Mary Taylor, CPA
Auditor of State

THE MOLLIE KESSLER SCHOOL
MAHONING COUNTY

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Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Mollie Kessler School
Mahoning County
118 E. Wood Street
Youngstown, Ohio 44503

To the Governing Board:

We have audited the accompanying financial statements of The Mollie Kessler School, Mahoning County, Ohio (the "School"), as of and for the year ended June 30, 2007 which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School'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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of The Mollie Kessler School, Mahoning County, Ohio as of June 30, 2007, and the respective changes in financial position and cash flows, thereof 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 September 26, 2008, on our consideration of the School'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 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

September 26, 2008

This discussion and analysis of The Mollie Kessler School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- The School uses a single enterprise fund to report its financial activity. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.
- In total, net assets increased by $21,014.
- Revenues totaled $643,628 in fiscal year 2007. Of this total, $557,208 or 86.6 percent consisted of operating revenues while non-operating revenues accounted for $86,420 or 13.4 percent of total revenues. $531,825 or 82.6 percent was derived from the State Community School Foundation Program, Special Education Weighted Formula Aid Program and Parity Aid.
- Expenses totaled $622,614 during the fiscal year. Salaries and fringe benefits accounted for $451,165 or 72.5 percent of this total while purchased services, materials and supplies, depreciation and other operating expense made up $171,449 or 27.5 percent.

Using this Annual Financial Report

This annual report consists of two parts, the MD&A and the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets and a statement of cash flows. Entity-wide information is not included since the School only uses one fund to account for its operations.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially in fiscal year 2007?" These statements include all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. The School finished fiscal year 2007 with net assets totaling $194,345.

Table 1 provides a summary of the School's net assets for 2007 compared to 2006:

(Table 1)
Net Assets

	2007	2006	Change
Assets			
Current and Other Assets	$107,957	$86,109	$21,848
Capital Assets, Net	144,836	148,125	(3,289)
Total Assets	252,793	234,234	18,559
Liabilities			
Accounts Payable	619	1,249	(630)
Accrued Wages	45,705	46,809	(1,104)
Intergovernmental Payable	12,124	12,845	(721)
Total Liabilities	58,448	60,903	(2,455)
Net Assets			
Invested in Capital Assets	144,836	148,125	(3,289)
Unrestricted	49,509	25,206	24,303
Total Net Assets	$194,345	$173,331	$21,014

Total assets increased by $18,559 during fiscal year 2007. This increase can be attributed to an increase in cash and cash equivalents.

Total liabilities decreased by $2,455 during fiscal year 2007. By comparing assets and liabilities, one can see the overall position of the School has improved as evidenced by the increase in net assets of $21,014.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007 as well as revenue and expense comparisons to the previous fiscal year.

(Table 2)
Changes in Net Assets

	2007	2006	Change
Operating Revenues			
Foundation Payments	$531,825	$477,452	$54,373
Charges for Services	15,930	15,125	805
Other Operating Revenues	9,453	12,328	(2,875)
Total Operating Revenues	$557,208	$504,905	$52,303

(Table 2)
Changes in Net Assets

	2007	2006	Change
Non-Operating Revenues			
Operating Grants	$83,947	$98,002	($14,055)
Interest	2,473	1,651	822
Total Non-Operating Revenues	86,420	99,653	(13,233)
Total Revenues	643,628	604,558	39,070
Operating Expenses			
Salaries	327,438	328,241	(803)
Fringe Benefits	123,727	107,354	16,373
Purchased Services	132,183	137,053	(4,870)
Materials and Supplies	15,900	15,896	4
Depreciation	5,950	10,450	(4,500)
Other Operating Expenses	17,416	26,043	(8,627)
Total Expenses	622,614	625,037	(2,423)
Increase (Decrease) in Net Assets	21,014	(20,479)	41,493
Net Assets Beginning of Year	173,331	193,810	(20,479)
Net Assets End of Year	$194,345	$173,331	$21,014

Although the School relies heavily upon the State School Foundation Program to support its operations, the School actively solicits and receives additional grant and entitlement funds to help offset some operating costs.

Fringe benefits increased during the fiscal year by $16,373 due to higher healthcare costs. This increase was partially offset by decreases in purchased services, depreciation and other operating expenses.

The School has carefully planned its financial existence by forecasting its revenues and expenses over the next five fiscal years.

