ 1,985,000	\$ 2,285,000

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2012, are a voted debt margin of \$34,414,132 (including available funds of \$8,496,962) and an unvoted debt margin of \$408,635.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components is derived from negotiated agreements and State laws. Classified employees earn ten to thirty days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers and classified staff earn sick leave at the rate of one and one-fourth days per month. Upon retirement, qualified classified employees receive payment for one-fourth of the total sick leave accumulation up to a maximum of 47 days at their per diem rate. Certified employees receive 26% of their accumulated unused sick leave upon retirement. If a certified employee has 200 or more days of unused sick leave at the time of retirement, the employee will receive 30% of their accumulated unused sick leave.

**MANSFIELD CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to most employees in the amount of \$40,000 per employee.

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors, and omissions, injuries to employees and natural disasters. The District has a comprehensive property and casualty policy with Netherlands Insurance Company. The deductible is \$10,000 per incident on property and an inland marine equipment schedule with a \$1,000 deductible. All vehicles are also insured with Netherlands Insurance Company and have a \$1,000 collision deductible. All Board members, administrators and employees are covered under a school district liability policy with Netherlands Insurance Company. The limits of this coverage are \$1,000,000 per occurrence with a commercial umbrella policy coverage limit of insurance of \$5,000,000 per each occurrence. The deductible is \$10,000 per claim. The general liability has a limit of \$1,000,000 for each occurrence and the general aggregate limit is \$2,000,000. The Board members and superintendent have a \$20,000 position bond with Travelers Casualty and Surety Insurance Company.

The Treasurer is covered under a bond in the amount of \$200,000 provided by RLI Insurance.

Settled claims did not exceed commercial coverage in the past three fiscal years. There has been no significant reduction in insurance coverage from the prior year.

B. Workers' Compensation Rating Plan

The District workers' compensation services are provided by the 1-888 OHIOCOMP Managed Care Organization. 1-888 OHIOCOMP Managed Care Organization is a certified managed care organization serving employers and their injured workers throughout Ohio's 88 counties. The intent of the organization is to provide cost-effective medical management services and exceptional customer service to employers. 1-888 OHIOCOMP Managed Care Organization works with employers to minimize the emotional and financial impact of workers' compensation claims. The organization emphasizes aggressive claims management with a focus on a safe and speedy return to work. They provide personalized customer services that include: workers' compensation, return-to-work focus, on-site employer staffing, claims & claims processes, policy information, discount programs, safety, OSHA & loss prevention injuries and continuing workers' compensation education.

**MANSFIELD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 12 - RISK MANAGEMENT

C. Employee Medical Benefits

The District has established a limited risk management program for hospital/medical benefits. Premiums are paid into the Self-Insurance Fund by all other funds and are available to pay claims, claim reserves and administrative costs of the program. During fiscal year 2012, a total expense of \$980,682 was incurred in administrative costs. An excess coverage insurance policy covers individual claims in excess of \$150,000. The liability for unpaid claims of \$934,000 reported at June 30, 2011 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling claims.

Changes in the fund's claims liability amount in 2012 and 2011 were:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2012	\$ 677,000	\$ 8,118,086	\$ (7,861,086)	\$ 934,000
2011	681,648	6,998,330	(7,002,978)	677,000

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The District contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$822,025, \$751,042 and \$846,256, respectively; 61.18 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**MANSFIELD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$3,197,861, \$3,255,571 and \$3,315,303, respectively; 83.64 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$71,509 made by the District and \$51,078 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

**MANSFIELD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The District participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$132,111, \$192,451 and \$134,241, respectively; 61.18 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$48,545, \$48,331 and \$50,325, respectively; 61.18 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

**MANSFIELD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$245,989, \$250,429 and \$255,023, respectively; 83.64 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (175,559)
Net adjustment for revenue accruals	(743,966)
Net adjustment for expenditure accruals	785,727
Net adjustment for other sources/uses	(903,586)
Funds budgeted elsewhere	6,918
Adjustment for encumbrances	369,793
GAAP basis	<u>\$ (660,673)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund, the special trust fund, the uniform school supplies fund, the workers compensation fund and the adult education fund.

