# FOXFIRE CENTER FOR STUDENT SUCCESS
# MUSKINGUM COUNTY

## REGULAR AUDIT

## FOR THE YEAR ENDED JUNE 30, 2006

Mary Taylor, CPA
Auditor of State

**FOXFIRE CENTER FOR STUDENT SUCCESS**
**MUSKINGUM COUNTY**

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**INDEPENDENT ACCOUNTANTS' REPORT**

Foxfire Center for Student Success
Muskingum County
2805 Pinkerton Road
Zanesville, Ohio 43701

To the Board of Directors:

We have audited the accompanying basic financial statements of the Foxfire Center for Student Success, Muskingum County, Ohio (the Center), a component unit of Maysville Local School District, as of and for the year ended June 30, 2006, 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foxfire Center for Student Success, Muskingum County, Ohio, as of June 30, 2006, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental 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.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

February 12, 2007

The discussion and analysis of the Foxfire Center for Student Success's (the Center's) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2006. Readers should also review the basic financial statements and notes to enhance their understanding of the Center's financial performance.

## Highlights

The Center opened for its first year of operation in fiscal year 2004 for high school age students and above who have dropped out or are at risk of dropping out of school. During fiscal year 2006, the Center provided services to 102 full-time students.

## Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how the Center did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the Center's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Center has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

All of the Center's activities are reported in a single enterprise fund.

Table 1 provides a summary of the Center's net assets for 2006 compared to 2005:

Table 1
Net Assets

| | 2006 | 2005 | Change |
|---|---|---|---|
| Assets: | | | |
| Current and Other Assets | $434,450 | $337,049 | $97,401 |
| Liabilities: | | | |
| Current and Other Liabilities | 82,810 | 75,471 | 7,339 |
| Net Assets: | | | |
| Unrestricted | 351,640 | 261,578 | 90,062 |
| Total Net Assets | $351,640 | $261,578 | $90,062 |

Total assets increased $97,401 which is primarily due to an increase in cash and cash equivalents in the amount of $82,926. The increase in cash and cash equivalents is due to an increase in operating grant revenue in the amount of $70,206. During fiscal year 2006, the Center received Chapter I grant monies in the amount of $44,237, an Alternative Challenge Grant in the amount of $2,964, and a Small, Rural School Achievement Program grant in the amount of $19,068. The Center did not receive these grants during fiscal year 2005. Total liabilities increased $7,339.

Table 2 reflects the changes in net assets for fiscal year ended June 30, 2006 and comparisons to fiscal year 2005.

Table 2
Change in Net Assets

| | 2006 | 2005 | Change |
|---|---|---|---|
| Operating Revenues: | | | |
| Foundation | $622,016 | $585,171 | $36,845 |
| Other Operating Revenues | 6,675 | 0 | 6,675 |
| Total Operating Revenues | 628,691 | 585,171 | 43,520 |
| Non-Operating Revenues: | | | |
| Operating Grants | 278,648 | 208,442 | 70,206 |
| Interest Revenue | 7,763 | 3,477 | 4,286 |
| Other Non-Operating Revenue | 2,092 | 10,648 | (8,556) |
| Total Other Non-Operating Revenues | 288,503 | 222,567 | 65,936 |
| Total Revenues | 917,194 | 807,738 | 109,456 |
| Operating Expenses: | | | |
| Salaries | 293,830 | 253,192 | 40,638 |
| Fringe Benefits | 93,696 | 84,570 | 9,126 |
| Purchased Services | 268,656 | 231,796 | 36,860 |
| Materials and Supplies | 164,317 | 118,104 | 46,213 |
| Total Operating Expenses | 820,499 | 687,662 | 132,837 |
| Non-Operating Expenses: | | | |
| Other Non-Operating Expenses | 6,633 | 14,818 | (8,185) |
| Total Expenses | 827,132 | 702,480 | 124,652 |
| Total Increase in Net Assets | $90,062 | $105,258 | ($15,196) |

During fiscal year 2006, operating and non-operating revenues increased $109,456. These increases are primarily due to an increase in operating grants and foundation revenue in the amount of $107,051. As stated earlier during fiscal year 2006, the Center received Chapter I grant monies in the amount of $44,237, an Alternative Challenge Grant in the amount of $2,964, and a Small, Rural School Achievement Program grant in the amount of $19,068. The Center did not receive these grants during fiscal year 2005.