Capital Assets

(Table 3)
Capital Assets at June 30, 2007 (Net of Depreciation)

	2007	2006
Buildings and Improvements	$134,730	$138,473
Furniture, Fixtures and Equipment	10,106	9,652
Total	$144,836	$148,125

At the end of fiscal year 2007, the School had $144,836 invested in building improvements and furniture, fixtures and equipment. The $3,289 decrease in capital assets during the fiscal year was due to the additional year of depreciation being taken on the assets.

For more information on the School's capital assets, see Note 5 of the basic financial statements.

Debt

The School had no outstanding debt at June 30, 2007.

School Outlook

The Mollie Kessler School continues to maintain a high level of service to our at risk student population. We completed the fifth year of our five-year contract with our sponsor, the Buckeye Community Hope Foundation with 62 students. We successfully completed our contract renewal with the Buckeye Community Hope Foundation for fiscal years 2008 and 2009.

The Mollie Kessler School received a designation of Academic Emergency on the 2006-2007 school year report card due to our small testing population comprised of 95 percent learning disabled students. The Mollie Kessler School is in School Improvement Year 3.

The Mollie Kessler School Board and administration closely monitor the School's revenues and expenses and are doing everything in their power to make sure every dollar is being used efficiently and effectively.

The financial future of The Mollie Kessler School is stable. At this time, the growth in State revenue continues to balance the anticipated growth in expenses.

Contacting the School's Financial Management

This financial report is designed to provide our community with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Leslie A. Brown, Treasurer at The Mollie Kessler School, 118 East Wood Street, Youngstown, OH 44503. The Treasurer may also be contacted by phone at (330) 746-3095 or by email at MKES_LB@ACCESS-K12.org.

The Mollie Kessler School

Statement of Net Assets

June 30, 2007

Assets	
Current Assets:	
Cash and Cash Equivalents	$100,519
Accounts Receivable	1,059
Intergovernmental Receivable	6,065
Prepaid Items	314
Total Current Assets	107,957
Noncurrent Assets:	
Depreciable Capital Assets, Net	144,836
Total Assets	252,793
Liabilities	
Accounts Payable	619
Accrued Wages Payable	45,705
Intergovernmental Payable	12,124
Total Liabilities	58,448
Net Assets	
Invested in Capital Assets	144,836
Unrestricted	49,509
Total Net Assets	$194,345

See accompanying notes to the basic financial statements

The Mollie Kessler School

Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

Operating Revenues	
Foundation Payments	$531,825
Charges for Services	15,930
Other Operating Revenues	9,453
Total Operating Revenues	557,208
Operating Expenses	
Salaries	327,438
Fringe Benefits	123,727
Purchased Services	132,183
Materials and Supplies	15,900
Depreciation	5,950
Other Operating Expenses	17,416
Total Operating Expenses	622,614
Operating Loss	(65,406)
Non-Operating Revenues	
Operating Grants	83,947
Interest	2,473
Total Non-Operating Revenues	86,420
Change in Net Assets	21,014
Net Assets Beginning of Year	173,331
Net Assets End of Year	$194,345

See accompanying notes to the financial statements

The Mollie Kessler School

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2007

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$531,825
Cash Received from Customers	17,631
Cash Received from Other Operating Sources	9,453
Cash Payments to Suppliers for Goods and Services	(144,206)
Cash Payments to Employees for Services	(328,542)
Cash Payments for Employee Benefits	(124,448)
Cash Payments for Other Operating Expenses	(17,416)
Net Cash Used for Operating Activities	(55,703)
Cash Flows from Noncapital Financing Activities	
Cash Received from Operating Grants	85,326
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(2,661)
Cash Flows from Investing Activities	
Interest on Investments	2,473
Net Increase in Cash and Cash Equivalents	29,435
Cash and Cash Equivalents Beginning of Year	71,084
Cash and Cash Equivalents End of Year	$100,519

See accompanying notes to the financial statements

(continued)

The Mollie Kessler School

Statement of Cash Flows (continued)

For the Fiscal Year Ended June 30, 2007

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating Loss	($65,406)
Adjustments:	
Depreciation	5,950
Decrease in Assets:	
Accounts Receivable	1,701
Prepaid Assets	4,507
Decrease in Liabilities:	
Accounts Payable	(630)
Accrued Wages and Benefits	(1,104)
Intergovernmental Payable	(721)
Total Adjustments	9,703
Net Cash Used for Operating Activities	($55,703)

See accompanying notes to the financial statements

Note 1 - Description of the School and Reporting Entity

The Mollie Kessler School (the School) is a community school as provided for by Ohio Revised Code Chapters 3314 and 1702 located within the Youngstown City School District. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Mollie Kessler School may sue and be sued in its own name, acquire facilities as needed and contract for services necessary for the operation of the School.