NOTE 16 - CONTINGENCIES

A. Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The District 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 of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data; however, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

A lawsuit is pending against the District. In the opinion of the District's legal counsel, no liability is anticipated in excess of insurance coverage.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 17 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2011	\$ -
Current year set-aside requirement	584,549
Current year qualifying expenditures	(430,261)
Current year offsets	<u>(1,111,806)</u>
Total	<u>\$ (957,518)</u>
Balance carried forward to fiscal year 2013	<u>\$ -</u>
Set-aside balance June 30, 2012	<u><u>\$ -</u></u>

In addition to the above statutory set-aside, the District also has \$4,982 in monies restricted for school bus purchases.

A schedule of the restricted assets at June 30, 2012 follows:

Amount restricted for school bus purchases	<u>\$ 4,982</u>
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NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

	Year-End
<u>Fund</u>	<u>Encumbrances</u>
General fund	\$ 248,484
Nonmajor governmental funds	<u>722,741</u>
Total	<u>\$ 971,225</u>

**MANSFIELD CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 19 – FISCAL DISTRESS

As a result of reoccurring losses, the District has a \$166,289 deficit fund balance in its General Fund at June 30, 2012.

The District is required to prepare and file, with the Superintendent of the Ohio Department of Education, a 5 year forecast. Based on these projections, on December 8, 2006, the District was declared to be in a state of “Fiscal Watch” by the Auditor of State.

The District is required under Ohio Revised Code Section 3316.04 to submit to the Superintendent of public instruction a financial plan delineating the steps the Board will take to eliminate the District’s current operating deficit and avoid operating deficits in ensuing years, including the implementation of spending reductions. On May 16, 2012, the District sent a letter to the Auditor of State requesting to be released from fiscal watch. The Auditor of State’s office is conducting an examination of the financial forecast to determine whether the fiscal watch status should be terminated.

NOTE 20 - SUBSEQUENT EVENTS

On November 6, 2012, the voters of the District defeated a renewal levy on the ballot resulting in the District losing approximately \$3,600,000 of tax revenue starting in calendar year 2013.

On August 27, 2012, the District petitioned the Budget Commission and received approval to transfer \$4,000,000 from the Debt Service Fund to the Permanent Improvement Fund. On December 19, 2012, the District petitioned the Court of Common Pleas and received authorization to transfer \$3,400,000 from the Permanent Improvement Fund to the General Fund.

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC.

Interactive Media and Construction, Inc. (“IMAC”) 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. IMAC is nonsectarian in its programs, admission policies, employment practices and all other operations. IMAC may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of IMAC. IMAC is considered a component unit of the Mansfield City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39.

IMAC is an innovative initiative that is in a cooperative effort with Mansfield City School District (the “Sponsor”). It is a conversion community school sponsored by the Mansfield City School District. IMAC will provide educational opportunities for students to obtain their high school diploma through college preparatory curriculum. IMAC better serves the population by providing a challenging curriculum, community/parental support, motivation through career skills and pay for work. Enrollment is open to students within the attendance area of the Mansfield City School District and all bordering school districts. IMAC gives first choice to educationally disadvantaged, special education and economically at risk youth.

**MANSFIELD CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

IMAC was approved for sponsorship under contract resolution on June 30, 2010, with the Sponsor for a period of five years commencing on the first day of the 2010-2011 academic year. The Sponsor has designated three of its administrative officers to represent the Sponsor in the occupants' official capacities as members of IMAC's Board of Directors. The individuals who hold such office with the Sponsor shall be formally instructed by the Sponsor that, as directors of IMAC, 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 IMAC with services, the Sponsor shall be the fiscal agent of IMAC and shall direct the Sponsor's treasurer to serve as IMAC's fiscal officer. The Sponsor shall evaluate the performance of IMAC 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 IMAC, any assets remaining shall be conveyed to the Sponsor.

The service contract for the fiscal year 2012 - 2013 between IMAC and the Sponsor was also approved. In agreement with the contract, IMAC shall utilize certain resources converted to IMAC'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 IMAC 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 IMAC 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.

A. Significant Accounting Policies

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

Basis of Presentation - IMAC'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.

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 IMAC's finances and meets the cash flow needs of its activities.

**MANSFIELD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. IMAC'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 on the accrual basis when the exchange takes place.

Nonexchange transactions, in which IMAC 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 IMAC must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to IMAC on a reimbursement basis.

Expenses are recognized at the time they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in their contract with their Sponsor. The contract between IMAC 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.

Cash - Cash held by IMAC 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 2012, investments were limited to a repurchase agreement. Investments were reported at fair value which is based on quoted market prices.

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. IMAC maintains a capitalization threshold of \$500. IMAC does not have any infrastructure. 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. Depreciation is computed using the straight-line method. Equipment is depreciated over five years.

