



**SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2000**



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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

TABLE OF CONTENTS

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

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REPORT OF INDEPENDENT ACCOUNTANTS

Summit Academy Community School for Alternative Learners, Inc.
Summit County
864 East Market Street
Akron, Ohio 44305

To the Board of Trustees:

We have audited the Balance Sheet of Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio, (the School) as of and for the year ended June 30, 2000, and the related Statements of Revenues, Expenses, and Changes in Fund Equity, and of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio, as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2001 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

January 24, 2001

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

**BALANCE SHEET
AS OF JUNE 30, 2000**

ASSETS

Current assets

Cash and cash equivalents	\$162,711
Accounts receivable	6,598
Prepaid expenses	2,500
Accrued interest	197
Total current assets	<u>172,006</u>

Noncurrent assets

Fixed assets, net of accumulated depreciation	<u>873,223</u>
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Total assets

\$1,045,229

LIABILITIES AND FUND EQUITY

Current liabilities

Accounts payable	\$32,299
Accrued wages and benefits	51,815
Accrued payroll taxes	31,597
Accrued interest payable	3,189
Capital lease payable, current portion	6,611
Notes payable, current portion	99,076
Total current liabilities	<u>224,587</u>

Long term liabilities

Capital lease payable, net of current portion	17,238
Notes payable, net of current portion	493,067
Total long term liabilities	<u>510,305</u>

Total liabilities

734,892

Fund equity

Retained earnings, unreserved	229,009
Contributed capital	<u>81,328</u>
Total fund equity	<u>310,337</u>

Total liabilities and fund equity

\$1,045,229

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

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Operating revenues

Material and fees	\$26,999
State foundation	1,412,399
Total operating revenues	1,439,398

Operating expenses

Salaries	699,117
Fringe benefits	251,335
Purchased services	347,410
Materials and supplies	124,223
Depreciation	33,009
Other	12,294
Total operating expenses	1,467,388

Operating loss **(27,990)**

Non-operating revenues (expenses)

State and Federal grants	58,905
Private Foundation grants	163,526
Miscellaneous receipts from local sources	27,921
Interest earnings	6,006
Interest expense	(37,669)
Net non-operating revenue	218,689

Net income **190,699**

Depreciation on fixed assets acquired
by contributed capital 10,880

Retained earnings at beginning of year 27,430

Retained earnings at end of year **\$229,009**

Contributed capital at beginning of year 0

Contributions during the year from
private donations 92,208

Depreciation on fixed assets acquired
by contributed capital (10,880)

Contributed capital at end of year 81,328

Total fund equity at end of year **\$310,337**

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

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

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Increase (decrease) in cash and cash equivalents

Cash flows from operating activities	
Cash from the State of Ohio	\$1,412,399
Cash payments to suppliers for goods and services	(456,613)
Cash payments to employees for services and benefits	(867,039)
Cash payment for other operating expenses	(14,494)
Other operating revenues	26,999
Net cash provided by operating activities	<u>101,252</u>
Cash flows from noncapital financing activities	
State and Federal grants	58,905
Private Foundation grants	163,526
Miscellaneous receipts from local sources	21,323
	<u>243,754</u>
Cash flows from capital and related financing activities	
Cash payments for capital acquisitions	(424,132)
Cash payment on capital lease	(5,342)
Cash received from notes payable	225,000
Cash payments on notes payable	(57,839)
Interest payments	(39,596)
Net cash used for capital and related financing activities	<u>(301,909)</u>
Cash flows from investing activities	
Interest on investments	<u>5,809</u>
Net increase in cash and cash equivalents	48,906
Cash and cash equivalents at beginning of year	<u>113,805</u>
Cash and cash equivalents at end of year	<u><u>\$162,711</u></u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating Loss	<u>(\$27,990)</u>
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation	33,009
Change in assets and liabilities:	
(Increase) decrease in assets:	
Prepaid expenses	(2,500)
Increase (decrease) in liabilities:	
Accounts payable	15,321
Intergovernmental payable	31,597
Accrued wages and benefits	51,815
Total adjustments	<u>129,242</u>
Net cash provided by operating activities	<u><u>\$101,252</u></u>

Noncash investing, capital, and financing activities

During fiscal year 2000, the School received a donation of office furniture and office equipment. The estimated market value of this equipment was \$92,208 when donated.

