



SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Summit Academy Community School for Alternative Learners, Inc.
Summit County
1111 West Market Street
Akron, Ohio 44313

To the Board of Trustees:

We have audited the Balance Sheet of Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio, (the School) as of and for the year ended June 30, 2001, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and Cash Flows for the year then ended. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 financial position of Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio, as of June 30, 2001, and the results of its operations 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 March 8, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

March 8, 2002

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**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001**

ASSETS

Current assets:

Cash and cash equivalents	\$	26,453
State and federal grants receivable		18,767
Loan receivable		74,617
Accrued interest		210
Total current assets		120,047

Noncurrent assets:

Fixed assets, net of accumulated depreciation		1,006,691
Restricted cash		77,359
Total noncurrent assets		1,084,050

Total assets

\$ 1,204,097

LIABILITIES AND FUND EQUITY

Current liabilities:

Accounts payable	\$	78,424
Accrued wages and benefits		232,439
Accrued pension and payroll taxes		16,040
Compensated absences payable		2,159
Loan payable		7,000
Accrued interest payable		2,612
Demand notes payable		150,000
Capital lease payable, current portion		10,904
Notes payable, current portion		104,381
Total current liabilities		603,959

Long-term liabilities:

Capital lease payable, net of current portion		27,244
Notes payable, net of current portion		463,941
Total long-term liabilities		491,185

Total liabilities

1,095,144

Fund equity

Contributed capital		69,473
Retained earnings, unreserved		39,480
Total fund equity		108,953

Total liabilities and fund equity

\$ 1,204,097

The accompanying notes to the financial statements are an integral part of this statement.

**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Operating revenues</u>	
Materials and fees	\$ 18,992
State foundation	1,488,825
Other operating revenues	8,110
Total operating revenue	1,515,927
<u>Operating expenses</u>	
Salaries	1,064,603
Fringe benefits	247,510
Purchased services	372,471
Materials and supplies	97,716
Depreciation	49,320
Other	17,685
Total operating expenses	1,849,305
Operating loss	(333,378)
<u>Non-operating revenues (expenses)</u>	
Rental income	4,470
State and federal grants	108,420
Private foundation grants	60,930
Miscellaneous receipts from local sources	1,000
Interest earnings	5,029
Interest expense	(47,855)
Net non-operating revenues	131,994
Net loss	(201,384)
Retained earnings at beginning of year	229,009
Depreciation on fixed assets acquired by contributed capital	11,855
Retained earnings at end of year	\$ 39,480

The accompanying notes to the financial statements are an integral part of this statement.

**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001**

Increase (decrease) in cash and cash equivalents

Cash flows from operating activities:

Cash from the State of Ohio	\$	1,488,825
Cash payments to suppliers for goods and services		(424,062)
Cash payments to employees for services and benefits		(1,144,887)
Cash payments for other operating expenses		(15,185)
Other operating revenues		33,700
Net cash used for operating activities		(61,609)

Cash flows from noncapital financing activities:

State and federal grants		89,653
Private foundation grants		60,930
Rental receipts		4,470
Miscellaneous receipts from local sources		1,000
Net cash provided by noncapital financing activities		156,053

Cash flows from capital and related financing activities:

Cash payments for capital acquisitions		(159,859)
Cash payments on capital lease		(9,626)
Cash received from notes payable		177,000
Cash payments on notes payable		(118,438)
Cash received from loan payable		75,000
Interest payments		(47,819)
Net cash used for capital and related financing activities		(83,742)

Cash flows from investing activities:

Loan to related company		(74,617)
Interest on investments		5,016
		(69,601)

Net decrease in cash and cash equivalents (58,899)

Cash and cash equivalents at beginning of year 162,711

Cash, cash equivalents, and restricted cash at end of year \$ 103,812

Reconciliation of operating loss to net cash used for operating activities:

Operating loss \$ (333,378)

Adjustments to reconcile operating loss to net cash used for operating activities:

Depreciation		49,320
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable		6,598
Prepaid expenses		2,500
Increase (decrease) in liabilities:		
Accounts payable		46,125
Accrued wages and benefits		180,624
Accrued pension and payroll taxes		(15,557)
Compensated absences payable		2,159
Total adjustments		271,769

Net cash used for operating activities \$ (61,609)

Noncash, investing, capital, and financing activities

During fiscal year 2001, the School entered into a capital lease for copiers. The capitalized net present value of these copiers was \$20,943.

The accompanying notes to the financial statements are an integral part of this statement.