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

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets have been restricted for Federally funded programs.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

IMAC first applies restricted resources first when an expense is incurred for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the Academies primary activities. For IMAC, 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 IMAC. All revenues and expenses not meeting this definition are reported as non-operating.

Intergovernmental Revenue - IMAC currently participates in the State Foundation Program through the Ohio Department of Education, the Education Jobs grant, the Federal IDEA Part B grant, the Federal Title I-Targeted Assistance grant, the Improving Teacher Quality grant, the Federal Title IV-A Drug Free Schools grant and the Title II-D Technology grant. Revenues from the State foundation program are recognized as operating revenue in the accounting period in which all eligibility requirements had been met. Revenues received from the remaining programs are recognized as non-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 includes 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 IMAC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to IMAC on a reimbursement basis. Federal and State grant revenue for the fiscal year 2012 was \$150,924.

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.

B. Change in Accounting Principles

For fiscal year 2012, IMAC has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of IMAC.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of IMAC.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

C. Deposits and Investments

Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all IMAC deposits was \$(22,944). A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the “zero-balance” nature of IMAC’s bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into an overnight repurchase agreement which is reported as “investments”. IMAC had a zero bank balance at June 30, 2012.

Investments

As of June 30, 2012, IMAC had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Repurchase agreement	<u>\$ 408,899</u>	<u>\$ 408,899</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, IMAC’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The federal agency securities underlying the repurchase agreement were rated AA+ by Standard and Poor’s and Aaa by Moody’s. IMAC has no investment policy dealing with credit risk beyond the requirements of State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, IMAC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of IMAC’s \$408,899 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment’s counterparty, not in the name of IMAC. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. IMAC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: IMAC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by IMAC at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase agreement	<u>\$ 408,899</u>	<u>100.00</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (22,944)
Investments	408,899
Total	<u>\$ 385,955</u>
 <u>Cash and investments per statement of net assets</u>	
Component unit	<u>\$ 385,955</u>

D. Capital Assets

The beginning balance of capital assets and accumulated depreciation are restated to include fully depreciated assets still held by IMAC at July 1, 2011. Total capital assets and net assets were not restated.

	<u>Restated Balance 07/01/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/12</u>
Capital assets, being depreciated:				
Equipment	\$ 149,912	\$ 9,656	\$ -	\$ 159,568
Less: accumulated depreciation	<u>(132,124)</u>	<u>(11,793)</u>	<u>-</u>	<u>(143,917)</u>
Capital assets	<u>\$ 17,788</u>	<u>\$ (2,137)</u>	<u>\$ -</u>	<u>\$ 15,651</u>

E. Receivables

IMAC had the following intergovernmental receivables at June 30, 2012:

Title I	\$ 22,370
IDEA Part-B	27,255
Title II-D	125
Reimbursement from Mansfield Enhancement Academy	<u>20,418</u>
Total	<u>\$ 70,168</u>

The intergovernmental receivables are expected to be collected in the subsequent year.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

F. Purchased Services

For the year ended June 30, 2012, purchased services expenses were as follows:

Professional and technical services	\$ 277,450
Property rental	33,053
Travel and meetings	11,086
Communications	3,239
Contracted services	6,319
Other	<u>103,539</u>
Total	<u>\$ 434,686</u>

G. Risk Management

IMAC 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 2012, IMAC maintained comprehensive insurance coverage with a private carrier for property and general liability insurance. IMAC provides \$25,000 in bond coverage for the Treasurer through RLI Surety.

Settled claims have not exceeded commercial coverage in the past three years. There was no significant reduction in coverage from the prior fiscal year.

H. Contingencies

Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

IMAC 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 of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of IMAC at June 30, 2012, if applicable, cannot be determined at this time.

Litigation

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

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

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. This review resulted in no significant adjustments to State funding for fiscal year 2013.

I. Service Agreement

IMAC has contracted with the Sponsor through the 2012 school year. All services are to be provided on a purchased service or reimbursement basis. IMAC paid \$311,642 to the Sponsor for educational, fiscal and administrative services during fiscal year 2012.