During fiscal year 2006, operating expenses increased $132,837. This increase is due to the Center hiring one additional certified employee. In addition, the Center had an increase in psychologist and special education services and an increase in transportation services. The Center also contracted with outside agencies for counseling and intervention services through their TANF program.

## Budgeting

The Center is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

## Capital Assets and Debt Administration

### Capital Assets

During fiscal year 2006, the Center did not have any capital assets.

### Debt

The Center did not incur any debt during fiscal year 2006.

## Current Design

The Center is different than a traditional high school in that the Center is designed to be an open, non-discriminatory atmosphere where students can work at their own pace to earn a high school diploma. The school operates under the "Care Team" philosophy by joining forces with the area social agencies in an effort to increase a student's developmental assets and eliminate the barriers to academic achievement. The Center's staff meets weekly with its "Care Team" to identify the students who are struggling, determine the barriers and provide supportive services to help those students overcome their problems so they can achieve success in school.

## Contacting the Center's Financial Management

This financial report is designed to provide citizens, taxpayers, 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 any questions about this report or need additional financial information contact Lewis Sidwell, Treasurer, Foxfire Center for Student Success, PO Box 1818, Zanesville, Ohio 43702. You may also E-mail the treasurer at lsidwell@laca.org.

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**Foxfire Center for Student Success**

*Statement of Net Assets*

*June 30, 2006*

| | |
|---|---|
| Assets: | |
| Current Assets: | |
| Cash and Cash Equivalents | $372,020 |
| Accounts Receivable | 1,550 |
| Intergovernmental Receivable | 60,880 |
| Total Assets | 434,450 |
| | |
| Liabilities: | |
| Current Liabilities: | |
| Accounts Payable | 647 |
| Accrued Wages | 52,323 |
| Intergovernmental Payable | 8,549 |
| Due to Primary Government | 3,400 |
| Long-Term Liabilities: | |
| Due In More Than One Year | 17,891 |
| Total Liabilities | 82,810 |
| | |
| Net Assets: | |
| Unrestricted | 351,640 |
| Total Net Assets | $351,640 |

See accompanying notes to the basic financial statements

**Foxfire Center for Student Success**

*Statement of Revenues, Expenditures, and Changes in Net Assets*

*For the Fiscal Year Ended June 30, 2006*

| | |
|---|---|
| Operating Revenues: | |
| Foundation | $622,016 |
| Other Operating Revenues | 6,675 |
| Total Operating Revenues | 628,691 |
| | |
| Operating Expenses: | |
| Salaries | 293,830 |
| Fringe Benefits | 93,696 |
| Purchased Services | 268,656 |
| Materials and Supplies | 164,317 |
| Total Operating Expenses | 820,499 |
| | |
| Operating Loss | (191,808) |
| | |
| Non-Operating Revenues and (Expenses): | |
| Operating Grants | 278,648 |
| Interest | 7,763 |
| Other Non-Operating Revenues | 2,092 |
| Other Non-Operating Expenses | (6,633) |
| Total Non-Operating Revenues and (Expenses) | 281,870 |
| | |
| Change in Net Assets | 90,062 |
| | |
| Net Assets Beginning of Year | 261,578 |
| Net Assets End of Year | $351,640 |

