

***IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY, OHIO***

Audit Report

For the Year Ended June 30, 2006

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

Board of Directors
Ida B. Wells Community Academy
1180 Slosson Street
Akron, Ohio 44320

We have reviewed the *Report of Independent Accountants* of the Ida B. Wells Community Academy, Summit County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ida B. Wells Community Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 2, 2007

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IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY
Audit Report
For the Year Ended June 30, 2006

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REPORT OF INDEPENDENT ACCOUNTANTS

Ida B. Wells Community Academy
Summit County
1180 Slosson Street
Akron, Ohio 44320

To the Board of Directors:

We have audited the accompanying basic financial statements of the Ida B. Wells Community Academy (the Academy), as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 the Academy as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 9, 2007 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2006. While we did not opine on the internal control over financial reporting and compliance, this report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed below, the Academy is experiencing financial difficulties that raise substantial doubt about its ability to continue as a going concern beyond the fiscal year ending June 30, 2007. The Academy has borrowed in order to meet current operating expenses. As of June 30, 2006, the Academy owes on a line of credit \$24,000 and has a checking account balance of \$(4,710). Also, the Academy owes various other payables in the amount of \$120,143. Management has disclosed certain plans in regard to these matters, which are described in Note XIV to the financial statements. The financial statements do not include any adjustments that might result for the outcome of the uncertainty.

Charles E. Harris & Associates, Inc.

May 9, 2007

**Ida B. Wells Community Academy
Summit County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited**

This discussion and analysis of the Ida B. Wells Community Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis ("the MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

Highlights

Key financial highlights for the fiscal year ended June 30, 2006 are as follows:

- Total net assets increased \$20,174 in fiscal year 2006, which represents a 22 percent increase from fiscal year 2005, as a result of an increase in our foundation payment of \$99,858 and a decrease in our expenses, which is why we ended up with a net gain of \$20,174 in 2006.
- Total assets decreased \$1,465 which represents a 2 percent decrease from the prior year.
- Total liabilities decreased \$21,639 which represents a 13 percent decrease from the prior year. We paid off a note and had a decrease in accrued wages which decreased our liabilities.

Using this Annual Financial Report

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

The Statement of Fund Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets reflect how the Academy did financially during the fiscal year ended June 30, 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

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

The Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity-wide and the fund presentations information is the same.

Table 1 provides a summary of the Academy's net assets as of June 30, 2006 compared to 2005.

Table 1
Net Assets

	2006	2005
Assets		
Current Assets and Other Assets	\$45,375	\$56,718
Capital Assets, Net of Depreciation	31,806	21,928
 Total Assets	 77,181	 78,646
Liabilities		
Current and Other Liabilities	149,219	170,858
 Total Liabilities	 149,219	 170,858
Net Assets		
Invested in Capital Assets, Net of Debt	31,806	21,928
Restricted	13,498	9,009
Unrestricted (Deficit)	(117,342)	(123,149)
 Total Net Assets	 (\$72,038)	 (\$92,212)

Total assets were \$77,181. Cash amounted to \$0, state and federal grants receivable amounted to \$45,375 and net capital assets totaled \$31,806.

Total liabilities were \$149,219. Accounts payable equaled \$91,319, accrued wages and benefits totaled \$12,287, intergovernmental payable amounted to \$16,251, line of credit was \$24,000, accrued interest amounted to \$286 and unearned revenues equaled \$5,076.

The net impact was an increase of net assets equal to \$20,174.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and June 30, 2005, as well as a listing of revenues and expenses.