J. Operating Lease - Lessee Disclosure

IMAC along with the Mansfield Elective Academy and the Mansfield Enhancement Academy entered into a one year operating lease commencing September 1, 2008 and ending August 31, 2009 with the City of Mansfield for the use of classrooms and offices. This lease has been renewed on an annual basis with the most recent renewal for an additional one year term commencing September 1, 2012 and ending August 31, 2013. This lease meets the criteria for an operating lease as defined by FASB Statement No. 13 "Accounting for Leases". The lease payment is \$8,150 per month, with payments divided between the three participating schools. IMAC paid \$32,600 in lease payments during fiscal year 2012.

K. Pension Plans

IMAC has contracted with the Mansfield City School District (the District) to provide all teaching and administrative personnel. Such personnel are employees of the District; however, IMAC is responsible for monitoring and ensuring pension contributions are made on its behalf. The retirement systems consider IMAC as the "Employer of Record", therefore IMAC is ultimately responsible for remitting retirement contributions to each of the systems noted below.

School Employees Retirement System

Plan Description - IMAC contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and IMAC is required to contribute at an actuarially determined rate. The current IMAC rate is 14 percent of annual covered payroll. A portion of IMAC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. IMAC's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$2,641, \$1,579 and \$736, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System of Ohio

Plan Description - IMAC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. IMAC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

IMAC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$23,190, \$45,560 and \$30,321, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

L. Postemployment Benefits

School Employees Retirement System

Plan Description - IMAC participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 21 - INTERACTIVE MEDIA AND CONSTRUCTION, INC. - (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

IMAC's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$114, \$191 and \$26, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. IMAC's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$156, \$102 and \$44, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System of Ohio

Plan Description - IMAC contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. IMAC's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,784, \$3,505 and \$2,332, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

NOTE 22 - MANSFIELD ENHANCEMENT 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 considered a component unit of the Mansfield City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

The Academy is an innovative initiative that is in 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 12th 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 30, 2010, with the Sponsor for a period of five years commencing on the first day of the 2010-2011 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 2012-2013 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.

A. 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) guidance issued prior to November 30, 1989, provided this guidance did not conflict with or contradict GASB pronouncements. The Academy had the option to also apply FASB guidance issued after November 30, 1989, subject to this same limitation. The Academy elected not to apply this FASB guidance. The Academy's significant accounting policies are described below.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

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.

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 finances and meets the cash flow needs of its activities.

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 on the accrual basis when the exchange takes place.

Nonexchange 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.

Expenses are recognized at the time they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy 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.

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 2012, investments were limited to repurchase agreements. Investments are reported at fair value which is based on quoted market prices.

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 maintains a capitalization threshold of \$500. The Academy does not have any infrastructure. 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. Depreciation is computed using the straight-line method. Equipment is depreciated over five years.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

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

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the Academies primary activities. 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.

Intergovernmental Revenue - The Academy currently participates in the State foundation program through the Ohio Department of Education, Education Jobs grant, the Federal IDEA Part B grant, the Federal Title I-Targeted Assistance grant, the State Public Connectivity grant, the Improving Teacher Quality grant, the 21st Century grant, the Federal Title II-D Technology grant and the Federal Title IV-A Safe and Drug-Free Schools grant. Revenues from the State foundation program are recognized as operating revenue in the accounting period in which all eligibility requirements had been met. Revenues received from the remaining programs are recognized as non-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 includes 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 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. Federal and State grant revenue for the fiscal year 2012 was \$308,860.

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 CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

B. Change in Accounting Principles

For fiscal year 2012, the Academy has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Academy.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the Academy.

C. Deposits and Investments

Deposits with Financial Institutions

At June 30, 2012, the carrying amount of the Academy's deposits was \$(11,673) exclusive of the \$102,987 repurchase agreement included in "investments" below. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the Academy's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". The Academy had a zero bank balance at June 30, 2012.

Investments

As of June 30, 2012, the Academy had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
Repurchase agreement	<u>\$ 102,987</u>	<u>\$ 102,987</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Academy's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The federal agency securities underlying the repurchase agreement were rated AA+ by Standard and Poor's and Aaa by Moody's. The Academy has no investment policy dealing with credit risk beyond the requirements of State statute.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Academy's \$102,987 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the Academy. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Academy places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Academy at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase agreement	\$ 102,987	100.00

Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (11,673)
Investments	102,987
Total	<u>\$ 91,314</u>
 <u>Cash and investments per statement of net assets</u>	
Component unit	<u>\$ 91,314</u>

D. Capital Assets

The beginning balance of capital assets and accumulated depreciation are restated to include fully depreciated assets still held by the Academy at July 1, 2011. Total capital assets and net assets remain unchanged.