The creation of the School was initially proposed to the Ohio Department of Education by employees of the ACLD (Association for Children with Learning Disabilities) Learning Center and other members of the community on December 12, 2001. The Ohio Department of Education approved the proposal and entered into a contract with the Mollie Kessler School, which provided for the commencement of School operations on September 9, 2002. In 2005, the Buckeye Community Hope Foundation became the School's sponsor.

The School operates under a six-member Board of Directors. New members are appointed by the Mollie Kessler School Board of Directors. The Board 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 and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by eight non-certified personnel, four certificated full time teaching personnel, one full time certified administrator and one full time treasurer who provide services to sixty-two students.

These financial statements present only the financial activity and balances of The Mollie Kessler School.

The School participates in one jointly governed organization and one related organization, the Area Cooperative Computerized Educational Service System Council of Governments and the ACLD Learning Center. These organizations are presented in Notes 11 and 12 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School 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 School has elected not to apply FASB Pronouncements and Interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

The School uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The operations of the School are reported as a single enterprise fund.

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

B. Measurement Focus

The accounting and financial reporting treatment of an entity's financial transactions is determined by the entity's measurement focus. Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School finances and meets 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. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the School 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 including 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 School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School 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 budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor required a first year spending plan and a five year estimated budget. A regular review of the budget is also performed and updated during the school year as circumstances change and actual figures become available.

E. Cash and Cash Equivalents

During fiscal year 2007, the School invested in STAROhio. STAROhio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Investments with an original maturity of three months or less at the time they are purchased by the School are presented on the financial statements as cash equivalents.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of the building improvements is computed using the straight-line method over an estimated useful life of forty years. Depreciation of the furniture, fixtures and equipment is computed using the straight-line method over an estimated useful life of ten years.

G. Intergovernmental Revenues

The School 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 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 first permitted, matching requirements in which the School must provide local resources to be used for a specified purpose and expenditure requirements in which the resources are provided to the School on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in the School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. This review resulted in an underpayment to the School in the amount of $236.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Money received under this program is recognized as non-operating revenue in the accompanying financial statements, unless it is restricted for capital acquisitions in which case it is recognized as a capital contribution.

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

H. Compensated Absences

Employees of the School receive no vacation days.

Each employee of the School is given three sick days per fiscal year which are forfeited if not used by year-end.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The School did not have any restricted net assets as of June 30, 2007.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the School, these revenues are foundation payments, charges for services and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the School. Revenues and expenses which do not meet these definitions are reported as nonoperating.

K. Estimates

The presentation of the 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.

L. Federal Tax Exempt Status

On September 5, 2002, the School was granted status as an exempt organization under Internal Revenue Code Section 501(c)(3) and is exempt from federal income taxes. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

Note 3 - Operating Lease

The Mollie Kessler School leases the building in which it operates from the ACLD School and Learning Center. The School has entered into a lease for this space for a period of one year from July 1, 2006, through June 30, 2007. The Mollie Kessler School is obligated to pay $4,000 on the first day of each month for a total annual rent of $48,000. The lease is renewable annually.

Note 4 – Deposits and Investments

Investments

Unlike other public schools located in the State of Ohio, community schools are not required to follow investment provisions set forth in Ohio Revised Code Chapter 135, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe an investment process for the School.

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07
Capital assets being depreciated				
Building improvements	$149,700	$0	$0	$149,700
Furniture, fixtures and equipment	33,534	2,661	0	36,195
Total capital assets being depreciated	183,234	2,661	0	185,895
Accumulated depreciation				
Building improvements	(11,227)	(3,743)	0	(14,970)
Furniture, fixtures and equipment	(23,882)	(2,207)	0	(26,089)
Total accumulated depreciation	(35,109)	(5,950)	0	(41,059)
Capital assets being depreciated, net	$148,125	($3,289)	$0	$144,836

Note 6 - Receivables

Receivables at June 30, 2007, consisted of accounts receivable and intergovernmental grants. All receivables are considered collectible in full due to accounts receivable being historically collectible and due to the stable condition of State programs. All receivables are expected to be collected within one year.