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

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

Notes to the Financial Statements

June 30, 2000

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Summit Academy Community School for Alternative Learners, Inc. (the School) is a start-up school as provided for by Ohio Revised Code Sections 3314 and 1702. The School is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The School provides educational, literary, scientific, and related teaching services for "at-risk" children with the symptoms of Attention Deficit Disorder (ADD) or Attention Deficit Hyperactivity Disorder (ADHD). The School, which is part of the State's education program, is independent of any public school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Management is not aware of any events that might adversely affect the School's tax exempt status.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 1999 through June 30, 2000. The School operates under a self-appointing seven-member Board of Trustees (the Board). The School's Code of Regulations specify that vacancies be filled by a majority vote of the remaining trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by 17 non-certified and 11 certified full-time teaching personnel who provide services to 103 students. Beginning July 1, 2000, the School's Board began operation of other Summit Academy Community Schools for Alternative Learners, Inc. located in Canton and Parma, Ohio.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School conform 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 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.

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

Notes to the Financial Statements

June 30, 2000

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is reported as retained earnings. Fund equity also includes contributed capital. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor, the Ohio State Board of Education, does not prescribe a budgetary process for the School per Ohio Rev. Code Section 5705.

D. Cash and Cash Equivalents

Cash received by the School is maintained in demand deposit accounts. In addition, the School has a certificate of deposit held as collateral for a loan at the same financial institution.

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

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$500. The School does not possess any infrastructure.

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 five to ten years. Buildings and improvements are depreciated over an estimated useful life of 40 years.

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

Notes to the Financial Statements
June 30, 2000
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned and measurable.

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

Grants and entitlement are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

G. 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.

H. Contributed Capital

During the fiscal year, the School received a donation of office furniture and office equipment from a local company. The estimated market value of this equipment was \$92,208 when donated. This amount has been recorded as contributed capital.

NOTE 3 - DEPOSITS

At year-end, the carrying amount of the School's deposits was \$162,711, and the bank balance was \$174,730. All of the bank balance was covered by federal depository insurance. Included in the deposit balance is a \$75,000 certificate of deposit with a financial institution that is earning interest at the rate of 5.83%, with an original term of 12 months and maturing on December 14, 2000. The certificate of deposit is pledged as collateral for the \$150,000 loan described in Note 5.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable totaling \$6,598 at June 30, 2000 consisted of amounts due from other related community schools reimbursing Summit Academy for miscellaneous start-up costs. See Note 17.

NOTE 5 - NOTES PAYABLE

The School entered into a \$400,000 real estate mortgage (the loan) with National City Bank on May 4, 1999. Interest expense of \$31,680 was paid at a rate of 8.5% for the year ended June 30, 2000, and interest of \$2,777 has been accrued as of that date. Monthly payments of interest only were paid on the loan through November 4, 1999. Beginning December 4, 1999, and continuing for the following eleven months, payments of principal and interest in the amount of \$3,221 were made until November 4, 2000. Commencing December 4, 2000 monthly payments of \$7,025 are made for 48 months until the loan matures on November 4, 2004.

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

Notes to the Financial Statements
June 30, 2000
(Continued)

NOTE 5 - NOTES PAYABLE (Continued)

Additionally, the School received a loan in the amount of \$150,000 from Key Bank. Interest fluctuates with the bank's prime rate plus 1.5%. The loan term is five years, with monthly principal and interest payments of \$3,589. This loan is collateralized by the \$75,000 certificate of deposit held at the bank, and has a 50% loan guarantee from the City of Akron. This loan had an outstanding balance of \$139,058 at June 30, 2000.

When the School purchased the East Market Street building in May of 1999, the sellers agreed to carry a note in the amount of \$25,000. Thus, the building is secured by a second mortgage with New Horizons Christian Church. The note is to be amortized over five years with an interest rate of 10%. Principal and interest payments of \$531 are made monthly. This note had an outstanding balance of \$20,568 at June 30, 2000.

A demand note was signed and payable to Academy Management Company, Inc., a related company, for \$35,000 with an interest rate of 6.8%, commencing on June 30, 2000, the date of the note. This loan was repaid in full on July 13, 2000.

Annual requirements to amortize all indebtedness outstanding on June 30, 2000, including interest payments, are as follows:

For The Year Ending June, 30	National City Bank Mortgage	Key Bank Loan	Note Payable to New Horizons Christian Church	Total
2001	\$65,280	\$34,872	\$6,374	\$106,526
2002	84,300	34,872	6,374	125,546
2003	84,300	34,872	6,374	125,546
2004	84,300	34,872	6,374	125,546
2005	84,300	19,835		104,135
Thereafter	122,523			122,523
Total	<u>\$525,003</u>	<u>\$159,323</u>	<u>\$25,496</u>	<u>\$709,822</u>

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

Notes to the Financial Statements
June 30, 2000
(Continued)

NOTE 6 - FIXED ASSETS AND DEPRECIATION

A summary of the School's fixed assets at June 30, 2000, follows:

Land	\$45,000
Buildings and Improvements	670,607
Furniture, Fixtures, and Equipment	<u>190,625</u>
Subtotal	906,232
Less: Accumulated Depreciation	<u>(33,009)</u>
Net Fixed Assets	<u><u>\$873,223</u></u>

Equipment includes assets under a capital lease which have an original cost of \$29,191.