	<u>Balance</u>			<u>Balance</u>
	<u>07/01/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/12</u>
Capital assets, being depreciated:				
Equipment	\$ 20,706	\$ 26,112	\$ -	\$ 46,818
Less: accumulated depreciation	<u>(18,932)</u>	<u>(10,631)</u>	<u>-</u>	<u>(29,563)</u>
Capital assets, net	<u>\$ 1,774</u>	<u>\$ 15,481</u>	<u>\$ -</u>	<u>\$ 17,255</u>

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

E. Receivables

The Academy had the following intergovernmental receivables at June 30, 2012:

Title II-D technology	\$ 265
Title I	10,192
Drug free sustainability	8
21st century	<u>64,520</u>
Total	<u>\$ 74,985</u>

The intergovernmental receivables are expected to be collected in the subsequent year.

F. Purchased Services

For fiscal year ended June 30, 2012, purchased services expenses were as follows:

Professional and technical services	\$ 295,061
Property services	31,000
Travel and meetings	8,651
Communications	5,013
Contracted trade	6,267
Pupil transportation	3,190
Other	<u>245,511</u>
Total	<u>\$ 594,693</u>

G. 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 2012, the Academy maintains comprehensive insurance coverage with a private carrier for property and general liability insurance. The Academy provides the Treasurer \$25,000 of bond coverage through RLI Surety.

Settled claims have not exceeded commercial coverage in the past three years. There was no significant reduction in coverage from the prior fiscal year.

H. Contingencies

Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

Litigation

The Academy is not involved in any litigation.

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. This review resulted in no significant adjustments to State funding for fiscal year 2013.

I. Service Agreement

The Academy is contracting with the Sponsor to manage its operations for school years 2005 through 2012. All services are to be provided on a purchased service or reimbursement basis. The Academy paid \$334,116 in fiscal year 2012 to the Sponsor for educational and administrative services.

J. Operating Lease - Lessee Disclosure

The Academy along with the Mansfield Elective Academy and the Interactive Media and Construction, Inc. entered into a one year operating lease commencing September 1, 2008 and ending August 31, 2009 with the City of Mansfield for the use of classrooms and offices. This lease has been renewed on an annual basis with the most recent renewal for an additional one year term commencing September 1, 2012 and ending August 31, 2013. This lease meets the criteria for an operating lease as defined by FASB Statement No. 13 "Accounting for Leases". The lease payment is \$8,150 per month, with payments divided between the three participating schools. The Academy paid \$30,700 in lease payments during fiscal year 2012.

K. Pension Plans

The Academy has contracted with the Mansfield City School District (the District) to provide all teaching and administrative personnel. Such personnel are employees of the District; however, the Academy is responsible for monitoring and ensuring pension contributions are made on its behalf. The retirement systems consider the Academy as the "Employer of Record", therefore the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$3,134, \$2,199 and \$4,209, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System of Ohio

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "*Publications*".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$25,349, \$23,665 and \$34,826, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

L. Postemployment Benefits

School Employees Retirement System

Plan Description - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 22 - MANSFIELD ENHANCEMENT ACADEMY - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$136, \$266 and \$151, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$185, \$141 and \$250, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,950, \$1,820 and \$2,679, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 23 - MANSFIELD ELECTIVE ACADEMY

The Mansfield Elective Academy (the “Academy”) is a non-profit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 to address the needs of “at-risk” students in kindergarten through ninth grade. “At-Risk” students, for purposes of the Academy, can be described as students who live in non-traditional settings. 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 considered a component unit of the Mansfield City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39.

The Academy is an innovative initiative that will be a cooperative effort with Mansfield City Schools (the “Sponsor”). It is a conversion community school sponsored by the Mansfield City School District. The Academy will provide educational opportunities for students in kindergarten through eighth grade. The mission of the Academy is to provide elementary and middle school students living within a guardian family setting a comprehensive educational program that helps meet the academic, psycho-social and emotional needs of the students and offers support to their caregivers and the school community. Enrollment is open to students within the attendance area of the Mansfield City School District and all bordering school districts. In the case of over subscription, a lottery system will be utilized that includes all eligible applicants.

The Academy was approved for sponsorship under contract resolution on June 30, 2010, with the Sponsor for a period of five years commencing on the first day of the 2010-2011 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 School with services, the Sponsor shall be the fiscal agent of the School and shall direct the Sponsor’s treasurer to serve as the School’s fiscal officer. 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 2012-2013 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, at 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 CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

A. 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) guidance 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 this FASB guidance. The Academy's significant accounting policies are described below.

