



**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL.
SUMMIT COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Balance Sheets	7
Statements of Revenues, Expenses, and Changes in Net Assets.....	8
Statements of Cash Flows	9
Notes to the Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Summit Academy Akron Elementary School
Summit County
1111 West Market Street
Akron, Ohio 44313

To the Board of Directors:

We have audited the accompanying financial statements of the Summit Academy Akron Elementary School, Summit County, Ohio, (the School) as of and for the years ended June 30, 2005 and 2004, 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 did not audit the amount of actual direct and indirect expenses incurred by Summit Academy Management on behalf of the School which totaled \$1,072,659, as indicated in Note 17. Other auditors audited these amounts and have furnished their report thereon to us, and our opinion, insofar as it relates to the amounts included for Note 17, is based on the report of the other auditors.

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 and the report of the other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Summit Academy Akron Elementary School, Summit County, Ohio, as of June 30, 2005 and 2004 and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As further described in Note 6 and Note 10c to the basic financial statements, the School eliminated an amount payable to its management company by offsetting this payable against capital assets which the management company purchased but were initially capitalized by the School.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2006, 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 for the year ended June 30, 2005. We previously issued our report dated February 7, 2005, 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 for the year ended June 30, 2004. While we did not opine on the internal control over financial reporting or on compliance, these reports describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read them in conjunction with this report in assessing the results of our audit.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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.

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

Betty Montgomery
Auditor of State

March 21, 2006

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As management of Summit Academy Akron Elementary School (formerly Summit Academy Community School for Alternative Learners) (the School), we offer readers of the School's basic financial statements this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

The School has net assets of \$616,232, which is the difference between its assets and liabilities. Net assets increased by \$16,726 during the year as a result of net income.

The School has a cash balance of \$14,704, which is \$4,789 greater than the prior year.

The School has an intergovernmental receivable of \$27,660 for federal and state grants earned in 2005, but not received until after June 30, 2005. At the same time, the financial statements show a management fee payable to the management company of the same amount. This reflects the fact that, by agreement, 100% of all receipts of the School must be passed through to the management company in order to manage the affairs of the School.

Overview of the Financial Statements

The financial statements presented by the School are the Balance Sheet, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The *Balance Sheet* presents information on all the School's assets and liabilities, with the difference being the net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating. However, given the School's management agreement with the management company, which calls for 100% of all receipts to be paid to the management company, the School's net assets balance is not expected to change significantly in the near future.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the School's net assets changed during the year. This statement summarizes operating revenues and expenses, along with non-operating revenues and expenses.

The *Statement of Cash Flows* allows financial statement users to assess the School's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories (as applicable): 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Finally, it should be noted that the School utilizes the accrual basis of accounting. This basis of accounting did not change as a result of the implementation of GASB Statement No. 34. Accrual accounting is similar to the accounting used by most private sector companies in that it recognizes revenues and expenses when earned regardless of when cash is received or paid.

Financial Analysis

Since this is only the second year the School has implemented GASB 34, only a two year comparison has been presented. In future years, a three year comparison will be made. The following tables indicate our financial analysis of the School:

Table 1 - Balance Sheets

	<u>6/30/2005</u>	<u>6/30/2004</u>	<u>Amount of Change</u>	<u>Percent of Change</u>
Assets				
Current assets	\$ 42,382	\$ 78,247	\$ (35,865)	45.84%
Capital assets	790,619	855,188	(64,569)	7.55%
Total assets	<u>\$ 833,001</u>	<u>\$ 933,435</u>	<u>\$ (100,434)</u>	10.76%
Liabilities				
Current liabilities	\$ 157,017	\$ 206,016	\$ (48,999)	23.78%
Noncurrent liabilities	59,752	127,913	(68,161)	53.29%
Total liabilities	216,769	333,929	(117,160)	
Net Assets				
Invested in capital assets, net of related debt	641,510	647,958	(6,448)	1.00%
Unrestricted	(25,278)	(48,452)	23,174	47.83%
	<u>616,232</u>	<u>599,506</u>	<u>16,726</u>	2.79%
Total liabilities and net assets	<u>\$ 833,001</u>	<u>\$ 933,435</u>	<u>\$ (100,434)</u>	10.76%

Table 2 - Statements of Revenues, Expenses, and Changes in Net Assets

	<u>Year Ended 6/30/2005</u>	<u>Year Ended 6/30/2004</u>	<u>Amount of Change</u>	<u>Percent of Change</u>
Operating revenues	\$ 781,350	\$ 804,045	\$ (22,695)	2.82%
Operating expenses	844,429	811,458	32,971	4.06%
Operating income (loss)	(63,079)	(7,413)	(55,666)	750.92%
Net non-operating revenues (expenses)	79,805	84,980	(5,175)	6.09%
Net income	<u>\$ 16,726</u>	<u>\$ 77,567</u>	<u>\$ (60,841)</u>	78.44%

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

The School has significant capital assets in the form of a building and improvements which totals \$790,619, net of depreciation. See Note 6 to the Financial Statements for more detailed information on capital assets.