Table 2
Changes in Net Assets

	2006	2005
Operating Revenues		
Foundation Payment	\$945,543	\$845,685
Sales	1,522	603
Other Operating Revenues	7,949	6,600
Non-operating Revenues		
Local Grants	0	218,843
State and Federal Grants	195,132	10,000
Other	0	10,700
Total Revenues	1,150,146	1,092,431
Operating Expenses		
Salaries	660,478	640,081
Fringe Benefits	144,369	199,746
Purchased Services	125,029	199,803
Materials and Supplies	97,285	98,007
Insurance	1,224	7,943
Rent	89,596	35,611
Depreciation	6,926	7,540
Other	3,387	9,552
Non-operating Expenses		
Interest Expense	1,678	837
Total Expenses	1,129,972	1,199,120
Change in Net Assets	20,174	(106,689)
Net Assets (Deficit), Beginning of Year	(92,212)	14,477
Net Assets (Deficit), End of Year	(72,038)	(92,212)

Community schools did not receive support from local taxes. The State Foundation Program and the Ohio Charter Schools Federal Sub-grant Program are the primary support for the Academy.

Budgeting

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

Capital Assets

The Academy had \$31,806 invested in capital assets (net of accumulated depreciation). Capital assets consist of \$17,617 in leasehold improvements and \$81,117 in furniture, fixtures and equipment. These capital assets were off-set by \$66,928 in accumulated depreciation resulted in net capital assets of \$31,806. See Note 6 of the Notes to the Basic Financial Statements for more detailed information on the Academy's capital assets.

Debt

The Academy incurred a line of credit of \$24,000 during the fiscal year ended June 30, 2006.

Current Financial Issues

The Ida B. Wells Academy was formed in 1999 and the fiscal year 2000 was the first year of operation. During the 2005 – 2006 school year, there were approximately 134 students enrolled in the Academy. The Academy receives its finances mostly from State aid. Per pupil aid for fiscal year 2006 amounted to \$7,053 per pupil.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and show the Academy's accountability for the money it receives. If you have any questions about this report or need financial information contact, Mr. Kofi Khemet, Principal of the Ida B. Wells Community Academy, 1180 Slosson Street, Akron, Ohio 44320.

**Ida B. Wells Community Academy
Summit County, Ohio
Statement of Fund Net Assets
Proprietary Fund
June 30, 2006**

	2006
Assets	
Current Assets:	
Cash	\$0
Receivables:	
State and Federal Grants	45,375
Noncurrent Assets:	
Depreciable Capital Assets, Net	31,806
<i>Total Assets</i>	<i>77,181</i>
Liabilities	
Accounts Payable	91,319
Accrued Wages and Benefits	12,287
Intergovernmental Payable	16,251
Line of Credit Payable	24,000
Accrued Interest Payable	286
Unearned Revenue	5,076
<i>Total Liabilities</i>	<i>149,219</i>
Net Assets	
Invested in Capital Assets, Net of Related Debt	31,806
Restricted	13,498
Unrestricted Accumulated (Deficit) (See Note II)	(117,342)
<i>Total Net Assets</i>	<i>(\$72,038)</i>

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

Ida B. Wells Community Academy
Summit County, Ohio
Statements of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2006

	2006
Operating Revenues	
State Foundation	\$945,543
Sales	1,522
Other Revenues	7,949
<i>Total Revenues</i>	955,014
Operating Expenses	
Salaries	660,478
Fringe Benefits	144,369
Purchased Services	125,029
Materials and Supplies	97,285
Insurance	1,224
Rent	89,596
Depreciation	6,926
Other	3,387
<i>Total Operating Expenses</i>	1,128,294
<i>Operating (Loss)</i>	(173,280)
Non-Operating Revenues (Expenses)	
State and Federal Grants	195,132
Interest and Fiscal Charges	(1,678)
<i>Total Non-Operating Revenues (Expenses)</i>	193,454
<i>Change in Net Assets</i>	20,174
<i>Net Assets at Beginning of Year</i>	(92,212)
<i>Net Assets (Deficit) at End of Year</i>	(\$72,038)

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

Ida B. Wells Community Academy
Summit County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Increase (Decrease) in Cash