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.

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

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 on the accrual basis when the exchange takes place.

Nonexchange 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.

Expenses are recognized at the time they are incurred.

Budgetary Process - Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in their contract with their Sponsor. The contract between the Academy 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.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

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 2012, investments were limited to repurchase agreements. Investments were reported at fair value which is based on quoted market prices.

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 maintains a capitalization threshold of \$1,500. 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. Depreciation is computed using the straight-line method. Equipment is depreciated over five years.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets have been restricted for federally funded programs.

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

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.

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

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

Intergovernmental Revenue - The Academy currently participates in the State Foundation Program through the Ohio Department of Education, the Federal IDEA Part B grant, the Federal Title I-Targeted Assistance grant, the Improving Teacher Quality grant, the Federal Title IV Drug Free Schools grant, the Education Jobs grant, the Title II-D Technology Grant and the Network Connectivity grant. Revenues from the State foundation program are recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Revenues received from the remaining programs are recognized as non-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 includes 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 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. Federal and State grant revenue for the fiscal year 2012 was \$250,447.

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.

B. Change in Accounting Principles

For fiscal year 2012, the Academy has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Academy.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the Academy.

C. Deposits and Investments

Deposits with Financial Institutions

At June 30, 2012, the carrying amount of the Academy's deposits was \$(4,724) exclusive of the \$149,658 repurchase agreement included in "investments" below. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the Academy's bank accounts. The negative carrying amount of deposits is primarily due to the sweeping of money into overnight repurchase agreements, which are reported as "investments". The Academy had a zero bank balance at June 30, 2012.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

Investments

As of June 30, 2012, the Academy had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase agreement	\$ 149,658	\$ 149,658

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Academy’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The federal agency securities underlying the repurchase agreement were rated AA+ by Standard and Poor’s and Aaa by Moody’s. The Academy has no investment policy dealing with credit risk beyond the requirements of State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Academy’s \$149,658 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment’s counterparty, not in the name of the Academy. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Academy places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Academy at June 30, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase agreement	\$ 149,658	100.00

**MANSFIELD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (4,724)
Investments	<u>149,658</u>
Total	<u>\$ 144,934</u>
 <u>Cash and investments per statement of net assets</u>	
Component unit	<u>\$ 144,934</u>

D. Capital Assets

The beginning balance of capital assets and accumulated depreciation are restated to include fully depreciated assets still held by the Academy at July 1, 2011. Total capital assets and net assets were not restated.

	Restated Balance <u>07/01/11</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/12</u>
Capital assets, being depreciated:				
Equipment	\$ 84,527	\$ 3,610	\$ -	\$ 88,137
Less: accumulated depreciation	<u>(81,143)</u>	<u>(2,751)</u>	<u>-</u>	<u>(83,894)</u>
Capital assets, net	<u>\$ 3,384</u>	<u>\$ 859</u>	<u>\$ -</u>	<u>\$ 4,243</u>

E. Receivables

The Academy had the following intergovernmental receivables at June 30, 2012:

IDEA Part-B	\$ 17,844
Title II-D technology	104
School improvement	104,153
Title I	7,113
Improving teacher quality	<u>1,175</u>
Total	<u>\$ 130,389</u>

The intergovernmental receivables are expected to be collected in the subsequent year.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

F. Purchased Services

For fiscal year ended June 30, 2012, purchased services expenses were as follows:

Professional and technical services	\$ 313,125
Property rental	32,373
Travel and meetings	8,039
Communications	7,483
Contracted trade	6,391
Other	<u>73,869</u>
Total	<u>\$ 441,280</u>

G. 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 2012, the Academy maintained comprehensive insurance coverage with a private carrier for property and general liability insurance. The Academy provides the Treasurer \$25,000 of bond coverage through RLI Surety.

Settled claims have not exceeded commercial coverage in the past three years. There was no significant reduction in coverage from the prior fiscal year.

H. Contingencies

Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

Litigation

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

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

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. This review resulted in no significant adjustments to State funding for fiscal year 2013.

I. Service Agreement

The Academy is contracting with the Sponsor to manage its operations for school years 2007 through 2012. All services are to be provided on a purchased service or reimbursement basis. The Academy paid \$282,677 to the Sponsor for educational, fiscal and administrative services during fiscal year 2012.