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**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Summit Academy Community School for Alternative Learners, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The School is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The School provides educational, literary, scientific, and related teaching services for "at-risk" children with the symptoms of Attention Deficit Disorder (ADD) or Attention Deficit Hyperactivity Disorder (ADHD). The School, which is part of the State's education program, is independent of any public school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

As further described in Note 17 to the financial statements, the School entered into a contract with Summit Academy Management, Inc. (SAM) on January 1, 2001, to employ and facilitate the day-to-day management of the School. Except for the transfer of employees to SAM, this agreement did not take effect until July 1, 2001. Three of the founding members of the School serve on the Board of Directors of SAM. SAM is a legally separate 501(c)(3) corporation administered by 3 board members, and the results of SAM's operations are not reflected in these financial statements. SAM also manages the day-to-day activities of Summit Academy Community School for Alternative Learners – Canton, Inc. (Summit Canton), and Summit Academy Community School for Alternative Learners – Parma, Inc. (Summit Parma). These Schools, which also have three common board members, are legally separate corporations and the results of their operations are not included in these financial statements.

As further described in Note 5, the School has notes payable to Academy Management Company, Inc. (AMC). AMC is a for profit corporation created by 4 of the School's founding members to establish community schools throughout the state of Ohio. AMC is a legally separate organization, and the results of its operations are not reflected in these financial statements.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with the fiscal year June 30, 2000. The School operates under a self-appointing five-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then-existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by 37 non-certified and 30 certified full-time teaching personnel who provide services to 115 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. For this fiscal year, the School has implemented GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions"; however, this did not have a material effect on the financial statements. The more significant of the School's accounting policies are described below.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

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, including depreciation) 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

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is reported as retained earnings and contributed capital. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total 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 School's contract with its Sponsor. The contract between the School and its Sponsor, the Ohio State Board of Education, does not prescribe a budgetary process for the School.

D. Cash and Cash Equivalents

Cash received by the School is maintained in demand deposit accounts. In addition, the School has a certificate of deposit held as collateral for a loan at the same financial institution. That amount (\$77,359) is shown as Restricted Cash on the Balance Sheet.

For purposes of the Statement of Cash Flows and for presentation on the Balance Sheet, investments with an original maturity of 3 months or less at the time they are purchased are considered to be cash equivalents.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

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

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$500. The School does not possess any infrastructure nor does it capitalize interest expense.

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

Depreciation of furniture, fixtures, and equipment is computed using the straight-line method over estimated useful lives of 5 to 10 years. Buildings and improvements are depreciated over an estimated useful life of 40 years.

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$150,000 to be received in equal installments over 3 years in order to offset start-up costs of the School. This program is recognized as non-operating revenue on the financial statements. Grants and entitlements are also 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 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.

G. Accrued Liabilities

Obligations, such as interest due but unpaid, are reported as liabilities in the accompanying financial statements.

H. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

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

I. Contributed Capital

Contributed capital was first recorded by the School for the donation of office furniture and equipment during fiscal year 2000. Depreciation on these assets acquired through capital contributions was \$11,855 and was expensed and closed to contributed capital during fiscal year 2001.

NOTE 3 - DEPOSITS

At year-end, the carrying amount of the School's cash deposits were \$103,812 and the bank balance was \$116,382. All of the bank balance was covered by federal depository insurance. Included in the deposit balance is a \$77,359 certificate of deposit that is earning interest at the rate of 6.20%, with an original term of twelve months and maturing on December 14, 2001. The certificate of deposit is pledged as collateral for the \$150,000 loan described in Note 5 and is shown as restricted cash on the Balance Sheet.

NOTE 4 – LOAN RECEIVABLE

The loan receivable of \$74,617 at June 30, 2001, consists of a bank loan obtained in the School's name on behalf of SAM. This amount is also included as a portion of Notes Payable on the Balance Sheet as described in Note 5. No repayment terms have been defined between the School and SAM.

NOTE 5 - NOTES PAYABLE

The School entered into a \$400,000 real estate mortgage (the Loan) with a local bank on May 4, 1999 for its East Market Street Building. Interest expense of \$33,502 was paid at a rate of 8.5% for the year ended June 30, 2001 and interest of \$2,245 has been accrued as of that date. The loan is due on November 4, 2006. The balance outstanding was \$365,739 at June 30, 2001.