Note 7 - Risk Management

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2007, the School contracted with First Place Insurance Agency, Ltd. for general and professional liability insurance with a $1,000,000 each occurrence limit, $1,000,000 annual aggregate with a $500 deductible and for business personal property with a limit of $25,000 and a deductible of $500. No claims have been made by the School as of June 30, 2007.

B. Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll times the contribution rate established by Worker's Compensation for the School.

C. Employee Benefits

The School has contracted with the American Community Mutual Insurance Company to provide employee health, dental and life benefits. The School pays 100 percent of the monthly premium for single coverage but has no family plan. For fiscal year 2007, the School's premiums were $372.23 for single coverage per employee per month. An employee may add a spouse or child but the employee pays the entire additional premium.

Note 8 - Pension Plans

A. School Employees Retirement System

The School 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.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School'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. 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 School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were $17,041, $17,409 and $18,162 respectively; 80.98 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The School 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 East Broad Street, Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site 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 School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were $21,707, $20,658 and $17,492 respectively; 92.65 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were $1,977 made by the School and $1,883 made by plan members.

Note 9 - Postemployment Benefits

The School 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-certificated 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 cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the 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 Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $1,670 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS 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 health care premium. 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, compared to 3.42 percent of covered payroll for 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. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $8,488.

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, 2006, (the latest information available), were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

Note 10 – Other Employee Benefits

Paid sick days will be granted by the administration based on need. Sick days do not accumulate. The Mollie Kessler School does not provide for the cost of substitutes for staff who take days off work for personal reasons. The cost of the substitute is deducted from the staff member's salary.

Vacation days outside of school holidays are provided for year round staff members during the summer, depending on length of service. Vacation days do not accumulate into the next school year. Vacation pay does not accumulate and is not payable upon termination of employment.

Note 11 - Jointly Governed Organization

The Area Cooperative Computerized Educational Service System Council of Governments (ACCESS) is a computer network which provides data services to twenty-three school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports ACCESS based upon a per pupil charge, which was $33.50 for fiscal year 2007 and $651.00 for other service fees. Eighty percent of the per pupil charges were paid for through the USAC Schools and Libraries (E-Rate) Program discount. The Mollie Kessler School paid $1,066 to ACCESS during fiscal year 2007.

ACCESS is governed by an assembly consisting of superintendents or other designees of the member school districts. The assembly exercises total control over the operation of ACCESS including budgeting, appropriating, contracting and designating management. All of ACCESS revenues are generated from charges for services and State funding.

Financial information can be obtained from the Treasurer for the Mahoning County Educational Service Center, who serves as fiscal agent, at 100 Debartolo Place, Suite 105, Youngstown, Ohio 44512-7019.

Note 12 – Related Organization

The creation of the School was initially proposed to the Ohio Department of Education by employees of the ACLD Learning Center and other members of the community on December 12, 2001. The Ohio Department of Education approved the proposal and entered into a contract with the Mollie Kessler School, which provided for the commencement of School operations on September 9, 2002. The ACLD Learning Center is not financially accountable for the School nor is the School financially dependent on the ACLD Leaning Center. The School serves as its own taxing and debt issuance authority. During the fiscal year, the School paid $47,167 in rent to the ACLD Learning Center.

Note 13 - Contingencies

A. Grants

The School 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2007.

B. Litigation

As of June 30, 2007, the School was not party to any legal proceedings.

Note 14 – Purchased Services

For the period of July 1, 2006 through June 30, 2007, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services	$83,357
Rent	47,167
Advertising	748
Postage	911
Total	$132,183

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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*

The Mollie Kessler School
Mahoning County
118 E. Wood Street
Youngstown, Ohio 44503

To the Governing Board:

We have audited the financial statements of The Mollie Kessler School, Mahoning County, (the "School") as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 26, 2008. 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 School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School'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 School'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 School'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 School'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.

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Compliance and Other Matters

As part of reasonably assuring whether the School'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 the audit committee, management, the Governing Board, 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

September 26, 2008

THE MOLLIE KESSLER SCHOOL

MAHONING 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
NOVEMBER 6, 2008

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