J. Operating Lease - Lessee Disclosure

The Academy along with the Mansfield Enhancement Academy and the Interactive Media and Construction, Inc. entered into a one year operating lease commencing September 1, 2009 and ending August 31, 2010 with the City of Mansfield for the use of classrooms and offices. This lease has been renewed on an annual basis with the most recent renewal for an additional one year term commencing September 1, 2012 and ending August 31, 2013. This lease meets the criteria of an operating lease as defined by FASB Statement No. 13 "Accounting for Leases". The lease payment is \$8,150 per month, with payments divided between the three participating Academies. The Academy paid \$30,700 in lease payments during fiscal year 2012.

K. Pension Plans

The Academy has contracted with the Mansfield City School District (the District) to provide all teaching and administrative personnel. Such personnel are employees of the District; however, the Academy is responsible for monitoring and ensuring pension contributions are made on its behalf. The retirement systems consider the Academy as the "Employer of Record", therefore the Academy is ultimately responsible for remitting retirement contributions to each of the systems noted below.

School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$521, \$118 and \$460, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System of Ohio

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$24,284, \$12,977 and \$14,960, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

L. Postemployment Benefits

School Employees Retirement System

Plan Description - The Academy participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "*Employers/Audit Resources*".

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 23 - MANSFIELD ELECTIVE ACADEMY - (Continued)

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$23, \$14 and \$69, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$31, \$8 and \$27, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

State Teachers Retirement System of Ohio

Plan Description - The Academy contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,868, \$998 and \$1,151, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Passed Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>(Passed through the Ohio Department of Education)</i>						
Child Nutrition Cluster:						
School Breakfast Program	10.553	N/A	\$430,379	\$5,118	\$430,379	\$5,118
National School Lunch Program	10.555	N/A	<u>1,020,707</u>	<u>97,248</u>	<u>1,020,707</u>	<u>97,248</u>
Total Child Nutrition Cluster			1,451,086	102,366	1,451,086	102,366
Fresh Fruit and Vegetable Program	10.582	N/A	<u>43,206</u>		<u>43,206</u>	
Total U.S. Department of Agriculture			1,494,292	102,366	1,494,292	102,366
U.S. Department of Education						
<i>(Passed through the Ohio Department of Education)</i>						
Adult Education - Basic Grants to States	84.002	2012	114,493		114,493	
Title I Cluster:						
Title I Grants to Local Educational Agencies	84.010	2011	8,400		13,254	
		2012			3,657	
		2011	103,652		301,573	
		2012	1,872,104		1,879,035	
		2011	35,241		52,124	
		2012	152,480		157,400	
		2011	27,071		27,568	
		2012	<u>80,558</u>		<u>80,558</u>	
Total Title I Grants to Local Educational Agencies			2,279,506		2,515,169	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	2011	25,188		52,188	
		2011	301,513		283,535	
		2011	17,181		17,897	
		2011	<u>5,377</u>		<u>7,461</u>	
Total ARRA - Title I Grants to Local Educational Agencies, Recovery Act			349,259		361,081	
Total Title I Cluster			2,628,765		2,876,250	
Special Education Cluster:						
Special Education_Grants to States	84.027	2011	184,926		169,296	
		2012	<u>1,149,534</u>		<u>1,140,790</u>	
Total Special Education_Grants to States			1,334,460		1,310,086	
ARRA - Special Education Grants to States, Recovery Act	84.391	2011	16,147		34,316	
Special Education_Preschool Grants	84.173	2011	579		5,493	
		2012	<u>47,054</u>		<u>48,420</u>	
Total Special Education_Preschool Grants			47,633		53,913	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	2011			449	
Total Special Education Cluster			1,398,240		1,398,764	
Career and Technical Education -- Basic Grants to States	84.048	2011	16,698		21,343	
		2012	<u>121,955</u>		<u>123,155</u>	
Total Career and Technical Education -- Basic Grants to States			138,653		144,498	
Safe and Drug-Free Schools and Communities_State Grants	84.186	2011			357	
Education for Homeless Children and Youth Cluster:						
Education for Homeless Children and Youth	84.196	2011	46		6,018	
		2012	<u>44,025</u>		<u>43,190</u>	
Total Education for Homeless Children and Youth			44,071		49,208	
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387	2011			521	
Total Education for Homeless Children and Youth Cluster			44,071		49,729	

