**SCHNEE LEARNING CENTER**
**SUMMIT COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**

Mary Taylor, CPA
Auditor of State

**SCHNEE LEARNING CENTER**
**SUMMIT COUNTY**

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Mary Taylor, CPA
Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Schnee Learning Center
Summit County
2222 Issaquah Street
Cuyahoga Falls, Ohio 44221

To the Board of Directors:

We have audited the accompanying financial statements of the Schnee Learning Center, Summit County, Ohio, (the Center) a component unit of the Cuyahoga Falls City School District, as of and for the year ended June 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Schnee Learning Center, Summit County, Ohio, as of June 30, 2007, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2007, on our consideration of the Center'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.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702-1509
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

December 26, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2007
(UNAUDITED)

The discussion and analysis of the Schnee Learning Center (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ending June 30, 2007. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's financial performance.

**Financial Highlights**

Key financial highlights for the period ended June 30, 2007 are as follows:

- In total, the net assets were $244,511 at June 30, 2007.

- The Center had operating revenues of $922,941 and operating expenses of $1,066,620 for fiscal year 2007. The Center also received $394,335 in state and federal grants and $11,998 in other non-operating revenues during fiscal year 2007.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Center's financial activities. The *statement of net assets* and *statement of revenues, expenses and changes in net assets* provide information about the activities of the Center, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about how the Center finances and meets the cash flow needs of its operations.

**Reporting the Center Financial Activities**

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2007?" The statement of net assets and the statement of revenues, expenses and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report. The statement of cash flows can be found on page 9.

**SCHNEE LEARNING CENTER**
**SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2007
(UNAUDITED)

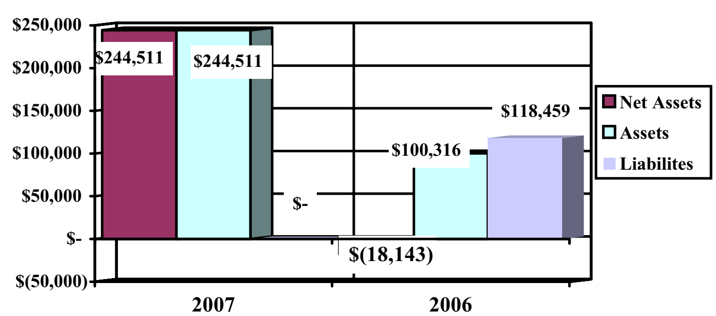
The table below provides a summary of the Center's net assets for fiscal year 2007 and the period August 3, 2005 through June 30, 2006.

**Net Assets**

| | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 212,562 | $ 77,585 |
| Capital assets, net | 31,949 | 22,731 |
| Total assets | 244,511 | 100,316 |
| **Liabilities** | | |
| Current liabilities | - | 118,459 |
| Total liabilities | - | 118,459 |
| **Net Assets** | | |
| Invested in capital assets | 31,949 | 22,731 |
| Restricted | 54,000 | - |
| Unrestricted (deficit) | 158,562 | (40,874) |
| Total net assets (deficit) | $ 244,511 | $ (18,143) |

The chart below illustrates the Center's assets, liabilities and net assets at June 30, 2007 and 2006.

**Net Assets**




Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Center's assets exceeded liabilities by $244,511.

At year-end, capital assets represented 13.07% of total assets. Capital assets consisted of equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

SCHNEE LEARNING CENTER
SUMMIT COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2007
(UNAUDITED)

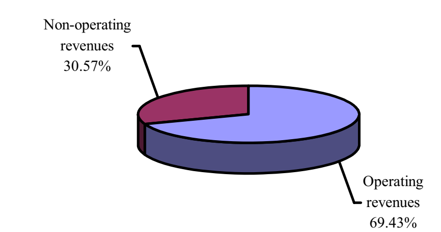
The table below shows the changes in net assets for the fiscal year ended June 30, 2007 and the period August 3, 2005 through June 30, 2006.

