



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



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants .....	1
Balance Sheet .....	3
Statement of Revenues, Expenses, and Changes in Accumulated Deficit .....	4
Statement of Cash Flows .....	5
Notes to the Financial Statements .....	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	17
Schedule of Findings .....	19

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**STATE OF OHIO  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

Summit Academy Community School for Alternative Learners-Parma, Inc.  
Cuyahoga 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- Parma, Inc., Cuyahoga County, Ohio, (the School) as of and for the year ended June 30, 2001, and the related Statements of Revenues, Expenses, and Changes in Accumulated Deficit, 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-Parma, Inc., Cuyahoga 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-PARMA, INC  
CUYAHOGA COUNTY**

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

**ASSETS**

**Current assets:**

Cash and cash equivalents	\$ 29,978
State and federal grants receivable	10,275
Note receivable	20,000
Total current assets	<u>60,253</u>

**Noncurrent assets:**

Security deposit	7,000
Fixed assets, net of accumulated depreciation	72,246
Total noncurrent assets	<u>79,246</u>

**Total assets** \$ 139,499

**LIABILITIES AND FUND EQUITY**

**Current liabilities:**

Accounts payable	\$ 84,577
Accrued wages and benefits	13,276
Accrued pension and payroll taxes	11,189
Compensated absences payable	887
Loan payable	55,000
Demand note payable	15,000
Total liabilities	<u>179,929</u>

**Fund equity:**

Contributed capital	42,458
Accumulated deficit	<u>(82,888)</u>
Total fund equity	<u>(40,430)</u>
Total liabilities and fund equity	<u><u>\$ 139,499</u></u>

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

**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS-PARMA, INC  
CUYAHOGA COUNTY**

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

<b><u>Operating revenues</u></b>	
Materials and fees	\$ 13,440
State foundation	554,172
Other operating revenues	2,312
Total operating revenue	569,924
<b><u>Operating expenses</u></b>	
Salaries	341,875
Fringe benefits	77,586
Purchased services	259,851
Materials and supplies	31,528
Depreciation	3,214
Other	3,412
Total operating expenses	717,466
<b>Operating loss</b>	<b>(147,542)</b>
<b><u>Non-operating revenues (expenses)</u></b>	
State and federal grants	55,275
Private foundation grants	10,000
Interest expense	(1,828)
Net non-operating revenues	63,447
<b>Net loss</b>	<b>(84,095)</b>
Retained earnings at beginning of year	419
Depreciation on fixed assets acquired by contributed capital	788
Accumulated deficit at end of year	<b>\$ (82,888)</b>

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



**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS-PARMA, INC  
CUYAHOGA 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	\$ 554,172
Cash payments to suppliers for goods and services	(246,739)
Cash payments to employees for services and benefits	(351,798)
Cash payments for other operating expenses	(5,786)
Other operating revenues	15,752
Net cash used for operating activities	<u>(34,399)</u>

**Cash flows from noncapital financing activities:**

State and federal grants	45,000
Private foundation grants	10,000
Net cash provided by noncapital financing activities	<u>55,000</u>

**Cash flows from capital and related financing activities:**

Cash payments for capital acquisitions	(32,214)
Cash received from loan and demand note payable	70,000
Cash payment for security deposit	(7,000)
Interest payments	(1,828)
Net cash provided by capital and related financing activities	<u>28,958</u>

**Cash flows from investing activities:**

Cash payments for note receivable	<u>(20,000)</u>
Net increase in cash and cash equivalents	29,559

Cash and cash equivalents at beginning of year	<u>419</u>
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Cash and cash equivalents at end of year	<u>\$ 29,978</u>
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**Reconciliation of operating loss to net cash used for operating activities:**

Operating loss	<u>\$ (147,542)</u>
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**Adjustments to reconcile operating loss to net cash used for operating activities:**

Depreciation	3,214
Change in assets and liabilities:	
Increase (decrease) in liabilities:	
Accounts payable	84,577
Accrued wages and benefits	13,276
Accrued pension and payroll taxes	11,189
Compensated absences payable	887
Total adjustments	<u>113,143</u>

Net cash used for operating activities	<u>\$ (34,399)</u>
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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-PARMA, INC.  
CUYAHOGA 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-Parma, Inc. (the School), has applied for nonprofit status and is established pursuant to Ohio Revised Code Sections 3314 and 1702. 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 16 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, Inc. (Summit Akron). 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 15, 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 ended June 30, 2001. The School operates under a self-appointing six-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 eight non-certified and six certified full-time teaching personnel who provide services to forty-five 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. The more significant of the School's accounting policies are described below.

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

**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, accumulated deficit or 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 Chapter 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.

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

**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.

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

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

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

**E. Fixed Assets and Depreciation**

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. Leasehold improvements are depreciated over an estimated useful life of 40 years.

**F. Intergovernmental Revenues**

The School currently participate 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 over 3 years in order to offset start-up costs of the School. The School received \$40,000 during fiscal year 2001, for a total of \$140,000 received to date. 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-PARMA, INC.  
CUYAHOGA COUNTY**

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

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

**I. Contributed Capital**

During the fiscal year, the School received a donation of equipment from SAM. The estimated market value of the equipment was \$43,246 when donated. This amount has been recorded as contributed capital. Depreciation of \$788 on these assets 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 \$29,978 and the bank balance was \$34,872. All of the bank balance was covered by federal depository insurance.

**NOTE 4 - NOTE RECEIVABLE**

The note receivable of \$20,000 at June 30, 2001 consisted of an amount due from a related community school. The note is due on demand and bears interest at 6.8% (See Note 15).