NOTE 7 – CAPITAL LEASES

During the fiscal year 2000, the School entered into capitalized leases with IOS Capital for a copier and Court Square Leasing Corporation for a telephone system. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of the future minimum lease payments (\$29,191) as of the inception date of the lease. The following is a schedule of the future minimum lease payments as of June 30, 2000.

<u>Year ending June 30</u>	<u>Copier</u>	<u>Phone System</u>	<u>Total</u>
2001	\$4,943	\$3,337	\$8,280
2002	4,943	3,337	8,280
2003	4,943	276	5,219
2004	4,943		4,943
2005	<u>823</u>		<u>823</u>
Total future minimum lease payments	20,595	6,950	27,545
Less: Amount representing interest	<u>(3,130)</u>	<u>(566)</u>	<u>(3,696)</u>
Present value of future minimum lease payments	<u><u>\$17,465</u></u>	<u><u>\$6,384</u></u>	<u><u>\$23,849</u></u>

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

Notes to the Financial Statements
June 30, 2000
(Continued)

NOTE 8 - PURCHASED SERVICES

Purchased services include the following:

Occupancy Costs	\$72,177
Professional Services	78,029
Advertising and Promotion	5,303
Travel and Transportation	61,573
Maintenance	56,161
Educational	42,819
Other	31,348
Total	<u>\$347,410</u>

NOTE 9 - RISK MANAGEMENT

Property and Liability – The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2000, the School contracted with Specialty National Insurance Company for property and general liability insurance. Property coverage carries a \$1,000 deductible and has a \$1,342,500 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with a \$1,000 deductible.

Director and other coverage is provided by National Union Fire Insurance Company with a \$1,000,000 aggregate limit and no deductible.

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

NOTE 10 - OTHER EMPLOYEE BENEFITS

Employee Medical, Dental, and Vision Benefits – The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 75% of the monthly premium for employees. The employee is responsible for the remaining 25%. For fiscal year 2000, the School's and the employees' monthly premiums varied depending on family size and the ages of those covered.

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

Notes to the Financial Statements
June 30, 2000
(Continued)

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9% of their annual covered salary and the School is required to contribute 14%; for fiscal year 2000, 5.5% was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS' Retirement Board within the rates allowed by Ohio statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2000 was \$14,374; of this amount 86% was contributed as of June 30, 2000. The unpaid contribution is recorded as a liability as of that date.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3% of their annual covered salary and the School is required to contribute 14%; 6% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School's required contribution for pension obligations to STRS for fiscal year ended June 30, 2000 was \$18,734; of this amount 85% was contributed as of June 30, 2000. The unpaid contribution is recorded as a liability as of that date.

NOTE 12 - POST EMPLOYMENT BENEFITS

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

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

Notes to the Financial Statements
June 30, 2000
(Continued)

NOTE 12 - POST EMPLOYMENT BENEFITS - (Continued)

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 8% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$24,978 during the 2000 fiscal year.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

For fiscal year 2000, employer contributions to fund health care benefits was 8.5% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2000, the minimum pay was established at \$12,400. For the School, the amount to fund health care benefits, including surcharge of \$5,801, equaled \$22,266 during the 2000 fiscal year.

NOTE 13 – START-UP PERIOD

The Summit Academy Community School for Alternative Learners, Inc. was incorporated on March 1, 1999. During the period from its incorporation to July 1, 1999, the School received proceeds from various sources, entered into a loan agreement with Key Bank; purchased a building; and incurred various start up expenses. These are described in the following table.

Federal Charter School Grant Funds	\$50,000
Donations	30,000
Miscellaneous	<u>5,394</u>
Total revenues	<u>85,394</u>
Start-up expenses, including textbooks, supplies, payroll, and professional services	52,654
Interest expense	<u>5,310</u>
Total expenses	<u>57,964</u>
Retained Earnings July 1, 1999	<u><u>\$27,430</u></u>

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

Notes to the Financial Statements
June 30, 2000
(Continued)

NOTE 14 – RENTAL AGREEMENTS

The Academy has also entered into a lease agreement as lessee for a portion of a building that is used for office space. This lease began on May 1, 2000 and will terminate April 30, 2003. The total rent for the use of these facilities is \$30,600, payable in monthly installments of \$850. There is no renewal option included in the lease agreement.