	<u>2006</u>
Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$945,543
Cash Received from Customers	1,522
Cash Payments to Suppliers for Goods and Services	(309,259)
Cash Payments to Employees for Services	(652,495)
Cash Payments For Employee Benefits	(162,709)
Other Operating Revenues	7,949
Other Operating Expenses	<u>(1,815)</u>
<i>Net Cash (Used for) Operating Activities</i>	<u>(171,264)</u>
Cash Flows from Noncapital Financing Activities	
Federal and State Grants Received	211,551
Line of Credit and Loan Proceeds	21,434
Line of Credit and Loan Repayments	(43,434)
Line of Credit and Loan Interest Payments	<u>(1,483)</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>188,068</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	<u>(16,804)</u>
<i>Net Cash (Used for) Capital and Related Financing Activities</i>	<u>(16,804)</u>
<i>Net (Decrease) in Cash and Cash Equivalents</i>	0
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$0</u></u>
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating (Loss)	(\$173,280)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by (Used in) Operating Activities	
Depreciation	6,926
Changes in Assets and Liabilities:	
Accounts Payable	4,280
Accrued Wages and Benefits	(25,441)
Intergovernmental Payable	<u>16,251</u>
<i>Net Cash (Used in) Operating Activities</i>	<u><u>(\$171,264)</u></u>

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

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**IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

I. Description of the School and Reporting Entity

Ida B. Wells Community Academy (the Academy) is a non-profit §501(c)(3) corporation established pursuant to Ohio Revised Code Sections 3314 and 1702 to educate students in kindergarten through seventh grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed and contract for any services necessary for the operation of the Academy. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

The Academy was approved for operation under contract with the Lucas County Education Service Center (Sponsor) for a period of one year commencing with fiscal year July 1, 2005 through June 30, 2006. In May of 2006, the School signed an agreement with the Richland Academy of Arts to sponsor the School for a five year period beginning on July 1, 2006.

The Academy operates under a self-appointing, seven-member Board of Governors (Board). The Board is responsible for carrying out the provisions of the contract 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 Board controls the Academy's two instructional/support facilities staffed by seven non-certified and 17 certified full-time teaching personnel who provide services to 137 students.

II. Summary of Significant Accounting Policies

The financial statements of the Academy 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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its basic financial statements provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the Academy's accounting policies:

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.

**IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 Statement of Net Assets. Operating statements present increases (ie. revenues) and decreases (ie. 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 Academy's contract with the Sponsor. The contract between the Academy and the Sponsor, the Lucas County Educational Center, does not prescribe a budgetary process for the Academy.

D. Cash

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

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$500. The Academy does not possess any infrastructure and does not capitalize interest costs.

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 three to ten years. Leasehold improvements are depreciated using the straight-line method over the remaining term of the lease agreement including the renewal option.

**IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

G. Accrued Liabilities Payable

The Academy has recognized certain liabilities on its Statement of Net Assets relating to expenses, which are due but unpaid as of June 30, 2006, including:

Accrued wages and benefits payable – salary payments made after year-end that were for services rendered in fiscal year 2006. A liability has been recognized at June 30, 2006 for all salary payments made to teaching personnel during the month of July, 2006. Payments for the employer’s share of the retirement contribution, excess receipts of foundation payments, Workers’ Compensation and Medicare associated with services rendered during fiscal year 2006, were paid in the subsequent fiscal year.

H. Tax Exemption Status

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes a tax-exempt organization under Section §501(c)(3) of the Internal Revenue Code.

I. Net Asset

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

II. Accountability and Compliance

Net Asset Deficit

As further described in Note XIV, the accumulated deficit is the result of accumulated losses. The Academy is analyzing operations to determine appropriate steps to alleviate the deficit.

III. Change in Accounting Principle

For fiscal year 2006, the Academy implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,” GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation,” and GASB Statement No. 47, “Accounting for Termination Benefits.”

**IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. GASB Statement No.46 clarifies when net assets should be restricted based on enabling legislation. GASB Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

Implementation of the above mentioned GASBS did not affect the presentation of the financial statements of the Academy.