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ <i>Passed Through Grantor/ Program Title</i>	Federal CFDA Number	Pass Through Grantor Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
Educational Technology State Grants	84.318	2012	17,933		18,733	
Improving Teacher Quality State Grants	84.367	2011 2012	80,480 <u>500,087</u>		106,470 <u>554,773</u>	
Total Improving Teacher Quality State Grants			<u>580,567</u>		<u>661,243</u>	
School Improvement Competitive 1003 (g)	84.388	2012	635,643		660,170	
Race to the Top	84.395	2012	1,750		1,750	
Education Jobs Fund	84.410	2012	<u>830,373</u>		<u>846,313</u>	
Total U.S. Department of Education			6,390,488		6,772,300	
<u>U.S. Department of Health and Human Services</u>						
<i>(Passed through the Ohio Department of Developmental Disabilities)</i>						
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A N/A	10,000		10,000 <u>286</u>	
Total Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems			<u>10,000</u>		<u>10,286</u>	
Totals			<u>\$7,894,780</u>	<u>\$102,366</u>	<u>\$8,276,878</u>	<u>\$102,366</u>

The Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this schedule.

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Mansfield City School District's (the District's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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Dave Yost • Auditor of State

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

Mansfield City School District
Richland County
856 W. Cook Road
Mansfield, Ohio 44906

To the Board of Education:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Mansfield City School District, Richland County, Ohio, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 18, 2013, wherein we noted we were unable to satisfy ourselves regarding amounts disclosed for capital asset additions, disposals and depreciation expense and the District is in a state of "fiscal watch." We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and timely corrected. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 18, 2013.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and others within the District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

January 18, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Mansfield City School District
Richland County
856 W. Cook Road
Mansfield, Ohio 44906

To the Board of Education:

Compliance

We have audited the compliance of the Mansfield City School District, Richland County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the District's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with these requirements.

In our opinion, the Mansfield City School District, Richland County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Dave Yost
Auditor of State

January 18, 2013

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster, CFDA 10.553 and 10.555; Title I Cluster, CFDA 84.010 and 84.389; Improving Teacher Quality State Grant, CFDA 84.367; and School Improvement Competitive Grant, CFDA 84.388
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2012-001

Material Weakness

Capital Assets

The Mansfield City School District had an independent capital asset appraisal performed in March 2012 and updated in November 2012, which supports the reported June 30, 2012 capital asset balances. However, the District was unable to account for the capital asset additions and disposals occurring during the year. The capital assets note to the financial statements include additions of \$3,938,321, disposals of \$7,842,364, depreciation expense of \$4,402,984, and depreciation disposals of \$5,141,497. However, the District's EIS103 report included \$602,243 of additions (including construction in progress) and \$0 for disposals, and the EIS104 report included \$1,596,478 of depreciation expense and \$0 for disposals. As a result, governmental activities expenses, including depreciation expense, could not be verified.

The District should ensure adequate records are maintained to document those assets purchased during the year and those items disposed of during the year to ensure the activity reported for capital assets is completed and accurate. This will allow the District to properly account for its capital asset balances and ensure all applicable accounting standards are followed.

Officials' Response: The District will ensure records are maintained to document assets purchased during the year and disposed during the year to ensure activity reported for capital assets is complete and accurate.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MANSFIELD CITY SCHOOL DISTRICT
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Deposit of Public Funds – Ohio Rev. Code Section 117.01(C) and Ohio Rev. Code Section 149.351(A) – During fiscal year 2011, due to the booster club re-organizing, several District employees (athletic coaches) were placed in charge of running the concession stands. Management informed us the proceeds and related purchases for these concession stand operations were not deposited into the District's bank account nor accounted for in the District's accounting records.	Yes	Finding no longer valid.
2011-002	Budgetary Reports – Ohio Admin. Code Section 117-2-02(c)(1) – Appropriations and amendments approved by the Board did not agree to appropriations entered into the District's system.	Yes	Finding no longer valid.
2011-003	Self Insurance Reserves – Ohio Rev. Code Section 9.833 – The District did not maintain the actuarially determined reserve amount in the self insurance fund.	No	Not corrected. Finding repeated in Management Letter.
2011-004	Questioned Cost/Significant Deficiency – Severance Payment – 2 CFR part 225, App. B 8.g (2) – A \$23,041 severance payment was charged as a direct cost to the Title I grant.	Yes	Finding no longer valid.

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Dave Yost • Auditor of State

MANSFIELD CITY SCHOOL DISTRICT

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
FEBRUARY 14, 2013**