



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Trustees:

We have audited the Balance Sheet of Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio, (the School) as of June 30, 2002, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Academy Community School for Alternative Learners, Inc. as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 13, 2003

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

**BALANCE SHEET
AS OF JUNE 30, 2002**

ASSETS

Current assets:

Cash	\$	3,098
State foundation receivable		11,935
Intergovernmental receivable		87,113
Accrued interest		55
Total current assets		102,201

Noncurrent assets:

Fixed assets, net of accumulated depreciation		956,130
Loan receivable		61,085
Restricted cash		50,381
Total noncurrent assets		1,067,596
Total assets	\$	1,169,797

LIABILITIES AND FUND EQUITY

Current liabilities:

Management fee payable		99,048
Demand notes payable		40,000
Loan payable		66,942
Capital lease payable, current portion		9,889
Notes payable, current portion		109,232
Total current liabilities		325,111

Long term liabilities:

Capital lease payable, net of current portion		17,355
Notes payable, net of current portion		348,954
Total long term liabilities		366,309
Total liabilities		691,420

Fund equity

Retained earnings		420,759
Contributed capital		57,618
Total fund equity		478,377
Total liabilities and fund equity	\$	1,169,797

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

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Operating revenues</u>	
Materials and fees	\$ 7,359
State foundation	594,767
Other operating revenues	609
Total operating revenue	<u>602,735</u>
<u>Operating expenses</u>	
Purchased services	523,111
Depreciation	50,561
Total operating expenses	<u>573,672</u>
Operating income	<u>29,063</u>
<u>Non-operating revenues</u>	
State and Federal grants	297,933
Private Foundation grants	42,428
Net non-operating expenses	<u>340,361</u>
Net income	369,424
Depreciation on fixed assets acquired by contributed capital	11,855
Retained earnings at beginning of year	<u>39,480</u>
Retained earnings at end of year	<u>\$ 420,759</u>

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

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Increase (decrease) in cash

Cash flows from operating activities:

Cash from the State of Ohio	\$ 582,832	
Cash payments to management company	(753,125)	
Other operating revenues	7,968	
Net cash used for operating activities	(162,325)	

Cash flows from noncapital financing activities:

Cash received on loan receivable	13,532	
State and Federal grants	229,587	
Private Foundation grants	42,428	
Net cash provided by noncapital financing activities	285,547	

Cash flows from capital and related financing activities:

Mortgage payments	(96,604)	
Lease payments	(10,904)	
Cash payments on loans payable	(63,590)	
Interest payments	(2,612)	
Net cash used for capital and related financing activities	(173,710)	

Cash flows from investing activities:

Interest on investments		155
		155

Net decrease in cash (50,333)

Cash at beginning of year 103,812

Cash at end of year \$ 53,479

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

Operating income \$ 29,063

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

Depreciation	50,561	
Change in assets and liabilities:		
(Increase) decrease in assets:		
State foundation receivable	(11,935)	
Increase (decrease) in liabilities:		
Management fee payable	20,624	
Intergovernmental payable	(16,040)	
Compensated absences payable	(2,159)	
Accrued wages and benefits	(232,439)	
Total adjustments	(191,388)	

Net cash used for operating activities \$ (162,325)

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

As further described in Note 10, the School has entered into a contract with Summit Academy Management, Inc. (SAM) on January 1, 2001, to employ and facilitate the day-to-day management of the School. Three of the founding members of the School serve on the Board of Directors of SAM. SAM is a legally separate 501(c)(3) corporation and the results of SAM's operations are not reflected in these financial statements. SAM also manages the day-to-day activities of Summit Academy Community School for Alternative Learners – Parma, Inc., Summit Academy Community School for Alternative Learners – Canton, Inc., Summit Academy Community School for Alternative Learners – Lorain, Inc., Summit Academy Community School for Alternative Learners – Xenia, Inc., Summit Academy Community School for Alternative Learners – Middletown, Inc., Summit Academy Community School for Alternative Learners – Youngstown, Inc., and Summit Academy for the Creative Arts, Inc.. These schools, which also have three common board members, are legally separate corporations and the results of their operations are not included in these financial statements.