**Change in Net Assets**

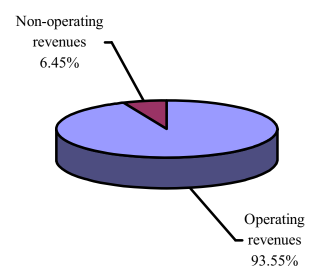
| | 2007 | 2006 |
|---|---|---|
| **Operating Revenues:** | | |
| State foundation | $ 918,521 | $ 762,282 |
| Tuition from other school districts | 4,420 | 5,300 |
| Total operating revenue | 922,941 | 767,582 |
| **Operating Expenses:** | | |
| Purchased services | 778,741 | 777,769 |
| Materials and supplies | 274,196 | 53,954 |
| Other | 5,049 | 5,510 |
| Depreciation | 8,634 | 1,389 |
| Total operating expenses | 1,066,620 | 838,622 |
| **Non-operating revenues:** | | |
| Federal and state grants | 394,335 | 46,411 |
| Other non-operating revenue | 11,998 | 6,486 |
| Total non-operating revenues | 406,333 | 52,897 |
| Change in net assets | $ 262,654 | $ (18,143) |

The charts below illustrate the revenues and expenses for the Center for the fiscal year ended June 30, 2007 and the period August 3, 2005 through June 30, 2006.

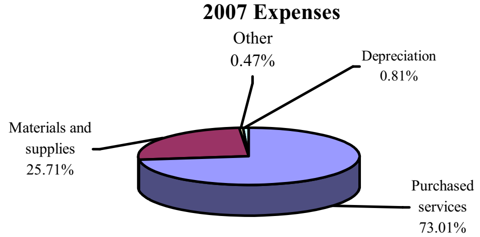
**2007 Revenues**



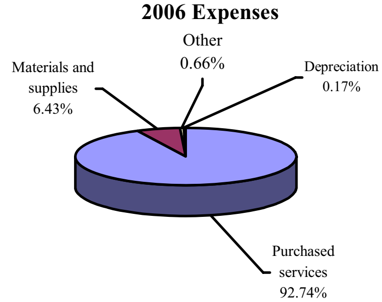

**2006 Revenues**




**2007 Expenses**




**2006 Expenses**



**Capital Assets**

At June 30, 2007, the Center had $31,949 invested in equipment. See Note 4 in the notes to the basic financial statements for more detail on capital assets.

**Economic Conditions and Outlook**

The Center is sponsored by the Cuyahoga Falls City School District. The Center relies primarily on the State Foundation funds. In order to continually provide opportunities to the Center's students, the Center will apply resources to best meet the needs of its students. It is the intent of the Center to apply for State and Federal funds that are made available to finance operations.

**Contacting the Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Kathryn Sines, Treasurer, Schnee Learning Center, 431 Stow Avenue, Cuyahoga Falls, Ohio 44222-0396.

**SCHNEE LEARNING CENTER**
**SUMMIT COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

| | | |
|---|---|---|
| **Assets:** | | |
| Current Assets: | | |
| Cash and cash equivalents . . . . . . . . . . . | $ | 157,888 |
| Receivables: | | |
| Intergovernmental . . . . . . . . . . . . . . . | | 54,000 |
| Prepayments . . . . . . . . . . . . . . . . . . | | 674 |
| Total current assets . . . . . . . . . . . . . . . | | 212,562 |
| Non-Current Assets: | | |
| Capital assets, net. . . . . . . . . . . . . . . . | | 31,949 |
| Total assets. . . . . . . . . . . . . . . . . . . | | 244,511 |
| **Net Assets:** | | |
| Invested in capital assets . . . . . . . . . . . . | | 31,949 |
| Restricted for: | | |
| Federally funded programs. . . . . . . . . . . | | 54,000 |
| Unrestricted . . . . . . . . . . . . . . . . . . | | 158,562 |
| Total net assets . . . . . . . . . . . . . . . . . | $ | 244,511 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SCHNEE LEARNING CENTER**
**SUMMIT COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDING JUNE 30, 2007