As described in Note 11, the School also has significant debt outstanding, including a mortgage note of \$149,109 bearing interest at 6.73%. This loan was refinanced in November of 2004, and will now be paid in full in February 2007. Other debt was reduced in 2005 as the result of trading in copiers (\$10,252 of capital lease payable) and by the forgiveness of a loan payable to the management company (\$18,385).

With respect to the Balance Sheet, current assets decreased by \$35,865 or almost 46% primarily due to a decrease in intergovernmental receivables of \$40,654. This decrease is attributed to less state and federal grant funding being owed to the school at June 30, 2005. The management fee payable to the management company decreased by \$40,654 as well.

Noncurrent assets decreased by almost \$65,000 as a result of capital asset disposals (\$17,029 of net book value) and depreciation (\$47,540).

With respect to the Statement of Revenues, Expenses, and Changes in Net Assets, operating revenues decreased by \$22,695 or almost 3%, primarily due to a slight decline in state foundation revenue, caused by a slight decline in enrollment.

Net non-operating revenues (expenses) decreased by \$5,175 as a result of less public contributions and donations, despite a \$7,309 increase in state and federal grants.

This page intentionally left blank.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**BALANCE SHEETS
AS OF JUNE 30, 2005 AND 2004**

ASSETS

	2005	2004
Current assets		
Cash	\$ 14,704	\$ 9,915
Intergovernmental receivable	27,660	68,314
Other	18	18
Total current assets	42,382	78,247
Noncurrent assets		
Capital assets, net of accumulated depreciation	790,619	855,188
Total assets	\$ 833,001	\$ 933,435

LIABILITIES AND NET ASSETS

Current liabilities		
Management fee payable	\$ 27,660	\$ 68,314
Demand notes payable - Canton and Parma	40,000	40,000
Loan payable - SAM	-	18,385
Capital lease payable, current portion	-	9,252
Notes payable, current portion	89,357	70,065
Total current liabilities	157,017	206,016
Noncurrent liabilities		
Capital lease payable, less current portion	-	800
Notes payable, less current portion	59,752	127,113
Total noncurrent liabilities	59,752	127,913
Net assets		
Invested in capital assets, net of related debt	641,510	647,958
Unrestricted	(25,278)	(48,452)
Total net assets	616,232	599,506
Total liabilities and net assets	\$ 833,001	\$ 933,435

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

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
Operating revenues		
State foundation	\$ 777,301	\$ 793,720
Materials and fees	4,049	4,587
Other operating revenues	-	5,738
Total operating revenue	781,350	804,045
Operating expenses		
Purchased services	796,752	760,282
Depreciation expense	47,540	50,381
Service charges	137	795
Total operating expenses	844,429	811,458
Operating loss	(63,079)	(7,413)
Non-operating revenues (expenses)		
State and Federal grants	96,245	88,936
Contributions and donations	-	16,331
Loss on disposal of capital assets	(17,029)	-
Forgiveness of loan payable - SAM	18,385	-
Interest expense	(17,796)	(20,287)
Net non-operating revenue (expenses)	79,805	84,980
Net income	16,726	77,567
Net assets at beginning of year	599,506	521,939
Net assets at end of year	\$ 616,232	\$ 599,506

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

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Increase (decrease) in cash

	2005	2004
Cash flows from operating activities		
Cash from the State of Ohio	\$ 777,301	\$ 793,720
Cash from other operating sources	4,049	10,325
Cash payments to management company	(847,458)	(853,191)
Cash payments for service charges	(137)	(270)
Net cash used for operating activities	(66,245)	(49,416)
Cash flows from noncapital financing activities		
State and Federal grants	136,899	103,858
Private Foundation grants	-	16,331
Net cash provided by noncapital financing activities	136,899	120,189
Cash flows from capital and related financing activities		
Reduction of notes payable	(48,069)	(65,693)
Cash flows from investing activities		
Redemption of restricted cash	-	17,986
Interest expense	(17,796)	(20,287)
Net cash used for investing activities	(17,796)	(2,301)
Net increase in cash	4,789	2,779
Cash at beginning of year	9,915	7,136
Cash at end of year	\$ 14,704	\$ 9,915
Reconciliation of operating loss to net cash used for operating activities		
Operating loss	\$ (63,079)	\$ (7,413)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	47,540	50,381
Restricted cash service charges	-	525
Reduction of capital lease payable	(10,052)	(8,710)
Reduction of notes payable	-	(69,277)
Decrease in assets:		
Management fee receivable	-	19,270
Decrease in liabilities:		
Management fee payable	(40,654)	(14,922)
Deferred revenue	-	(19,270)
Total adjustments	(3,166)	(42,003)
Net cash used for operating activities	\$ (66,245)	\$ (49,416)