Additionally, the School received a loan in the amount of \$150,000 from Key Bank. Interest fluctuates with this bank's prime rate plus 1.5%. The loan term is five years, with monthly principal and interest payments of \$2,906. This loan is collateralized by a \$75,000 certificate of deposit held at the bank which has a current value of \$77,359, and 50% of the loan is guaranteed by the City of Akron. This loan had an outstanding balance of \$111,898 at June 30, 2001.

When the East Market Street Building was purchased in May of 1999, the sellers agreed to carry a note in the amount of \$25,000. Thus, the building is secured by a second mortgage with New Horizons Christian Church. The note is to be amortized over five years with an interest rate of 10%. Principal and interest payments of \$531 are made monthly. This note had an outstanding balance of \$16,068 at June 30, 2001.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 5 - NOTES PAYABLE (Continued)

The School also obtained a loan in the amount of \$75,000 on behalf of SAM. The interest rate on this loan is 8.95% per annum. The loan term is 5 years, with monthly principal and interest payments of \$1,560, with the remaining principal and interest due upon maturity. The loan is collateralized by the East Market Street Building. This loan has a balance of \$74,617 as of June 30, 2001. SAM has assumed responsibility for payment of all interest and principal on this loan; an offsetting loan receivable is also reported on the balance sheet as described in Note 4.

The current and non-current principal portions of the above debt are as follows:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
National City Bank Mortgage	\$54,915	\$310,824	\$365,739
Key Bank	31,930	79,968	111,898
New Horizons Christian Church	4,992	11,076	16,068
National City Bank	<u>12,544</u>	<u>62,073</u>	<u>74,617</u>
Totals	<u>\$104,381</u>	<u>\$463,941</u>	<u>\$568,322</u>

Annual requirements to amortize all indebtedness outstanding at June 30, 2001, including interest payments, are as follows:

<u>For the Year Ending June, 30</u>	<u>National City Bank Mortgage</u>	<u>Key Bank Loan</u>	<u>Note Payable to New Horizons Christian Church</u>	<u>National City Bank Loan</u>	<u>Total</u>
2002	\$ 84,300	\$ 34,872	\$ 6,374	\$ 18,716	\$ 144,262
2003	84,300	34,872	6,374	18,716	144,262
2004	84,300	34,872	6,374	18,716	144,262
2005	84,300	19,835	-	18,716	122,851
2006	84,300	-	-	17,751	102,051
Thereafter	<u>38,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,225</u>
Total	<u>\$ 459,725</u>	<u>\$ 124,451</u>	<u>\$ 19,122</u>	<u>\$ 92,615</u>	<u>\$ 695,913</u>

Two demand notes were signed and are payable to Academy Management Company, Inc. for \$90,000 and \$20,000, respectively, with interest rates of 6.8%. These notes had an outstanding balance of \$110,000 at June 30, 2001.

The School also has two \$20,000 demand notes payable to Summit Canton and Summit Parma, as of June 30, 2001, with interest at 6.8%. The School has also borrowed \$7,000 from SAM, which is not evidenced by a promissory note. This amount is shown as a loan payable at June 30, 2001.

Contrary to Ohio Rev. Code Section 3314.08(J), the School had the above debt outstanding at year end that was secured by future state revenues.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 6 - FIXED ASSETS AND DEPRECIATION

A summary of the School's fixed assets at June 30, 2001, follows:

Land	\$	45,000
Buildings		821,448
Furniture, Fixtures and Equipment		219,221
		1,085,669
Less: Accumulated Depreciation		(78,978)
Net Fixed Assets	\$	1,006,691

Equipment includes assets under a capital lease which have an original cost of \$50,267.

NOTE 7 - CAPITAL LEASES

During the year, the School entered into several new capitalized leases for copiers. In the prior year, the School entered into capital leases for the acquisition of a copier and a telephone system. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of the future minimum lease payments (\$50,267) as of the inception date of the lease. The following is a schedule of the future minimum lease payments as of June 30, 2001.

Year Ending June 30	Copiers	Phone System	Total
2002	\$ 9,613	\$ 3,337	\$ 12,950
2003	9,613	278	9,891
2004	9,613	-	9,613
2005	9,613	-	9,613
2005	801	-	801
Total future minimum lease payments	39,253	3,615	42,868
Less: Amount representing interest	(4,557)	(163)	(4,720)
Present value of future minimum lease payments	\$ 34,696	\$ 3,452	\$ 38,148

Two of the copiers leased by the School with original costs of \$9,379 and \$11,564 are currently being used by SAM and Summit Parma, respectively.