| | |
|---|---|
| **Operating revenues:** | |
| State foundation. . . . . . . . . . . . . . . . | $ 918,521 |
| Tuition from other school districts. . . . . . . | 4,420 |
| Total revenues . . . . . . . . . . . . . . . . . | 922,941 |
| **Operating expenses:** | |
| Purchased services. . . . . . . . . . . . . . . | 778,741 |
| Materials and supplies . . . . . . . . . . . . . | 274,196 |
| Other operating expenses . . . . . . . . . . . | 5,049 |
| Depreciation . . . . . . . . . . . . . . . . . . | 8,634 |
| Total expenses . . . . . . . . . . . . . . . . . | 1,066,620 |
| Operating loss . . . . . . . . . . . . . . . . . | (143,679) |
| **Non-operating revenues:** | |
| Federal and state grants . . . . . . . . . . . . | 394,335 |
| Other. . . . . . . . . . . . . . . . . . . . . . | 11,998 |
| Total non-operating revenues . . . . . . . . . | 406,333 |
| Change in net assets. . . . . . . . . . . . . . | 262,654 |
| **Net assets (deficit) at beginning of year. . .** | (18,143) |
| **Net assets at end of year. . . . . . . . . . .** | $ 244,511 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SCHNEE LEARNING CENTER**
**SUMMIT COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDING JUNE 30, 2007

| | | |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from foundation. | $ | 894,831 |
| Cash received from tuition from other school districts | | 4,950 |
| Cash payments for purchased services | | (873,510) |
| Cash payments for materials and supplies | | (274,196) |
| Cash payments for other expenses | | (5,723) |
| Net cash used in operating activities | | (253,648) |
| **Cash flows from noncapital financing activities:** | | |
| Federal and state grants | | 340,335 |
| Cash received from non-operating revenues | | 12,398 |
| Net cash provided by noncapital financing activities | | 352,733 |
| **Cash flows from capital and related financing activities:** | | |
| Acquisition of capital assets | | (17,852) |
| Net cash used in capital and related financing activities | | (17,852) |
| Net increase in cash and cash equivalents | | 81,233 |
| **Cash and cash equivalents at beginning of year.** | | 76,655 |
| **Cash and cash equivalents at end of year.** | $ | 157,888 |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $ | (143,679) |
| Adjustments: | | |
| Depreciation. | | 8,634 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | | 530 |
| (Increase) in prepayments | | (674) |
| (Decrease) in intergovernmental payable | | (118,459) |
| Net cash used in operating activities. | $ | (253,648) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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## NOTE 1 - DESCRIPTION OF THE SCHOOL

The Schnee Learning Center (the "Center") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Cuyahoga Falls City School District (the "Sponsor") addressing the needs of students in grades 6-12. The Center, which is part of the State's education Center, is nonsectarian in its Centers, admission policies, employment practices and all other operations. The Center, as part of the Sponsor District, is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and management is not aware of any course of action or series of events that have occurred that might adversely affect their tax exempt status. The Center may sue or be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Center. The Center is considered a component unit of the Cuyahoga Falls 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 Center's objective is to deliver a comprehensive educational Center that is tied to state and national standards for at-risk students in grade 6 through grade 12. It is to be operated under a contract with the Sponsor to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and other, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational Center. The Center uses the services of the Sponsor to assist with overall operations.

The Center was certified by the State of Ohio Secretary of State as a non-profit organization on July 22, 2005. The Center was approved for operation under a contract with the Sponsor for five years commencing July 1, 2005. The Sponsor is responsible for evaluating the performance of the Center and has the authority to deny renewal of the contract at its expiration. The Center began accepting students on August 3, 2005 and served 146 students during fiscal year 2007.

The Center operates under the direction of a five-member Board of Directors which consists of the Cuyahoga Falls City School District superintendent, Cuyahoga Falls City School District assistant superintendent, an Ivy Park Association Representative, a Cuyahoga Falls city councilman, and a parent of a Center student. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Treasurer of Cuyahoga Falls City School District is the Chief Financial Officer of the Center.

The Sponsor, on a purchased services basis with the Center, provides planning, instructional, administrative and technical services. Personnel providing services to the Center on behalf of the Sponsor on the purchased services basis are considered employees of the Sponsor, and the Sponsor is solely responsible for all payroll functions. Payments from the Center to the Sponsor under the Community School Sponsorship Contract and the annual Purchased Services Contract for the period July 1, 2006 through June 30, 2007 can be found in Note 5.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Center does not apply FASB Statements or Interpretations issued after November 30, 1989. The Center's significant accounting policies are described below.

### A. Basis of Presentation

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

### B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

### C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Center’s contract with its Sponsor, except for Ohio Revised Code Section 5705.391 as it relates to five year forecasts. The contract between the Center and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

### D. Cash

Cash received by the Center is maintained in a demand deposit account.

### E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Center maintains a capitalization threshold of $1,000. The Center does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

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

All capital assets are depreciated. Depreciation is computed using the straight-line method. Equipment consists of computers and equipment which are depreciated over three to ten years.

