



Rea & associates a *brighter* way

Summit Academy Toledo Learning Center

Lucas County, Ohio

Audited Financial Statements

For the Fiscal Years Ended
June 30, 2014 and 2013



Dave Yost • Auditor of State

Board of Directors
Summit Academy Toledo Learning Center
5115 Glendale Avenue, Suite N
Toledo, Ohio 43612

We have reviewed the *Independent Auditor's Report* of the Summit Academy Toledo Learning Center, Lucas County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Summit Academy Toledo Learning Center is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 18, 2015

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Summit Academy Toledo Learning Center
Lucas County, Ohio
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December 19, 2014

To the Board of Directors
Summit Academy Toledo Learning Center
Lucas County, Ohio
5115 Glendale Avenue, Suite N
Toledo, Ohio 43612

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Summit Academy Toledo Learning Center, Lucas County, Ohio, (the School), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Summit Academy Toledo Learning Center, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, listed in the table of contents, to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering School's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Medina, Ohio

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

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

As management of Summit Academy Toledo Learning Center (formerly Summit Academy Secondary School – Toledo) (the School), we offer readers of the School's basic financial statements this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

By agreement with its management company, Summit Academy Management, 100% of all revenue is passed through to the management company in order to manage the affairs of the School. In this regard, a cash management system is utilized in which all School cash was 'swept' into the bank account of the management company. As a result, the School has no cash on June 30, 2014 or 2013.

The School also has no net position (the difference between its assets, deferred outflows, liabilities and deferred inflows) as of June 30, 2014 or 2013.

The School has receivables totaling \$359,216 for state foundation, Medicaid and federal and state grants earned in 2014, but not received until after June 30, 2014. Additionally, the school recognized a receivable of \$4,434 for casino revenues earned in 2014, but not received until after June 30, 2014. The financial statements show a management fee payable to the management company of the same amount, reflecting the 100% pass-through of revenue to the management company.

Overview of the Financial Statements

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

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

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

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

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

Finally, it should be noted that the School utilizes the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private sector companies in that it recognizes revenues and expenses when earned regardless of when cash is received or paid.

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

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

Financial Analysis

The following tables indicate our financial analysis of the School:

Table 1 - Balance Sheets

	<u>6/30/2014</u>	<u>6/30/2013</u>	Amount of Change	Percent of Change	<u>6/30/2012</u>
Assets					
State receivable	\$ 4,434	\$ 3,998	\$ 436	10.9%	\$ -
State foundation receivable	45,768	-	45,768	0.0%	28,857
Intergovernmental receivables	127,018	188,899	(61,881)	-32.8%	116,312
Medicaid receivables	186,430	47,528	138,902	292.3%	29,419
Total assets	<u>\$ 363,650</u>	<u>\$ 240,425</u>	<u>\$ 123,225</u>	51.3%	<u>\$ 174,588</u>
Liabilities					
Management fee payable	\$ 363,650	\$ 240,425	\$ 123,225	51.3%	\$ 174,588
Net Position					
Unrestricted	-	-	-	0.0%	-
Liabilities and net position	<u>\$ 363,650</u>	<u>\$ 240,425</u>	<u>\$ 123,225</u>	51.3%	<u>\$ 174,588</u>

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

	<u>6/30/2014</u>	<u>6/30/2013</u>	Amount of Change	Percent of Change	<u>6/30/2012</u>
Operating revenues	\$ 2,914,894	\$ 2,402,323	\$ 512,571	21.3%	\$ 3,105,452
Operating expenses	3,314,638	2,775,699	538,939	19.4%	3,481,132
Operating loss	(399,744)	(373,376)	(26,368)	-7.1%	(375,680)
Non-operating revenues	399,744	373,376	26,368	7.1%	375,680
Change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	0.0%	<u>\$ -</u>

On the Balance Sheet, receivables increased by a total of \$123,225 or 51.3% as the increase in Medicaid receivable and ODE foundation adjustment was offset by a decrease in state and federal grants receivable June 30, 2014. As a result, the management fee payable to the management company increased by the same amount and same percentage.

With respect to the Statement of Revenues, Expenses, and Changes in Net Position, operating revenue increased by \$512,571 or 21.3% due primarily to an increase in state foundation revenue caused by an increase in enrollment, as well as an increase in Medicaid revenue. Operating expenses increased by \$538,939 or 19.4% due to the net increase in revenues.

Non-operating revenues increased by \$26,368 or 7.1% as a result of more state and federal grant funding during 2014.

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

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

Contacting the School's Financial Management

This financial report is designed to provide our constituents with a general overview of the School's finances and to show its accountability for the money it receives. If you have questions about this report or need additional information, please contact CFO/Treasurer, Stephanie Ataya, by mail at Summit Academy Management, 2791 Mogadore Road, Akron, Ohio 44312; by email at Stephanie.Ataya@summitacademies.org; by calling (330) 670-8470; or by faxing (330) 784-7626.