The School was approved for operation under a contract with the Ohio Department of Education (Sponsor) for a period of five years commencing with fiscal year ended June 30, 2001. The School operates under a self-appointing Board of Trustees (the Board). The School's Code of Regulations specify that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then-existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes, but is not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by 5 non-certified and 6 certified full-time teaching personnel who provide services to 42 students. These individuals are employees of SAM and not of the School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Balance Sheet. 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 traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

D. Cash

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

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

Prior to June 1, 2001, fixed assets were capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed 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 does it capitalize interest expense.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

As of July 1, 2001, all new fixed assets used by the School belong to SAM, as further described in Note 10.

F. Intergovernmental Revenues

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

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was eligible to receive \$300,000 over four years in order to offset start-up costs of the School. The School received \$150,000 during fiscal year 2002, for a total of \$300,000 received to date. Grants and entitlements are also recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

G. Accrued Liabilities

Accrued liabilities consists of amounts payable to SAM for unremitted revenues in accordance with the School's management contract which is further described in Note 10.

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.

I. Contributed Capital

Contributed capital was first recorded by the School for the donation of office furniture and equipment during fiscal year 2000. Depreciation on these assets acquired through capital contributions was \$11,855 and was expensed and closed to contributed capital during the fiscal year 2002.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 3 - DEPOSITS

At June 30, 2002, the carrying amount of the School's deposits was \$53,479, and the bank balance was \$62,676. All of the bank balance was covered by federal depository insurance. Included in the deposit balance is a \$50,381 certificate of deposit that is earning interest at the rate of 2.50%, with an original term of twelve months and maturing on December 14, 2002. The certificate of deposit is pledged as collateral for the Key Bank loan described in Note 11 and is shown as Restricted cash on the Balance Sheet.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2002, consisted of State foundation and intergovernmental (e.g. federal grants) receivables. All receivables are considered collectible in full, due to the stable condition of the State programs, and the current year guarantee of federal funds.

NOTE 5 - LOAN RECEIVABLE

The loan receivable of \$61,085 as June 30, 2002 consisted of a bank loan obtained in the School's name on behalf of SAM. This amount is also included as a portion of Notes Payable on the Balance Sheet as described in Note 11.

NOTE 6 - FIXED ASSETS

A Summary of the School's fixed assets at June 30, 2002, follows:

Land	\$ 45,000
Buildings	821,448
Furniture, Fixtures and Equipment	<u>219,221</u>
	1,085,669
Less: Accumulated Depreciation	<u>(129,539)</u>
Net Fixed Assets	<u><u>\$ 956,130</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 7 - PURCHASED SERVICES

Per the agreement with SAM (see Note 10), 100% of the School's revenue is paid to SAM as a management fee. This amounted to \$523,111 and is broken down as follows:

Salaries	\$ 157,657
Benefits	45,367
Professional Services	194,742
Travel and Transportation	2,886
Materials and Supplies	107,748
Other	<u>14,711</u>
Total	<u>\$ 523,111</u>

NOTE 8 - DEFINED BENEFIT PENSION PLANS

The School has contracted with SAM to provide teaching and administrative personnel who are employees of SAM. However, the School is still responsible for monitoring and ensuring that pension contributions are made by SAM. The retirement systems consider the School as the Employer-of-Record and 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 public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, 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, stand alone 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, 300 East Broad Street, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9% 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 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2001, 4.2% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended up to a statutory maximum amount, by the SERS Retirement Board. SAM's required contributions for pension obligations to SERS for the year ended June 30, 2002 was \$25,529.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

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), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone 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 43215-3746.

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3% of their annual covered salaries. SAM was required to contribute 14%; 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. SAM's required contributions for pension obligations to STRS for the year ended June 30, 2002 was \$25,478.

NOTE 9 - POST EMPLOYMENT BENEFITS

On behalf of the School, SAM provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the State Employees Retirement System (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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most 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 funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For SAM, this amount equaled \$12,069 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 million at June 30, 2001 (the latest information available). For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage was 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 9 - POST EMPLOYMENT BENEFITS (Continued)

For fiscal year 2002, employer contributions to fund health care benefits were 8.54% of the covered payroll. For fiscal year 2001, 9.8% was used to fund health care benefits. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and member's pay, pro-rated for partial credit. For fiscal year 2002, the minimum pay was established at \$12,400. 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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million.

At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits. For SAM, the amount to fund health care benefits, including surcharge equaled \$41,541 during the 2002 fiscal year.

NOTE 10 - AGREEMENT WITH SUMMIT ACADEMY MANAGEMENT, INC.

