



**SCHNEE LEARNING CENTER  
SUMMIT COUNTY**

**REGULAR AUDIT**

**FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



SCHNEE LEARNING CENTER  
SUMMIT COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets .....	7
Statement of Revenues, Expenses, and Changes in Net Assets .....	8
Statement of Cash Flows .....	9
Notes to the Basic Financial Statements .....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	19

**This page intentionally left blank.**



# 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 Schnee Learning Center, Summit County, Ohio, (the Center) as of and for the period August 3, 2005 through June 30, 2006, which collectively comprise the Center's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Schnee Learning Center, Summit County, Ohio, for the period August 5, 2005 through June 30, 2006, and the respective changes in its net assets 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 February 23, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Government Accounting Standards Board 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.

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

Mary Taylor, CPA  
Auditor of State

February 23, 2007

**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006  
(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 period August 3, 2005 through June 30, 2006. 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.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A; however, since this was the first year of operations for the Center, a comparison can not be shown. In future years, this information will be shown.

**Financial Highlights**

Key financial highlights for the period ended June 30, 2006 are as follows:

- In total, the deficit was \$18,143 at June 30, 2006.
- The Center had operating revenues of \$767,582 and operating expenses of \$838,622 for the period ended June 30, 2006. The Center also received \$46,411 in state and federal grants and \$6,486 in other non-operating revenues during the period ended June 30, 2006.

**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 2006?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting 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**

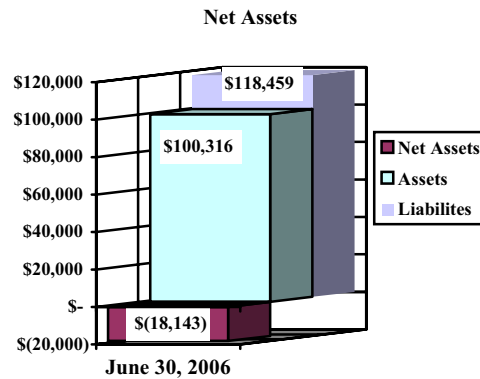
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006  
(UNAUDITED)

The table below provides a summary of the Center's net assets for the period ended June 30, 2006.

**Net Assets**

	2006
<b><u>Assets</u></b>	
Current assets	\$ 77,585
Capital assets, net	22,731
Total assets	100,316
<b><u>Liabilities</u></b>	
Current liabilities	118,459
Total liabilities	118,459
<b><u>Net Assets</u></b>	
Invested in capital assets	22,731
Unrestricted	(40,874)
Total net assets (deficit)	\$ (18,143)

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



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Center's liabilities exceeded assets by \$18,143.

At year-end, capital assets represented 22.66% of total assets. Capital assets consisted of computers. 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**

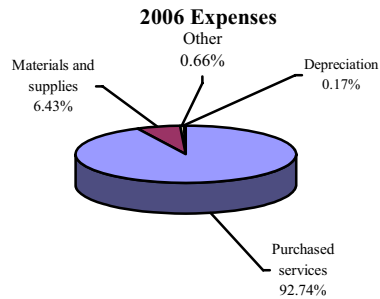
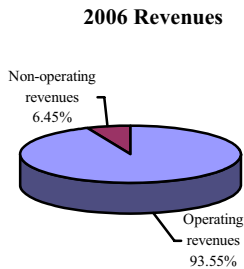
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006  
(UNAUDITED)

The table below shows the changes in net assets for the period ended June 30, 2006.

**Change in Net Assets**

	2006
<b><u>Operating Revenues:</u></b>	
State foundation	\$ 762,282
Tuition from other school districts	5,300
Total operating revenue	767,582
<b><u>Operating Expenses:</u></b>	
Purchased services	777,769
Materials and supplies	53,954
Other	5,510
Depreciation	1,389
Total operating expenses	838,622
<b><u>Non-operating revenues:</u></b>	
Federal and state grants	46,411
Other non-operating revenue	6,486
Total non-operating revenues	52,897
Change in net assets	\$ (18,143)

The charts below illustrate the revenues and expenses for the Center for the period ended June 30, 2006.



**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006  
(UNAUDITED)**

**Capital Assets**

At June 30, 2006, the Center had \$22,731 invested in computers. 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. This is the Center's first year of operation. The Center relies primarily on the State Foundation funds. The Center was eligible to apply for Federal Sub-Grants during fiscal year 2006; however, these funds were not received during the fiscal year.

**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, 2006

<b>Assets:</b>	
Current Assets:	
Cash and cash equivalents . . . . .	\$ 76,655
Receivables:	
Accounts . . . . .	930
Total current assets . . . . .	<u>77,585</u>
Non-Current Assets:	
Capital assets, net. . . . .	<u>22,731</u>
Total assets. . . . .	<u>100,316</u>
<b>Liabilities:</b>	
Intergovernmental payable . . . . .	<u>118,459</u>
Total liabilities . . . . .	<u>118,459</u>
<b>Net Assets:</b>	
Invested in capital assets . . . . .	22,731
Unrestricted (deficit) . . . . .	<u>(40,874)</u>
Total net assets (deficit). . . . .	<u><u>\$ (18,143)</u></u>

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 PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006

<b>Operating revenues:</b>	
State foundation. . . . .	\$ 762,282
Tuition from other school districts. . . . .	5,300
Total revenues . . . . .	<u>767,582</u>
<b>Operating expenses:</b>	
Purchased services. . . . .	777,769
Materials and supplies . . . . .	53,954
Other operating expenses . . . . .	5,510
Depreciation . . . . .	1,389
Total expenses . . . . .	<u>838,622</u>
Operating loss . . . . .	<u>(71,040)</u>
<b>Non-operating revenues:</b>	
Federal and state grants . . . . .	46,411
Other. . . . .	6,486
Total non-operating revenues . . . . .	<u>52,897</u>
Change in net assets. . . . .	(18,143)
<b>Net assets at beginning of period. . . . .</b>	<u>-</u>
<b>Net assets (deficit) at end of period. . . . .</b>	<u><u>\$ (18,143)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006