IV. Deposits

At fiscal year end, the carrying amount of the Academy’s deposits was (\$4,710) due to outstanding checks and the bank balance was \$35,255. Based on the criteria described in GASB Statement No. 40, “Deposit and Investment Risk Disclosure,” as of June 30, 2006, all of the bank balance was covered by the Federal Depository Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Center’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center.

V. State and Federal Grants Receivable

Receivables at June 30, 2006 consisted of State and Federal grants. All State and Federal grants are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds.

A summary of the principal items of the State and Federal grants receivable is as follows:

Idea Part B	\$11,056
Title I	10,346
Title II	23,973
Total	<u>\$45,375</u>

**IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

VI. Capital Assets and Depreciation

A summary of the Academy's fixed assets at June 30, 2006 follows:

	Balance 07/01/2005	Additions	Deletions	Balance 06/30/2006
Capital Assets, Being Depreciated:				
Furniture, Fixtures and Equipment	\$64,313	\$16,804	\$0	\$81,117
Leasehold Improvements	17,617	0	0	17,617
Total Capital Assets, Being Depreciated	81,930	16,804	0	98,734
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(47,272)	(5,008)	0	(52,280)
Leasehold Improvements	(12,730)	(1,918)	0	(14,648)
Total Accumulated Depreciation	(60,002)	(6,926)	0	(66,928)
Total Capital Assets, Net	\$21,928	\$9,878	\$0	\$31,806

VII. Purchased Services

For the period July 1, 2005 through June 30, 2006, purchased service expenses were payments for services rendered by various vendors as follows:

Professional Services	\$77,677
Building Maintenance	8,607
Travel and Meeting Expenses	2,011
Audit	6,096
Utilities	27,903
Advertising	2,735
	\$125,029
Total	\$125,029

VIII. Risk Management

A. Property and Liability Insurance

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2006, the Academy contracted with a commercial insurance carrier for general liability insurance. There is a \$1,000 deductible and a \$1,000,000 limit. There was no reduction in coverage from the prior year.

**IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The Academy has also contracted with a commercial insurance carrier for professional liability insurance with a \$150,000 single occurrence limit and no deductible.

B. Workers' Compensation

The Academy makes premium payments to the State Workers' Compensation System for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

There has been no reduction in coverage from the prior year and settled claims have not exceeded the Academy's coverage in any of the past three years.

IX. Other Employee Benefits

A. Employee Medical, Dental and Vision Benefits

The Academy has contracted with a private carrier to provide employee medical/surgical benefits. The Academy pays 80 percent of the monthly premium and the employee is responsible for the remaining 20 percent. For the fiscal year 2006, the Academy and the employees' premiums varied depending on family size and the ages of those covered.

B. Life Insurance

The Academy provides life insurance to all employees through a private carrier. Coverage in the amount of \$15,000 is provided for all certified and non-certified employees.

X. Defined Benefit Pension Plans

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board.

**IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The School District's contributions to SERS for the years ended June 30, 2006, 2005, and 2004 were \$30,859, \$36,943, and \$22,104, respectively, equal to the required contributions for each year.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options--New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

DB Plan Benefits—Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits—Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits-Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The

**IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. Effective April, 2005, a reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants. The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan Member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005 and 2004 were \$60,431, \$42,867, and \$45,277, respectively; The required amounts have been contributed for fiscal year 2006, 2005, and 2004.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2006 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

XI. Post-Employment Benefits

The Academy provides comprehensive health care benefits to retirees who participated in the Defined Benefit or Combined Plans and their dependents through the State Teachers Retirement System, (STRS). Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated 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.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14%. The board allocates employer contributions to Health Care Stabilization Fund from which health care benefits are paid. For the Academy, this amount equaled \$4,317 for fiscal year 2006. The balance in the Health Care Reserve Fund for the STRS was \$3.5 billion at June 30, 2006. For the year ended June 30, 2006, the net health care costs paid by the STRS were \$282,743,000 and eligible benefit recipients totaled 119,184.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. For this fiscal year, employer contributions to fund health care benefits were 3.42% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay has been established at \$35,800. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the Academy, the amount of employer contributions used to fund health care equaled \$7,538.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 were \$158,751,207. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated net claims costs. The number of participants eligible to receive benefits was 59,492.