**F. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The Center had $54,000 of restricted net assets at June 30, 2007 related to federally funded start-up monies.

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

**G. Prepayments**

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

**H. Intergovernmental Revenue**

The Center currently participates in the State Foundation Program, the Title VI-B grant, Title I grant, Innovative Education Program, Drug Free School grant, Title II-A, Title II-D, Title V, Title IVA, Public Charter School Program and the EMIS grant. Revenues from State Foundation Program were 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 requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Center. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Center. All revenues and expenses not meeting this definition are reported as non-operating.

**J. Estimates**

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

## NOTE 3 - CASH AND CASH EQUIVALENTS

At June 30, 2007, the carrying amount of the Center's deposits was $157,888. Based upon the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosure", as of June 30, 2007, $104,183 of the Center's bank balance of $204,183 was exposed to custodial credit risk as described below, while $100,000 was covered by the Federal Deposit Insurance Corporation.

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

## NOTE 4 - CAPITAL ASSETS

| | Balance at 7/1/2006 | Additions | Reductions | Balance at 6/30/2007 |
|---|---|---|---|---|
| Equipment | $ 24,120 | $ 17,852 | $ - | $ 41,972 |
| Less: accumulated depreciation | (1,389) | (8,634) | - | (10,023) |
| Net capital assets | $ 22,731 | $ 9,218 | $ - | $ 31,949 |

## NOTE 5 - PURCHASED SERVICES

For the fiscal year ended June 30, 2007, purchased services expenses were as follows:

| | |
|---|---|
| Professional and technical services | $ 774,396 |
| Travel and meetings | 1,115 |
| Postage | 20 |
| Maintenance agreement | 3,033 |
| Miscellaneous | 177 |
| Total | $ 778,741 |

The entire amount of $778,741 consisted of purchased services provided by the Sponsor through the Summit County Educational Service Center.

## NOTE 6 - RECEIVABLES

At June 30, 2007, receivables consisted of grants from federal sources which are considered collectible within one year and presented on the statement of net assets in the amount of $54,000.

**NOTE 7 - RISK MANAGEMENT**

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. The Center had a commercial insurance package with Indiana Insurance.

**NOTE 8 - CONTINGENCIES**

**A. Grants**

The Center received financial assistance from state agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2007.

**B. Litigation**

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the Center cannot presently be determined.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Center was reviewed during the second year of operations and ODE determined an overpayment of State funding occurred during fiscal year 2007 in the amount of $10,713. The Center's foundation payments have been adjusted for fiscal year 2008. However, no adjustment was made to the financial statements to record the liability due to the immaterial amount of the adjustment.

**NOTE 9 - PENSION PLANS**

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

**A. School Employees Retirement System**

The Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (800) 878-5853, or by visiting the SERS website at www.ohsers.org under Forms and Publications.

**NOTE 9 - PENSION PLANS – (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Center's required contribution for pension obligations to SERS for fiscal year ended 2007 were paid by the Sponsor.

**B. State Teachers Retirement System of Ohio**

The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 Center's required contribution for pension obligations to STRS Ohio for fiscal year ended 2007 were paid by the Sponsor.

## NOTE 10 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was $3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were $282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer’s 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member’s pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. Total surcharge is capped at 2 percent of each employer’s SERS salaries.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were $158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of $295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

## NOTE 11 - RELATED PARTY TRANSACTIONS

For the fiscal year ended June 30, 2007, the Center had expenses of $753,378 to their sponsor.

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Mary Taylor, CPA
Auditor of State

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

Schnee Learning Center
Summit County
222 Issaquah Street
Cuyahoga Falls, Ohio 44221

To the Board of Directors:

We have audited the financial statements of the Schnee Learning Center, Summit County, Ohio, (the Center) as of and for the year ended June 30, 2007, and have issued our report thereon dated December 26, 2007. 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 Center's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Center's internal control will not prevent or detect a material financial statement misstatement.

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

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702-1509
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

**Compliance and Other Matters**

As part of reasonably assuring whether the Center'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 intend this report solely for the information and use of management, the Board of Directors, and the Community School's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

December 26, 2007

**SCHNEE LEARNING CENTER**

**SUMMIT 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**
**JANUARY 15, 2008**

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us