<b>Cash flows from operating activities:</b>		
Cash received from foundation . . . . .	\$	785,972
Cash received from tuition from other school districts . . . . .		4,370
Cash payments for purchased services . . . . .		(683,000)
Cash payments for materials and supplies . . . . .		(53,954)
Cash payments for other expenses . . . . .		(5,510)
		<hr/>
Net cash provided by operating activities . . . . .		47,878
		<hr/>
<b>Cash flows from noncapital financing activities:</b>		
Federal and state grants . . . . .		46,411
Cash received from non-operating revenues . . . . .		6,486
		<hr/>
Net cash provided by noncapital financing activities . . . . .		52,897
		<hr/>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition of capital assets . . . . .		(24,120)
		<hr/>
Net cash used in capital and related financing activities . . . . .		(24,120)
		<hr/>
Net increase in cash and cash equivalents . . . . .		76,655
<b>Cash and cash equivalents at beginning of period . . . . .</b>		-
<b>Cash and cash equivalents at end of period. . . . .</b>	<b>\$</b>	<b>76,655</b>
		<hr/> <hr/>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss . . . . .	\$	(71,040)
Adjustments:		
Depreciation. . . . .		1,389
Changes in assets and liabilities:		
(Increase) in accounts receivable . . . . .		(930)
Increase in intergovernmental payable . . . . .		118,459
		<hr/>
Net cash provided by operating activities. . . . .	<b>\$</b>	<b>47,878</b>
		<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**This page intentionally left blank.**

**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006

**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 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.

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 126 students during the period August 3, 2005 through June 30, 2006.

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.

**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.

**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006

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

**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.

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



**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006

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

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

**G. Intergovernmental Revenue**

The Center currently participates in the State Foundation Program, the Title VI-B grant, Title I grant, Title II-A, 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.

**H. Accrued Liabilities**

The Center has recognized certain expenses due but unpaid as of June 30, 2006. These expenses are reported as accrued liabilities in the accompanying financial statements, which include payments to the Sponsor and the Ohio Department of Education, which have been reported as intergovernmental payables.

**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.

**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006

**NOTE 3 - CASH AND CASH EQUIVALENTS**

At June 30, 2006, the carrying amount of the Center's deposits was \$76,655. Based upon the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosure", as of June 30, 2006, the entire bank balance of \$77,365 was covered by Federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit 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 <u>8/3/2005</u>	Additions	Reductions	Balance at <u>6/30/2006</u>
Equipment	\$ -	\$ 24,120	\$ -	\$ 24,120
Less: accumulated depreciation	<u>-</u>	<u>(1,389)</u>	<u>-</u>	<u>(1,389)</u>
Net capital assets	<u>\$ -</u>	<u>\$ 22,731</u>	<u>\$ -</u>	<u>\$ 22,731</u>

**NOTE 5 - PURCHASED SERVICES**

For the period August 3, 2005 through June 30, 2006, purchased services expenses were as follows:

Professional and technical services	\$ 777,200
Travel and meetings	344
Postage	87
Miscellaneous	<u>138</u>
Total	<u>\$ 777,769</u>

The entire amount of \$777,769 consisted of purchased services provided by the Sponsor through the Summit County Educational Service Center.

**NOTE 6 - RECEIVABLES**

At June 30, 2006, receivables consisted of tuition from other districts and other non-operating revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$930.

**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. For the period August 30, 2005 through June 30, 2006, the Center was named on the Sponsor's policy for property and general liability insurance. In addition, the Center had a commercial package for the period August 1, 2005 through August 1, 2006 with Indiana Insurance.

**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006

**NOTE 8 - CONTINGENCIES**

**A. Grants**

The Center received financial assistance from state agencies in the form of grants. The expenditure of funds received under these Centers 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, 2006.

**B. Litigation**

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Schnee Learning Center is not presently determinable.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School was reviewed during the first year of operations and ODE determined an overpayment of state funding occurred during fiscal year 2006 in the amount of \$26,390. The Center's foundation payments have been adjusted for fiscal year 2007, and a liability has been recorded on the statement of net assets.

**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 Sponsor contributed 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. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006

**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 2006, 10.58 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 2006 were paid by the Sponsor.

**B. State Teachers Retirement System**

The Sponsor participated in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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, 2006, 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 2006. 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 for fiscal year ended 2006 were paid by the Sponsor.

**SCHNEE LEARNING CENTER  
SUMMIT COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD AUGUST 3, 2005 THROUGH JUNE 30, 2006

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 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. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. 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 2006, the minimum pay was established at \$35,800. However, the 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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**NOTE 11 - RELATED PARTY TRANSACTIONS**

For the fiscal year ended June 30, 2006, the Center had expenses of \$485,999 to their sponsor.

**This page intentionally left blank.**



# 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  
2222 Issaquah Street  
Cuyahoga Falls, Ohio 44221

To the Board of Directors:

We have audited the financial statements of Schnee Learning Center, Summit County, Ohio, (the Center) as of and for the period August 3, 2005 through June 30, 2006, and have issued our report thereon dated February 23, 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

### **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*. In a separate letter to the Center's management dated February 23, 2007, we reported other matters related to noncompliance we deemed immaterial.

Schnee Learning Center  
Summit County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of management and the Board of Directors. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA  
Auditor of State

February 23, 2007





**Mary Taylor, CPA**  
Auditor of State

**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  
MARCH 27, 2007**