On January 1, 2001, the School contracted with Summit Academy Management, Inc. (SAM) to facilitate day-to-day operations of the School. This includes adopting the educational curriculum, providing teaching and administrative personnel, developing and maintaining state mandated testing and requirements, and completing all required administrative reports. SAM will also initiate purchases and approve expenditures made by the School and maintain the School's accounting records. Three of the founding members of the School serve on the Board of Directors of SAM.

A. SAM's Financial Responsibilities

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

B. Personnel

As of January 1, 2001, all teaching and administrative personnel are employees of SAM. SAM has the responsibility to select, assign, evaluate, and discharge School employees. Compensation is set according to SAM's compensation policies for teachers, principals, and non-instructional staff.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 11 - TRANSACTIONS WITH RELATED PARTIES

A. Debt

On May 4, 1999, the School entered into a \$400,000 real estate mortgage (the Loan) with a local bank. Interest expense of \$31,592 was paid by SAM at a rate of 8.5% for the year ended June 30, 2002. The loan is due on November 4, 2006. The principal balance outstanding was \$306,000 at June 30, 2002.

Additionally, the School received a loan in the amount of \$150,000 from Key Bank. Interest fluctuates with this bank's prime rate plus 1.5%. The loan term is five years, with monthly principal and interest payments of \$2,906 paid by SAM. This loan is collateralized by a \$50,000 certificate of deposit held at the bank, and has a 50% loan guarantee from the City of Akron. This loan had an outstanding principal balance of \$80,024 at June 30, 2002.

When the East Market Street building was purchased in May of 1999, the sellers agreed to carry a note in the amount of \$25,000. Thus, the building is secured by a second mortgage with New Horizons Christian Church. The note is to be amortized over five years with an interest rate of 10%. Principal and interest payments of \$531 are made monthly by SAM. This note had an outstanding principal balance of \$11,075 at June 30, 2002.

The School obtained a loan in the amount of \$75,000 on behalf of SAM from National City Bank. The interest rate on this loan is 8.5% per annum. The loan term is 5 years, with monthly principal and interest payments of \$1,560, with the remaining principal and interest due upon maturity. The loan is collateralized by the East Market Street Building, and has a principal balance of \$61,085 as of June 30, 2002. SAM has assumed responsibility for payment of all interest and principal on this loan; an offsetting Notes Receivable is also reported on the balance sheet as described in Note 5.

Annual requirements to amortize all indebtedness outstanding on June 30, 2002, including interest payments of \$82,658, are as follows:

<u>For the Year Ending June, 30</u>	<u>National City Bank Mortgage</u>	<u>Key Bank Loan</u>	<u>Note Payable to New Horizons Christian Church</u>	<u>National City Bank Loan</u>	<u>Total</u>
2003	\$ 84,300	\$ 34,872	\$ 6,374	\$ 18,716	\$ 144,262
2004	84,300	34,872	5,843	18,716	143,731
2005	84,300	16,567	-	18,716	119,583
2006	84,300	-	-	17,751	102,051
2007	31,217	-	-	-	31,217
Total	<u>\$ 368,417</u>	<u>\$ 86,311</u>	<u>\$ 12,217</u>	<u>\$ 73,899</u>	<u>\$ 540,844</u>

Two \$20,000 demand notes were also signed and are payable to Summit - Canton and Summit - Parma, the balances of which remain outstanding as of June 30, 2002.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 11 - TRANSACTIONS WITH RELATED PARTIES (Continued)

At June 30, 2002, the School has a management fee payable of \$99,048 which consists of State foundation and intergovernmental receivables to be transferred to SAM to cover expenses incurred by SAM. As of June 30, 2002, the School also had a loan payable of \$66,942 outstanding with SAM. This loan was partly as a result of Sam paying off a demand note payable due to Academy Management Company, Inc. (AMC) on behalf of the School.

AMC is a for profit corporation created by four of the School's founding board members to establish community schools throughout the State of Ohio. AMC is a legally separate organization, and the results of its operations are not reflected in these financial statements.