During the year, the School was reimbursed \$1,831 and \$2,639 from SAM and Summit Parma, respectively, for the use of these copiers. These reimbursements are reflected on the Statement of Revenues, Expenses and Changes in Retained Earnings as rental income.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 8 - PURCHASED SERVICES

Purchased services include the following:

Occupancy Costs	\$ 107,933
Professional Services	111,614
Advertising and Promotion	3,269
Travel and Transportation	30,784
Maintenance	51,580
Educational	27,839
Other	39,452
Total	<u>\$ 372,471</u>

NOTE 9 - RISK MANAGEMENT

Property and Liability – The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School contracted with an insurance company for property and general liability insurance. Property coverage carries a \$1,000 deductible and has a \$1,342,500 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with a \$1,000 deductible. Settled claims have not exceeded this commercial coverage in the past two years. There was no reduction in coverage from the prior year.

Workers Compensation - The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the total monthly gross payroll by a factor determined by the Bureau of Worker's Compensation.

NOTE 10 - OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, and Vision Benefits – The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 75% of the monthly premium for full-time employees and 50% for part-time employees. The employees are responsible for the remaining amounts. For fiscal year 2001, the School's and the employees' monthly premiums varied depending on family size and the ages of those covered.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9% of their annual covered salary and the School is required to contribute 14%; for fiscal year 2001, 4.2% was the portion used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS' Retirement Board within the rates allowed by Ohio statute. The adequacy of the contribution rates is determined annually. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001 and 2000 were \$95,421 and \$14,374, respectively; 100% has been contributed for fiscal years ended 2001 and 2000.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the School is required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School's required contribution for pension obligations to STRS for fiscal years ended June 30, 2001 and 2000 were \$75,949 and \$18,734, respectively; 94% has been contributed for fiscal year ended 2001 and 100% for fiscal year 2000. The unpaid contribution is recorded as a liability as June 30, 2001.

NOTE 12 - POST EMPLOYMENT BENEFITS

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

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 12 - POST EMPLOYMENT BENEFITS - (Continued)

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$22,897 during the 2001 fiscal year.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For fiscal year 2001, employer contributions to fund health care benefits was 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the School, the amount to fund health care benefits, including the surcharge of \$4,410, equaled \$71,205 during the 2001 fiscal year.

NOTE 13 – LEASE AGREEMENT

The School entered into a lease agreement as lessee for a portion of a building that is used for office space. This lease began on May 1, 2000 and will terminate April 30, 2003. Total rent for the use of these facilities is \$30,600, payable in monthly installments of \$850. There is no renewal option included in this lease agreement. Current year rental expense was \$10,200.

The School entered into an agreement with PMD Educational Consultants Inc., dba Creative Center for Learning, to sublease a multi-purpose room. This agreement began on September 1, 1999, and is in effect until August 31, 2004, with no renewal option. Included in this rental agreement is a purchase option agreement which will allow the School the option to purchase the building for \$275,000 anytime during the term of the lease. Total annual payments for this facility are \$30,000.

NOTE 14 - CONTINGENCIES

GRANTS – The School receives 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 is 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, 2001.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 14 – CONTINGENCIES (Continued)

LITIGATION – A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

MANAGEMENT COMPANY – The School has not yet notified the Internal Revenue Service that the School has engaged a management company whose Board consists, in part, of current members of the School's Board of Trustees. Such a change in operations constitutes a material change in the organization for which notification is necessary.

NOTE 15 - STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

1. A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a timeline for distribution is not specified.
2. Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of March 8, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for consideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 16 – RELATED PARTY TRANSACTIONS

During fiscal year 2000, the School entered into an agreement with PMD Educational Consultants Inc., d.b.a. Creative Center for Learning, a private company owned by a Board member, to sublease a multi-purpose room.

As previously discussed in Notes 4 and 5, the School entered into various financing arrangements with AMC, SAM, Summit Parma and Summit Canton, which are related parties. In addition, as described in Note 7, the School also received rental income from SAM and Summit Parma for copier rentals.

NOTE 17 – AGREEMENT WITH SUMMIT ACADEMY MANAGEMENT, INC.

On January 1, 2001, the School contracted with SAM to employ and facilitate day-to-day management of the School. This includes adopting the educational curriculum, recruiting and training employees, developing and maintaining state mandated testing and requirements, and completing all required administrative reports. SAM also initiated purchases and approved expenses made by the School and maintained the School's accounting records. Three of the founding Board members of the School serve on the Board of Directors of SAM.

A. Financial Provisions

1. Management Consulting and Operation Fee

The School is required to remit 12% of net income to SAM. For the year ended June 30, 2001, however, the School had a net loss of \$201,384.