Non-cash financing and investing activities

Capital lease payable was reduced in 2005 and 2004 by reducing the management fee expense paid to the management company.

The loan payable to the management company of \$18,385 at December 31, 2004 was forgiven by the SAM Board during 2005.

Accounts payable to the management company in the amount of \$403,997 was offset against capital assets that were paid for and capitalized by the management company and removed from the Schools capital asset totals.

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

This page intentionally left blank.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Summit Academy Akron Elementary School (formerly Summit Academy Community School for Alternative Learners), located in Summit County (the School), is a state nonprofit corporation 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 Hyperactivity Disorder (ADHD) and Asperger's Syndrome. 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 7 to the financial statements, the School has contracted with Summit Academy Management, Inc. (SAM) to employ and facilitate the day-to-day management of the School. Two members of SAM's Board of Directors also serves on the Board of the School. SAM is a legally separate 501(c)(3) corporation, the results of which are not reflected in these financial statements.

SAM also provides management services to the following 26 legally separate community schools whose results of operations are not included herein:

- Summit Academy Akron Middle School
- Summit Academy Secondary School – Akron
- Summit Academy Community School for Alternative Learners – Canton
- Summit Academy Secondary School – Canton
- Summit Academy Community School – Cincinnati
- Summit Academy Middle School – Cincinnati
- Summit Academy Community School – Columbus
- Summit Academy Middle School – Columbus
- Summit Academy Community School – Dayton
- Summit Academy Secondary School - Dayton
- Summit Academy Community School for Alternative Learners – Lorain
- Summit Academy Middle School – Lorain
- Summit Academy Secondary School – Lorain
- Summit Academy Community School - Painesville
- Summit Academy Community School for Alternative Learners – Parma
- Summit Academy Secondary School – Parma
- Summit academy Community School for Alternative Learners – Middletown
- Summit Academy Secondary School – Middletown
- Summit Academy Community School – Toledo
- Summit Academy Secondary School – Toledo
- Summit Academy Community School – Warren
- Summit Academy Middle School - Warren
- Summit Academy Community School for Alternative Learners – Xenia
- Summit Academy Community School for Alternative Learners – Youngstown
- Summit Academy Middle School – Youngstown
- Summit Academy Secondary School – Youngstown

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY (continued)

The School has been approved for operation under an annual contract with the Lucas County Educational Service Center (Sponsor). The contract renews for additional one-year terms from July 1 to June 30, unless either party has given advance written notice of at least 90 days.

The School operates under a self-appointing 5 member Board of Trustees (the Board). The School's Code of Regulations specifies that Board vacancies 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. These include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

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 does not apply FASB statements or interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

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 the difference between the assets and the liabilities. 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.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, Lucas County Educational Service Center, requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705, except for Section 5705.391 as it relates to five-year forecasts and spending plans.

D. Cash

Cash received by the School is maintained in a demand deposit account.

E. Capital Assets and Depreciation

Prior to July 1, 2001, capital assets were capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets were recorded at their fair market value as of the date received. The School maintained a capitalization threshold of \$500. The School does not possess any infrastructure nor has it capitalized interest expense. After June 30, 2001, all capital assets are paid for and capitalized by the management company.

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

F. Intergovernmental Revenues

The School 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 various federal and state grant programs through the Ohio Department of Education. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is 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

Accrued liabilities include amounts payable to SAM for various intergovernmental (grant) receivables, in accordance with the School's management contract as further described in Note 7.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 - DEPOSITS

At June 30, 2005 and 2004, the carrying amount of the School's deposits was \$14,704 and \$9,915, respectively, and the bank balance was \$14,704 and \$32,839, respectively. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures", these bank balances were entirely covered by Federal Depository Insurance.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental (e.g. federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of these programs, and the current year guarantee of federal funds.