See accompanying notes to the basic financial statements

**Foxfire Center for Student Success**
*Statement of Cash Flows*
*For the Fiscal Year Ended June 30, 2006*

| | |
|---|---|
| Increase (Decrease) in Cash and Cash Equivalents | |
| Cash Flows from Operating Activities: | |
| Cash Received from Foundation | $612,506 |
| Cash Payments for Employee Services and Benefits | (373,574) |
| Cash Payments to Suppliers for Goods and Services | (430,076) |
| Other Operating Revenues | 5,125 |
| Other Non-Operating Revenues | 2,092 |
| Other Non-Operating Expenses | (6,633) |
| Net Cash Used for Operating Activities | (190,560) |
| Cash Flows from Noncapital Financing Activities: | |
| Operating Grants Received | 265,723 |
| Cash Flows from Investing Activities: | |
| Interest on Investments | 7,763 |
| Net Increase in Cash and Cash Equivalents | 82,926 |
| Cash and Cash Equivalents Beginning of Year | 289,094 |
| Cash and Cash Equivalents End of Year | $372,020 |
| Reconciliation of Operating Loss to Net Cash Used for Operating Activities: | |
| Operating Loss | ($191,808) |
| Other Non-Operating Revenues and (Expenses) | (4,541) |
| Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities: | |
| Changes in Assets and Liabilities: | |
| Increase in Accounts Receivable | (1,550) |
| Decrease in Due to Primary Government | (100) |
| Increase in Accounts Payable | 647 |
| Decrease in Deferred Revenue | (9,510) |
| Increase in Accrued Wages | 13,025 |
| Increase in Intergovernmental Payable | 2,012 |
| Increase in Compensated Absences Payable | 1,265 |
| Net Cash Used for Operating Activities | ($190,560) |

See accompanying notes to the basic financial statements

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## Note 1 - Description of the School

The Foxfire Center for Student Success (the Center) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Center is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Center's tax exempt status. The Center's mission is to help at-risk students meet Ohio's graduation requirements. The Center focuses on ensuring that basic survival needs are met so that students can achieve success in school. The Center serves high school age students and above who have dropped out or are at risk of dropping out of school. A particular emphasis is placed on assisting parents and/or pregnant students obtain a high school diploma.

The Center was created on September 3, 2003 by entering into a four year contract with the Maysville Local School District (the Sponsor). 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 Sponsor is also the fiscal agent of the Center with the Treasurer of the Sponsor completing the role of Treasurer for the Center.

The Center operates under the direction of a five-member Board of Directors made up of three-members from the Maysville Local School District and two-members from the public. The two public members represent the interest of the Muskingum County community. The Board of Directors approves the Center's staff of five noncertified and five certificated full time teaching personnel who provide services to 102 students. The Center is a component unit of the Sponsor. The sponsor appoints a majority of the board and is able to impose its will on the Center. The Sponsor can suspend the Center's operations for any of the following reasons: 1) The Center's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The Center's failure to meet generally accepted standards of fiscal management, 3) The Center's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of the Center and the students it serves. The Center used the facilities of the Sponsor.

## Note 2 - Summary of Significant Accounting Policies

The financial statements of the Center have been prepared in conformity with generally accepted accounting principals (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 on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the Center's accounting policies are described below.

### A. Basis of Presentation

The Center'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.

The Center uses a single enterprise fund to present its financial activity for the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services.

**B. Measurement Focus**

Fund Financial Statements

The enterprise fund is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how the Center finances meet its cash flow needs.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Center's 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. Revenue resulting from nonexchange transactions, in which the Center receives value without directly giving equal value in return, such as grants and entitlements, are 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 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. Expenses are recognized at the time they are incurred.

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the Center's contract with its Sponsor. The contract between the Center and its Sponsor does not prescribe an annual budget requirement in addition to preparing a 5-year forecast, which is updated on an annual basis.

**E. Cash and Cash Equivalents**

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

**F. Net Assets**

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

The government-wide statement of net assets reports no restricted net assets and has no monies restricted by enabling legislation.

Net assets restricted for other purposes include federal grants restricted to expenditures for specified purposes.

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

## G. Operating Revenues and Expenses

The Center currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

The Center also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Center was awarded $150,000 to offset start-up costs of the Center. Revenue received from this program is recognized as non-operating revenue on the basic financial statements.

Other 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.

## H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time when earned for vacation eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy. The Center records a liability for accumulated unused sick leave for classified and certified employees after ten years of service (including prior year service with the Sponsor). At June 30, 2006 the Center had $17,891 in an outstanding compensated absences liability.

## I. 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, compensated absences, and contractually required pension contributions that 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.

## J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 – Changes in Accounting Principle

For the fiscal year ended June 30, 2006, the Center has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of this statement had no effect on the financial statements.