2. SAM's Financial Responsibilities

Effective July 1, 2001, SAM is responsible for all costs associated with operating the School. Such costs shall include, but shall not be limited to, salaries and benefits, including payroll taxes; pension and retirement; the purchase of curriculum materials, textbooks, computers and other equipment, software, and supplies; insurance premiums, utilities, janitorial services, legal and financial management services related to the operation of the School and repairs and maintenance of the School's facility. The School is responsible to reimburse SAM for all these expenses, plus a pro-rata share of SAM's other expenses.

B. Personnel

As of January 1, 2001, the employees of the School became employees of SAM, with SAM having the responsibility to select, assign, evaluate, and discharge School employees. Compensation for employees will be set according to SAM's compensation policies for Teachers, Principals, and Non-Instructional Staff. Subsequent to January 1, 2001, the School reimbursed SAM for its portion of salary expenses and these payments are reflected as such in the financial statements.

**SUMMIT ACADEMY COMMUNITY SCHOOL
FOR ALTERNATIVE LEARNERS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 18 – SUBSEQUENT EVENTS

Subsequent to June 30, 2001, the Ohio Department of Education performed a review of the foundation monies distributed to the community schools throughout the State of Ohio. This review resulted in the discovery of an overpayment to Summit Academy Community School for Alternative Learners, Inc. of \$5,548. This amount is being deducted from school foundation payments in fiscal 2002.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Summit Academy Community School for Alternative Learners, Inc.
Summit County
1111 West Market Street
Akron, Ohio 44313

To the Board of Trustees:

We have audited the financial statements of Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio, (the School) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 8, 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings as item 2001-10977-001. We also noted immaterial instances of noncompliance that we have reported to the management of the School in a separate letter dated March 8, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2001-10977-002. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated March 8, 2002.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information and use of the management and the Board of Trustees, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

March 8, 2002

**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001**

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

Finding Number	2001-10977-001
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Noncompliance Citation

Community Schools may issue debt, however, if the debt obligates, is secured by, or is repaid by the State monies received by the community school under Ohio Rev. Section 3314.08(D), then the debt must be issued in accordance with Ohio Rev. Section 3314.08(J) which state, in part, that "the school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money was borrowed.

During the fiscal year ended June 30, 2001, the School had a loan payable for \$7,000, 3 notes payable totaling \$568,322, and 4 demand notes payable totaling \$150,000. These monies were borrowed and used for operating expenses, and include a 1st and 2nd mortgage on the School's building. Because these monies do not specifically exclude the School's Ohio Rev. Code Section 3314.08(D) funds from the general collateral provisions and is being repaid with State monies, these monies obligate state foundation payments. Therefore, Ohio Rev. Code Section 3314.08(J) would apply.

We recommend that Summit Academy School for Alternative Learners, Inc. officials take steps to monitor debt and determine there is no outstanding debt subject to Ohio Rev. Code Section 3314.08(J) at fiscal year end.

Finding Number	2001-10977-002
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Reportable Condition

Fixed Assets:

The School does not maintain a complete listing of the individual fixed assets comprising its fixed asset balance sheet account, nor does it have procedures in place for tagging and performing periodic inventories of fixed assets.

The lack of a complete listing of individual fixed assets, a tagging system, and the periodic inventoring of fixed assets could result in the misstatement of fixed assets and related accumulated depreciation.

We recommend that the School:

- Perform a comprehensive fixed asset inventory, and develop a policy to perform such an inventory on a regular basis.
- Develop procedures in which all inventoried fixed assets are tagged with an identification number.
- Prepare a master listing of the individual fixed assets owned by the School which describes, at a minimum, the asset type, tag number, location, year of acquisition, original cost, useful life, and accumulated depreciation, as applicable.

**Reportable Condition
(Continued)**

- Perform an annual reconciliation of the current year additions, deletions and depreciation expense to the fixed asset listing, and develop a policy to perform such a reconciliation on an annual basis.

Implementation of these procedures will allow for greater accountability over the School's fixed assets.

A similar comment was made in the prior audit.

**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid, Explain
2000-10977-001	The School does not maintain a complete listing of individual fixed assets, nor does it have procedures for tagging fixed assets and performing periodic inventories of fixed assets	No	Not Corrected; See Finding Number 2001-10977-001.
2000-10977-002	Bank reconciliations were not performed on a monthly basis during fiscal year 2000	Yes	Fully Corrected



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SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC

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
JUNE 18, 2002**