**NOTE 5 - FIXED ASSETS AND DEPRECIATION**

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

Leasehold Improvements	\$ 61,998
Furniture, Fixtures and Equipment	<u>13,462</u>
	75,460
Less: Accumulated Depreciation	<u>(3,214)</u>
Net Fixed Assets	<u><u>\$ 72,246</u></u>

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

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

**NOTE 6 - PURCHASED SERVICES**

Purchased services include the following:

Occupancy Costs	\$ 116,735
Professional Services	86,306
Advertising and Promotion	4,974
Travel and Transportation	10,524
Maintenance	12,153
Educational	18,771
Rental	3,145
Other	<u>7,243</u>
Total	<u>\$ 259,851</u>

**NOTE 7 - 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.

**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 8 - 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-PARMA, INC.  
CUYAHOGA COUNTY**

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

**NOTE 9 - 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 contribution for pension obligations to SERS for the year ended June 30, 2001 was \$26,399, respectively; 100% has been contributed for year ended 2001.

**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 year ended June 30, 2001 was \$19,774, respectively; 81% has been contributed for year ended 2001. The unpaid contribution is recorded as a liability as June 30, 2001.

**NOTE 10 - 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-PARMA, INC.  
CUYAHOGA COUNTY**

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

**NOTE 10 - 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 \$6,356 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 \$371, equaled \$18,851 during the 2001 fiscal year.

**NOTE 11 – START-UP PERIOD**

The Summit Academy Community School For Alternative Learners-Parma, Inc. was incorporated on February 24, 2000. During the period from its incorporation to July 1, 2000, the School received proceeds from various sources and incurred various start up expenses. These are described in the following table:

Federal Charter School Grant Funds	\$ 100,000
Donations	<u>500</u>
Total revenues	100,500
Start-up expenses, including supplies	100,081
Total expenses	<u>100,081</u>
<b>Retained earnings July 1, 2000</b>	<b><u><u>\$ 419</u></u></b>

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

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

**NOTE 12 – LEASE AGREEMENT**

The School entered into a lease agreement as lessee for a portion of a building. This lease began on July 1, 2000 and will terminate June 30, 2005. Total annual rent for the use of this facility is \$86,592, payable in monthly installments of \$7,216. The School has the option to renew the lease at the end of the lease term at an amount to be decided upon acceptance of the option. The School has also provided a \$7,000 security deposit on this building lease.

**NOTE 13 - 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.

**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 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 14 – 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.

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

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

**NOTE 14 - STATE SCHOOL FUNDING DECISION (Continued)**

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 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.

**NOTE 15 – RELATED PARTY TRANSACTIONS**

A demand note was signed and is payable to Academy Management Company, Inc. (AMC), for \$15,000 with an interest rate of 6.8%. An additional \$55,000 loan was obtained from AMC with no agreed upon interest rate or repayment terms. Both the \$15,000 note and \$55,000 loan were outstanding at year end.

During the fiscal year 2001, the School loaned money to Summit Akron in the amount of \$20,000. The related note is due on demand and bears interest at 6.8%.

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.

**NOTE 16 – AGREEMENT WITH SUMMIT ACADEMY MANAGEMENT, INC.**

On January 1, 2001, the School contracted with Summit Academy Management, Inc. (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. The Summit Academy Management, Inc. will also initiate purchases and approve expenditures made by the School and maintain the School's accounting records. Three of the founding Board members of the School serve on the Board of Directors of Summit Academy Management, Inc.

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 \$84,095.

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.

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

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

**NOTE 16 – AGREEMENT WITH SUMMIT ACADEMY MANAGEMENT, INC. (Continued)**

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 on the financial statements.

**NOTE 17 – MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT**

At June 30, 2001, the School's accumulated deficit balance was \$82,888. The School's management is analyzing operations to determine appropriate steps to alleviate the deficit.

The School's long range plans are to seek increased enrollment through the development and implementation of an aggressive marketing and strategic plan.

**NOTE 18 – TAX EXEMPT STATUS**

The School has filed for status as an exempt organization under Internal Revenue Code Section 501(c)(3). As of March 8, 2002, the Internal Revenue Service has not yet granted this exemption. Should the School fail to obtain federal tax-exempt status, it will be subject to federal income tax, the effect of which has not been assessed.

**NOTE 19 – SUBSEQUENT EVENT**

Subsequent to June 30, 2001, the Ohio Department of Education (Department) performed an audit of their funding to community schools throughout the State of Ohio. This review resulted in the discovery of an overpayment to the School of approximately \$345,000. The Ohio Department of Education agreed not to pursue the recovery of these funds pursuant to the School's development, and the Departments approval, of a corrective action plan for the classification of students.



STATE OF OHIO  
OFFICE OF THE AUDITOR

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www.auditor.state.oh.us

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

Summit Academy Community School for Alternative Learners-Parma, Inc.  
Cuyahoga 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 - Parma, Inc., Cuyahoga 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* which is described in the accompanying Schedule of Findings as item 2001-10977-001. We 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 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 loop at the end.

**Jim Petro**  
Auditor of State

March 8, 2002

**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS - PARMA, INC.  
CUYAHOGA 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 \$55,000 in loans payable, and \$15,000 in notes payable. These instruments were borrowed and used for operating expenses, and are payable on demand. Because these debt instruments 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 debt instruments obligate state foundation payments. Therefore, Ohio Rev. Code Section 3314.08(J) would apply.

We recommend that Summit Academy School for Alternative Learners-Parma, 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 inventorying 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.

**Reportable Condition (Continued)**

- 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.
- 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.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS-PARMA, INC**  
**CUYAHOGA 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**