## Note 4 - Deposits

Monies held by the Center are classified by State statute 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 Center's 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 Directors 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 held by the Center can 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;

4. Bonds and other obligations of the State of Ohio or Ohio local governments;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;

7. The State Treasurer's investment pool (STAROhio); and,

8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**Deposits:** Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, $192,773 of the Center's bank balance of $392,773 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

**Investments:** As of June 30, 2006, the Center had no investments.

## Note 5 – Intergovernmental Receivable

Receivables at June 30, 2006, consisted of intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| | Amounts |
|---|---|
| **Business-Type Activities** | |
| Title II-A | $2,375 |
| Ohio Public Charter School Program | 19,622 |
| School Community Partnership Grant - TANF | 16,851 |
| Alternative Challenge Grant | 2,964 |
| Small, Rural School Achievement Program | 19,068 |
| Total | $60,880 |

## Note 6 – Defined Benefit Pension Plans

### A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined 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, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

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's 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 a statutory maximum amount, by the SERS' Retirement Board. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were $11,099, $7,936 and $1,291, respectively; 60 percent has been contributed for fiscal year 2006 and 100 percent for fiscal year 2005 and 2004.

### B. State Teachers Retirement System

The Center participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, 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 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% 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 fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by 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 Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005 and 2004 were $ 27,813, $26,319 and $9,891, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. There were no contributions to the DC and Combined Plans for fiscal year 2006.

**<u>Note 7 – Postemployment Benefits</u>**

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 System 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, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Center this amount equaled $2,139 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was $3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000 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.

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, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 has been established as $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Center, the amount to fund health care benefits, including surcharge, during the 2006 fiscal year equaled $4,554**.**

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 fiscal year. Expenses for health care at June 30, 2005, (the latest information available), were $178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

**Note 8 – Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Unused vacation time at the end of a fiscal year is not accumulated or carried forward to the next fiscal year. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 245 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 59 days.

**B. Life Insurance**

The Sponsor provides the Center life insurance and accidental death and dismemberment insurance to most employees through Unum Life Insurance in the amount of $20,000 for all employees enrolled.

**C. Retirement Incentive**

Upon reaching 30 years of retirement credit in the State Teachers Retirement System (STRS), teachers become eligible to receive a $10,000 retirement bonus (incentive), providing they retire in their 30th year. The benefit will be paid in a lump sum payment in January following the effective fiscal year of retirement.

During fiscal year 2006, the Center did not make any retirement incentive payments and no retirement incentives were accrued as liabilities at fiscal year end.

During fiscal year 2006, the Center approved a retirement incentive plan as a benefit for classified employees. Each classified employee eligible for SERS retirement is eligible for the incentive. The incentive is equal to $275 per year of service as documented by the employees most recent SERS benefit statement. The incentive will be paid in one lump sum payment following the effective date of retirement.

**Note 9 – Risk Management**

The Center is exposed to various risks of loss related to torts; error and omissions; and natural disasters. During fiscal year 2006, the Center contracted with Utica National Insurance Group for liability insurance.

During fiscal year 2006, the Center paid the Sponsor a monthly premium for workers' compensation coverage.

The Sponsor offers medical, dental, and vision insurance to employees through their self-insurance internal service fund. The Sponsor charges the Center monthly premiums. The Sponsor's fiscal agent pays the claims on the Center's behalf.

## Note 10 – Related Party Transactions

Of the five member board of the Center, Maysville Local School District, Sponsor, appoints three-members. The Center is presented as a component unit of the Sponsor. The Sponsor provides payroll services to the Center.

During fiscal year 2006, the Center paid the Sponsor $1,500 per full time equivalent student to cover administrative services and maintenance services provided by the Sponsor.

## Note 11 - Contingencies

### A. Grants

The Center received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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. 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 US 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 Center is not presently determinable.

### C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Center. These reviews are conducted to ensure the Center is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

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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***

Foxfire Center for Student Success
Muskingum County
2805 Pinkerton Road
Zanesville, Ohio 43702

To the Board of Directors:

We have audited the basic financial statements of the Foxfire Center for Student Success, Muskingum County, Ohio (the Center), as of and for the year ended June 30, 2006, and have issued our report thereon dated February 12, 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 in order to express our opinion on the basic 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 basic 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*.

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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.

Mary Taylor

**Mary Taylor, CPA**
Auditor of State

February 12, 2007

Mary Taylor, CPA
Auditor of State

**FOXFIRE CENTER FOR STUDENT SUCCESS**

**MUSKINGUM 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 13, 2007**

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