	Balance at <u>07/01/01</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>06/30/02</u>
Loan payable - SAM	\$ 7,000	\$ 110,000	\$ (50,058)	\$ 66,942
Demand note payable - AMC	110,000	-	(110,000)	-
	<u>\$ 117,000</u>	<u>\$ 110,000</u>	<u>\$ (160,058)</u>	<u>\$ 66,942</u>

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

B. Capital Leases

In a prior year, the School entered into several capitalized lease agreements for copiers, and a telephone system. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of the future minimum lease payments as of the inception date of the lease. The following is a schedule of the future minimum lease payments as of June 30, 2002. During the fiscal year, SAM paid \$12,949 for these lease agreements.

<u>Year Ending June 30</u>	<u>Copier</u>	<u>Phone System</u>	<u>Total</u>
2003	\$ 9,613	\$ 278	\$ 9,891
2004	9,613	-	9,613
2005	9,613	-	9,613
2006	801	-	801
Total future minimum lease payments	<u>29,640</u>	<u>278</u>	<u>29,918</u>
Less: Amount representing interest	<u>(2,672)</u>	<u>(2)</u>	<u>(2,674)</u>
Present value of future minimum lease payments	<u>\$ 26,968</u>	<u>\$ 276</u>	<u>\$ 27,244</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 11 - TRANSACTIONS WITH RELATED PARTIES (Continued)

C. Operating Lease Agreements

In a prior year, the School entered into a lease agreement for a portion of a building that is used for office space. This lease began on May 1, 2000 and will terminate April 30, 2003. Total annual rent for the use of this facility is \$30,600, payable in monthly installments of \$850. There is no renewal option included in this lease agreement. During the fiscal year, SAM paid \$10,200 for this lease agreement.

During fiscal year 2000, the School entered into an agreement with PMD Educational Consultants Inc (PMD), 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 was in effect until August 31, 2001, with no renewal option included. Total annual payments for this facility were \$30,000 payable on the first day of each month in installments of \$2,500. During the fiscal year, SAM entered into a new agreement with PMD on behalf of the School and paid \$30,000 towards this agreement.

D. 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 2002, SAM contracted with a commercial insurance company for property and general liability insurance on behalf of the School. 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.

E. Benefits

SAM has contracted with a private carrier to provide medical/surgical benefits. SAM pays 75% of the monthly premium for full-time employees and 50% for part-time employees. The employees are responsible for the remaining amounts. For fiscal year 2002, SAM's and the employees' monthly premiums varied depending on family size and the ages of those covered.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

NOTE 12 - CONTINGENCIES

GRANTS – The School received financial assistance from federal and state agencies in the form of grants, which was then turned over to SAM. The disbursement of funds received under these programs require 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, 2002.

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

NOTE 13 - 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 14 – SUBSEQUENT EVENT

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made 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 review resulted in an underpayment to the School in the amount of \$11,935 and is reflected as State foundation receivable. This money was included in the January 2003 foundation payment.

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Auditor of State Betty Montgomery

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

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

To the Board of Trustees:

We have audited the financial statements of Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio, (the School) as of and for the year ended June 30, 2002, and have issued our report thereon dated February 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-10977-001. We also noted immaterial instances of noncompliance that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated February 13, 2003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 February 13, 2003.

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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

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

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

Betty Montgomery
Auditor of State

February 13, 2003

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

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2002-10977-001
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Noncompliance Citation

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

During the fiscal year ended June 30, 2002, the School had a loan payable for \$66,942 to its management company, 4 notes payable totaling \$458,186, and 2 demand notes payable totaling \$40,000. These monies were borrowed and used for operating expenses, and include a 1st and 2nd mortgage on the School’s building. Because these debt instruments do not specifically exclude the School’s Ohio Rev. Code Section 3314.08(D) funds from the general collateral provisions and are being repaid with State monies, these debt instruments obligate State foundation payments. Therefore, Ohio Rev. Code Section 3314.08(J) would apply.

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

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> Valid; <i>Explain:</i>
2001-10977-001	The School has loans and notes payable borrowed and used for operating expenses and include a 1 st and 2 nd mortgage on the School's building. These instruments do not specifically exclude ORC 3314.08(D) and are being repaid with State monies. Therefore, ORC 3314.08(J) applies which does not allow outstanding debt at fiscal year end.	No	Not corrected; See Finding Number 2002-10977-001.
2001-10977-002	The School does not maintain a complete listing of individual fixed assets, nor does it have procedures for tagging fixed assets and performing periodic inventories of fixed assets	Yes	



**Auditor of State
Betty Montgomery**

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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
APRIL 1, 2003**