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

**BALANCE SHEETS
AS OF JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
Current assets		
State receivable	\$ 4,434	\$ 3,998
Intergovernmental receivables	127,018	188,899
Medicaid receivables	186,430	47,528
State Foundation Receivable	45,768	-
	<u>\$ 363,650</u>	<u>\$ 240,425</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Management fee payable	\$ 363,650	\$ 240,425
Net Position		
Unrestricted	-	-
	<u>\$ 363,650</u>	<u>\$ 240,425</u>

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

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
Operating revenues		
Materials and fees	\$ 7,405	\$ 6,252
Medicaid	221,005	71,480
State foundation	2,670,285	2,317,121
Other revenue	16,199	7,470
Total operating revenues	2,914,894	2,402,323
Operating expenses		
Purchased services	3,314,474	2,775,536
Other expenses	164	163
Total operating expenses	3,314,638	2,775,699
Operating loss	(399,744)	(373,376)
Non-operating revenues		
State and Federal grants	398,744	371,976
Private grants/donations	1,000	1,400
Total non-operating revenues	399,744	373,376
Change in Net Position	-	-
Net position at beginning of year	-	-
Net position at end of year	\$ -	\$ -

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

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

**STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
Increase (decrease) in cash		
Cash flows from operating activities:		
Cash received from other operating sources	\$ 7,405	\$ 6,252
Cash from Medicaid	82,103	53,371
Cash from the State of Ohio	2,640,280	2,349,450
Cash payments to management company	(3,191,249)	(2,709,699)
Other cash payments	(164)	(163)
Net cash used for operating activities	(461,625)	(300,789)
Cash flows from noncapital financing activities:		
State and Federal grants	460,625	299,389
Private grants	1,000	1,400
Net cash from noncapital financing activities	461,625	300,789
Net increase (decrease) in cash	-	-
Cash at beginning of year	-	-
Cash at end of year	\$ -	\$ -
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (399,744)	\$ (373,376)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Change in assets and liabilities:		
(Increase) decrease in assets:		
State receivable	(436)	(3,998)
State foundation receivable	(45,768)	28,857
Medicaid receivables	(138,902)	(18,109)
Increase (decrease) in liabilities:		
Management fee payable	123,225	65,837
Total adjustments	(61,881)	72,587
Net cash used for operating activities	\$ (461,625)	\$ (300,789)

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

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Summit Academy Toledo Learning Center (formerly Summit Academy Secondary School – Toledo), located in Lucas County (the School), is a state nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The School provides educational, literary, scientific, and related teaching services for “at-risk” children with the symptoms of Attention Deficit Hyperactivity Disorder (ADHD) and Asperger’s Syndrome. The School, which is part of the State’s education program, is independent of any public school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

As further described in Note 5 to the financial statements, the School has contracted with Summit Academy Management, Inc. (SAM) to employ and facilitate the day-to-day management of the School. SAM is a legally separate nonprofit corporation, the results of which are not reflected in these financial statements.

The governing boards of SAM and the School have completely different members, and all members of the School Board are independent of SAM. In addition, 3 board members of SAM are elected by the majority vote of the affiliated school boards.

SAM also provides management services to the following 25 legally separate community schools whose results of operations are not included herein:

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

The School has been approved for operation under a contract with the Educational Service Center of Lake Erie West (the Sponsor). The contract was extended for a term ending June 30, 2016, and then renews for additional one-year terms from July 1 to June 30, unless the Sponsor has given written notice of termination at least 90 days prior to the expiration date.

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

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

The School operates under a self-appointing Board of Directors (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board are filled by the appointment of a successor director by a majority vote of the then-existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor. These include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities and deferred inflows are included on the balance sheet. Equity (i.e., net total position) is the difference between assets, deferred outflows, liabilities and deferred inflows. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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 generally not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor, Educational Service Center of Lake Erie West, requires a detailed budget in the form of a five-year forecast, as described in Ohio Revised Code Section 5705.391.

D. Cash

The School's revenues are received into a demand deposit account, and then are swept into an account of the management company in accordance with the management agreement discussed in Note 5.

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Capital Assets and Depreciation

The School does not possess any capital assets. All capital assets used by the School belong to SAM as further described in Note 5.

F. Intergovernmental Revenues

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

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

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

G. Accrued Liabilities

Accrued liabilities include amounts payable to SAM for various intergovernmental (grant) receivables, in accordance with the School's management contract as further described in Note 5.

H. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS

At June 30, 2014 and 2013, the carrying amount of the School's deposits was \$0, and the bank balance was \$0.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2014 and 2013 consisted of state foundation, Medicaid, state and intergovernmental (e.g. state and federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of these programs, and the current year guarantee of federal funds.

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

NOTE 5 – AGREEMENT WITH SUMMIT ACADEMY MANAGEMENT

The School has contracted with Summit Academy Management (SAM) to facilitate the day-to-day operations of the School. Per the agreement, the School pays SAM, as a management fee, 100 percent of revenues received. In turn, SAM is responsible for all costs and decisions associated with operating the School. Such costs and decision areas include, but are not limited to: personnel (all teaching and administrative personnel are employees of SAM); insurance; pension and retirement benefits; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, and legal and financial management services. SAM is also responsible for maintenance of the School's facility. See Note 14 for the amount of actual direct and indirect expenses incurred by SAM on behalf of the School.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

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

A. School Employees Retirement System

On behalf of the School, SAM contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posed on the SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent 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 2014, 13.05 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$18,724, \$30,036, and \$33,737, respectively; 100 percent has been contributed for the fiscal year 2014 and 100 percent has been contributed for fiscal years 2013 and 2012.