NOTE 5 – NOTE RECEIVABLE

During 2004, by action of both the School's and SAM's Board of Directors, a note receivable from SAM of \$48,557 was offset against a loan payable to SAM of \$66,942, resulting in a net liability to SAM of \$18,385. During 2005, this liability was forgiven by the SAM Board of Directors.

NOTE 6 – CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2004 and 2003 is as follows:

	<u>2005</u>	<u>2004</u>
Land	\$ 45,000	\$ 45,000
Building and improvements	821,448	821,448
Furniture, fixtures and equipment	<u>175,834</u>	<u>219,221</u>
	1,042,282	1,085,669
Less accumulated depreciation	<u>(251,663)</u>	<u>(230,481)</u>
Total Capital Assets Net of Depreciation	<u>\$ 790,619</u>	<u>\$ 855,188</u>

The above table reflects the removal of \$403,997 from building improvements made in fiscal year 2004. Such improvements were paid for and have been capitalized by SAM.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 7 – AGREEMENT WITH SUMMIT ACADEMY MANAGEMENT

The School has contracted with Summit Academy Management (SAM) to facilitate the day-to-day operations of the School. Per the agreement, the School pays SAM, as a management fee, 100% of revenues received. In turn, SAM is responsible for all costs and decisions associated with operating the School. Such costs and decision areas include, but are not limited to: personnel (all teaching and administrative personnel are employees of SAM); insurance; pension and retirement benefits; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, and legal and financial management services. SAM also provides certain facilities and is responsible for maintenance of those facilities. See Note 17 for the amount of actual direct and indirect expenses incurred by SAM on behalf of the School.

NOTE 8 – DEFINED BENEFIT PENSION PLANS

The School has contracted with SAM to provide all teaching and administrative personnel. Such personnel are employees of SAM; however, the School is responsible for monitoring and ensuring that SAM makes pension contributions on its behalf. The retirement systems consider the School as the “Employer-of-Record”, therefore the School is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employees Retirement System

On behalf of the School, SAM contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. 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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established, and may be amended up to statutory maximum amounts, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS, including an amount for indirect SAM personnel, for the years ended June 30, 2005, 2004 and 2003 were \$29,036, \$20,504 and \$20,081, respectively. The full amount has been contributed for 2004 and 2003. For 2005, approximately 90% of the required contribution has been paid with the remaining amount shown as a liability by SAM.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

On behalf of the School, SAM also contributes to 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 the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614)227-4090.

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account, with investment decisions being 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 DB and DC Plans. 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 5 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 5 or more years credited service that 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 became 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, 2005, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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, including an amount for indirect SAM personnel, for the years ended June 30, 2005, 2004 and 2003 were \$67,527, \$36,326 and \$31,122, respectively. The full amount has been contributed for 2004 and 2003. For 2005, approximately 99% has been contributed with the remaining amount shown as a liability to SAM.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 9 – POST EMPLOYMENT BENEFITS

On behalf of the School, SAM provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio, and to retired classified employees and their dependents through the SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute. Both systems are funded on a pay-as-you-go basis.

STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$5,194 and \$2,794 for 2005 and 2004, respectively.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients statewide.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service up, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of the covered payroll, a decrease of 1.48% from fiscal year 2004. 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, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2% of each employer's SERS salaries. The School paid \$13,601 and \$15,320 to fund health care benefits, including the surcharge during 2005 and 2004, respectively.

The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 10 – TRANSACTIONS WITH RELATED PARTIES

A. Note Receivable and Loan Payable

See Note 5 above.

B. Notes Payable

During fiscal year 2001, two \$ 20,000 demand notes bearing interest of 6.8% were signed and are payable to Summit Academy Community School for Alternative Learners – Canton, and Summit Academy Community School for Alternative Learners – Parma, the balances of which remain outstanding as of June 30, 2005.

C. Accounts Payable – SAM (Restatement)

During 2004, the management company paid for \$403,997 of improvements to the building owned by the School. These improvements were originally capitalized by the School and reflected as a payable to SAM; however, during 2005, it was decided that SAM would capitalize the improvements and not expect reimbursement from the School. The June 30, 2004 balance sheet reflects this adjustment.

D. Management Fee Payable

At June 30, 2005 and 2004, the School had a management fee payable to SAM of \$27,660 and \$68,314, respectively. These payables consist of grants receivable to be transferred to SAM to cover expenses incurred by SAM on the School's behalf.

E. Risk Management

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 2005, SAM contracted with a commercial insurance company for property and general liability insurance on behalf of the School. Property coverage carries a \$5,000 deductible, with the School's building insured for \$2,630,000 and its contents for \$60,000. General liability coverage provides \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a \$2,500 deductible.