NOTE 15 - CONTINGENCIES

GRANTS – The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2000.

NOTE 16 - STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 27, 1997, decision, however, it found seven "...major areas warrant[ing] further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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

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

Notes to the Financial Statements

June 30, 2000

(Continued)

NOTE 17 – RELATED PARTY TRANSACTIONS

During fiscal year 2000, the School paid the fees for the incorporation of related, but separate schools in Parma and Canton, Ohio. These fees are being repaid by these schools, and are currently shown as accounts receivable. These two schools were created by the four founding board members of Summit Academy School for Alternative Learners, Inc.

During the year, the School entered into an agreement with PMD Educational Consultants Inc., d.b.a. Creative Center for Learning, a private company owned by a Board member, to sublease a multi-purpose room. This agreement began on September 1, 1999 and is in effect until August 31, 2004 with no renewal option included. Total annual payments for this facility are \$30,000, payable on the first day of each month in installments of \$2,500.

During the start-up period of the School, PMD Educational Consultants Inc., d.b.a. Creative Center for Learning, paid the initial fees to incorporate Summit Academy Community School for Alternative Learners, Inc., and paid the start-up costs for the School. The total of these payments was \$13,518, which was reimbursed to PMD Educational Consultants Inc., d.b.a. Creative Center for Learning, during the fiscal year ended June 30, 2000. PMD Educational Consultants Inc., d.b.a. Creative Center for Learning, is owned by a member of the School's Board of Trustees.

During fiscal year 2000, the School obtained a loan from the Academy Management Company, Inc. for \$40,000. This loan was interest free and was repaid during fiscal year 2000. In June of 2000, another loan in the amount of \$35,000 was obtained from the Academy Management Company Inc. This loan was repaid in July of 2000. Academy Management Company, Inc. is a for-profit company owned by four members of the School's Board.

NOTE 18 – SUBSEQUENT EVENT

Subsequent to June 30, 2000, the School contracted with Summit Academy Management, Inc., a non-profit company, to employ and facilitate day-to-day management of the School. This includes adopting the educational curriculum, recruiting and training employees, developing and maintaining state mandated testing and requirements, and completing all required administrative reports. The Summit Academy Management, Inc. will also initiate purchases and approve expenditures made by the School and maintain the School's accounting records. Fees for these services will be paid at 12% of net income. Four of the founding members of the School serve on the Board of Directors of Summit Academy Management, Inc.



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JIM PETRO, AUDITOR OF STATE

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

Summit Academy Community School for Alternative Learners, Inc.
Summit County
864 East Market Street
Akron, Ohio 44305

To the Board of Trustees:

We have audited the financial statements of Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio, (the School) as of and for the year ended June 30, 2000, and have issued our report thereon dated January 24, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated January 24, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted 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 significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2000-10977-001 and 2000-10977-002. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated January 24, 2001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that

Summit Academy Community School for Alternative Learners, Inc.
Summit County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

Jim Petro
Auditor of State

January 24, 2001

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

**SCHEDULE OF FINDINGS
JUNE 30, 2000**

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

Finding Number	2000-10977-001
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Fixed Assets:

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

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

We recommend that the School:

Perform a comprehensive fixed asset inventory, and develop a policy to perform such an inventory on a regular basis.

Develop procedures in which all inventoried fixed assets are tagged with an identification number.

Prepare a master listing of the individual fixed assets owned by the School which describes, at a minimum, the asset type, tag number, location, year of acquisition and accumulated depreciation, as applicable.

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

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

Finding Number	2000-10977-002
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Bank Reconciliations:

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records at a specific point in time. The School did not reconcile the balance of the bank to the balance of cash in the accounting records until June 30, 2000.

Without complete and accurate monthly bank reconciliations, the School's internal control is significantly weakened, which could hinder the detection of errors or irregularities by the School's management in a timely manner. In addition, the School's management is not provided with timely fiscal information that is vital to the continued operations and decision making process of the School, which could negatively impact management's ability to manage the School's operations.

Bank Reconciliations - continued

The School should perform and complete monthly bank reconciliations in a timely manner. Also, a hard copy of each monthly bank reconciliation and the listing of outstanding checks should be filed in the bank activity folder along with the bank statements and supporting documents for the applicable month. All unreconciled differences should be resolved as quickly as possible so they are not carried forward from month-to-month.



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SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.

SUMMIT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 15, 2001**