B. State Teachers Retirement System

On behalf of the School, SAM also contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publically available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School 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 11 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$269,132, \$168,565, and \$232,212, respectively; 81.6 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 are available upon request.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2014, three members of the Board of Directors have elected Social Security. The contribution rate is 6.2 percent of wages paid.

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

On behalf of the School, SAM participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage and traditional indemnity plans.

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

NOTE 7 - POSTEMPLOYMENT BENEFITS (continued)

A. School Employee Retirement System

A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicaid Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2014, .14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

Active employee members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

On behalf of the School, SAM's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013, and 2012 were \$271, \$343, and \$1,325, respectively; 100 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013 and 2012, were \$1,016, \$1,588, and \$1,807, respectively; 100 percent has been contributed for the fiscal year 2014 and 100 percent for fiscal years 2013 and 2012.

B. State Teachers Retirement System

On behalf of the School, SAM contributes to the cost sharing multiple employer defined benefit Health Plan (the Plan) administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the Comprehensive Annual Financial Report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

NOTE 7 - POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System

Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$19,224, \$12,040, and \$16,587, respectively; 81.6 percent has been contributed for fiscal year 2014 and 100 percent for the fiscal years 2013 and 2012.

NOTE 8 – OTHER BENEFITS

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

SAM also allows employees to participate in 403(b) deferred annuities through four vendors.

NOTE 9 – TRANSACTIONS WITH RELATED PARTIES

As of June 30, 2014 and 2013, the School had a management fee payable to SAM of \$363,650 and \$240,425, respectively. These payables consist of state foundation, Medicaid, state and intergovernmental (grants) receivables to be transferred to SAM to cover expenses incurred by SAM on the School's behalf. During fiscal years 2014 and 2013, the School paid management fees to SAM totaling \$3,191,249 and \$2,709,699, respectively.

NOTE 10 – 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. SAM has contracted with a commercial insurance company for property and general liability insurance on behalf of the School. Property coverage carries a \$5,000 deductible, with the School's contents insured for \$50,000. General liability coverage provides \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a \$2,500 deductible.

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

NOTE 11 - CONTINGENCIES

Grants – The School received financial assistance from federal and state agencies in the form of grants. The expenditure 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 School at June 30, 2014.

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**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

NOTE 12 – TAX EXEMPT STATUS

Effective January 26, 2007, the School was granted its status as a tax exempt, non-profit organization under Internal Revenue Code Section 501(c)(3).

NOTE 13 – SUBSEQUENT EVENTS

ODE Review – After the end of the year, the Ohio Department of Education (ODE) conducts reviews of enrollment data submitted by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review for fiscal year 2014 resulted in an adjustment to the school's state foundation revenue of \$45,768, representing an underpayment to the school during fiscal year 2014. This amount is reflected as state foundation receivable and is included as management fee payable on the financial statements.

NOTE 14 - MANAGEMENT COMPANY EXPENSES

As per the agreement with SAM (See Note 5), 100 percent of the School's revenue is paid to SAM as a management fee. The related 'purchased services' expense totaled \$3,314,474 and \$2,775,536 for the years ended June 30, 2014 and 2013, respectively.

Summit Academy Management incurred the following actual direct and indirect expenses on behalf of the School during fiscal years 2014 and 2013:

	2014	2013
Salaries and Wages	\$ 1,565,559	\$ 1,609,906
Retirement and Insurance Benefits	465,745	404,985
Professional and Technical Services	302,071	228,553
Property Services	315,442	322,772
Food and Related Supplies	85,799	76,749
Utilities Services	155,689	207,774
General Supplies	66,455	52,094
Capital Outlay	109,703	60,041
Other Direct Costs	7,464	21,214
Total Direct Costs	3,073,927	2,984,088
Total Indirect Costs (Overhead)	312,028	311,390
Total Expenses	\$ 3,385,955	\$ 3,295,478

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

NOTE 15 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

For the fiscal year ended June 30, 2014, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

**SUMMIT ACADEMY TOLEDO LEARNING CENTER
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**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

NOTE 15 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS (continued)

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School's fiscal year 2014 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the School.

GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the School.

December 19, 2014

To the Board of Directors
Summit Academy Toledo Learning Center
Lucas County, Ohio
5115 Glendale Avenue, Suite N
Toledo, Ohio 43612

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

We have audited, in accordance with the 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, the financial statements of the Summit Academy Toledo Learning Center, Lucas County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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 grant agreements, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio



Dave Yost • Auditor of State

SUMMIT ACADEMY TOLEDO LEARNING CENTER

LUCAS 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 3, 2015**