Settled claims have not exceeded insurance coverage in any of the past 3 years, and there was no significant reduction in coverage amounts from the prior year policy.

F. Benefits

SAM has contracted with a private carrier to provide employees within the School medical/surgical benefits. SAM pays a portion of the monthly premium for full-time employees and for part-time employees depending on the employee's status. The employees are responsible for the remaining amounts. For fiscal year 2005 and 2004, monthly premiums varied depending on family size and level of coverage selected by an employee.

SAM also contributed to the School Employees Retirement System of Ohio (SERS) and the State Teachers Retirement System of Ohio (STRS) for the employees working within the School.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 11– NOTES PAYABLE

On May 4, 1999, the School entered into a \$400,000 real estate mortgage with a local bank for the purchase of a school building. Until fiscal year 2005, the loan required monthly payments of \$7,205, including interest at 8.5%. However, during November 2004, the remaining loan balance of \$173,263 was refinanced, such that the new loan requires monthly payments of \$8,056, including interest at 6.73%. As of June 30, 2005 the balance of this loan is \$149,109, and will be paid in full in February 2007.

At June 30, 2003, the School owed \$49,114 to a local bank. This bank note required monthly payments of \$2,906, including interest at prime plus 1.5%, and was originally issued to cover operating expenses. The note was paid in full during June 2004.

At June 30, 2003, the School also owed \$48,557 to another local bank. This bank note required monthly payments of \$1,560, including interest at 8.5%, and was originally issued to cover operating expenses. This note was also paid in full during June 2004.

NOTE 12 – CAPITAL LEASES

In a prior year, the School entered into capital lease agreements for three copiers, two of which were used by other Summit Academy schools. The leases met the criteria of capital leases as defined by Statement of Financial Accounting Standards (FASB) No. 13, "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The capital leases were recorded at the present value of the future minimum lease payments at the inception date of the lease, and had a net book value of \$17,029 when they were traded-in on new copiers during 2005. The new leases are being paid by the management company.

NOTE 13 - CONTINGENCIES

GRANTS – The School receives financial assistance from federal and state agencies in the form of grants, which are then remitted to SAM. 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, 2005.

LITIGATION – A lawsuit 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. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 14 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 15 – TAX EXEMPT STATUS

The School has been granted status as a tax exempt, non-profit organization under Internal Revenue Code Section 501(c)(3), effective March 1, 1999.

NOTE 16 – SUBSEQUENT EVENT

ODE REVIEW – After the end of the year, the Ohio Department of Education conducts reviews of enrollment data submitted by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review for fiscal year 2005 resulted in no significant adjustment to the School's state foundation revenue.

NOTE 17 – MANAGEMENT COMPANY EXPENSES

As per the agreement with SAM (see Note 7), 100% of the School's revenue is paid to SAM as a management fee. The related 'purchased services' expense totaled \$796,752 and \$760,282 for the years ended June 30, 2005 and 2004, respectively.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 17 – MANAGEMENT COMPANY EXPENSES (continued)

For the year ended June 30, 2005, the amount of actual direct and indirect expenses incurred by Summit Academy Management on behalf of the School was as follows:

Direct Expenses:

Salaries & Wages	\$ 498,905
Employee's Benefits	115,805
Professional & Technical Services	39,283
Property Services	56,638
Travel	3,752
Communications	4,349
Utilities	24,241
Transportation	-
Books, Periodicals & Films	21,718
Food & Related Supplies	139
Other Supplies	7,159
Computers & Technology	17,105
Depreciation	6,322
Interest	6,938
Other Direct Costs	9,340

Indirect Expenses:

Overhead	<u>260,965</u>
----------	----------------

Total Expenses \$ 1,072,659

Summit Academy Management charges expenses benefiting more than one school (i.e. indirect overhead expenses) pro rata based on the number of students within each school it manages.

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Summit Academy Akron Elementary School
Summit County
1111 West Market Street
Akron, Ohio 44313

To the Board of Directors:

We have audited the financial statements of the Summit Academy Akron Elementary School, Summit County, Ohio, (the School) as of and for the years ended June 30, 2005 and 2004, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 21, 2006, in which we noted the School eliminated an accounts payable and capital assets. This report also indicated that amounts presented in Note 17 were audited by other auditors. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated March 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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*. However, in a separate letter to the School's management dated March 21, 2006, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

Summit Academy Akron Elementary School
Summit County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 21, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL

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
MAY 11, 2006**