XII. Lease Agreements

The Academy leases space under an agreement beginning August 13, 2005 and terminating August 12, 2006. Under this agreement, the Academy is to make monthly payments of \$3,635 for the use of its classrooms and offices. At the end of the lease, the Academy has the option to renew the lease agreement. Payments for the year totaled \$43,624.

On July 11, 2005, the Academy entered into a lease agreement with Hierographics Online, LLC. The lease agreement is for a 20 year building lease for classroom space. Payments for the year totaled \$45,972.

XIII. Related Party Transaction

On July 11, 2005, the Academy entered into a lease agreement with Hierographics Online, LLC. The lease agreement is for a 20 year building lease for classroom space. The Academy paid rent of \$45,972 to Dr. Edward Crosby, Executive Director of Ida B. Wells Academy, for rent on the building owned by Hierographics Online, LLC, which Dr. Crosby is the president.

XIV. Management's Plans Regarding Accumulated Deficit (See Note II)

The Academy accumulated a deficit of \$117,342 for the year ended June 30, 2006, and is also delinquent in some payments to vendors due to the timing of cash flows. Management plans to eliminate the deficit and cash-flow shortages with the following actions:

**IDA B. WELLS COMMUNITY ACADEMY
SUMMIT COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

- 1) In order to reduce the deficit, the board has authorized retaining an experienced state certified school treasurer who meets periodically with the board and has established regular meetings with the board's standing Financial Affairs and Planning Committee. This committee, of which the school's treasurer is a member, will initiate a cost-cutting regime that will keep track of how well the committee's debt reduction plans are progressing and, if and when necessary, institute immediate corrective measures.
- 2) The Board has authorized the purchase of a large (16,600 sq. ft) facility that will open in FY 2008. This facility will enroll larger numbers of students. This facility will allow for increased state allocations and cash flow. However, for this financial input to strengthen the effectiveness of our debt reduction plans, it will be coupled with the strict oversight of the board's Financial Affairs and Planning Committee. The full board and this committee will devote time and attention to the management of its expenditures in FY2008 so that the result is meaningful debt reduction.

XIV. Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

B. Litigation

A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (ie. 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 systems and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

XV. 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 decision 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 Academy is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Ida B. Wells Academy
Summit County
1180 Slosson Street
Akron, Ohio 44320

To the Board of Trustees:

We have audited the financial statements of the Ida B. Wells Academy (the Academy) as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued a report thereon dated May 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Academy'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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-01.

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 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 consider the reportable condition above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated May 9, 2007.

This report is intended solely 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.

Charles E. Harris and Associates, Inc.

May 9, 2007

**IDA B. WELLS ACADEMY
SUMMIT COUNTY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2006-01, Material Weakness

Negative Fund Balances

The Academy had negative cash fund balances in the following funds:

Fund Name	Fund Type	Fund Code	Fund Balance
General Fund	General	001	\$ (305,685)
Idea Part B	Special Revenue	516	(10,757)
Title I	Special Revenue	572	(47,774)
Title II A	Special Revenue	590	(21,098)
Title II D	Special Revenue	599	(302)
Total			\$ (385,616)

Negative cash fund balances are an indication that revenues from other sources were used to pay obligations of these funds. Additionally, money spent for purposes other than those specified in a grant agreement could result in the loss of future grant awards. In those cases where additional funds are required because of timing differences for reimbursement grants, the resources should be advanced to the fund as provided under the USAS accounting system.

Management indicated they are retaining a state certified treasurer who meets regularly with the Board, and will initiate a cost cutting regime. Also, the Academy authorized the purchase of a larger facility that will allow for additional students, which will increase state allocations.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2005, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

IDA B. WELLS COMMUNITY ACADEMY

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
AUGUST 16, 2007**