



**SUMMIT ACADEMY COMMUNITY SCHOOL  
FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2003**



**Auditor of State  
Betty Montgomery**



**SUMMIT ACADEMY COMMUNITY SCHOOL FOR CREATIVE ARTS, INC.  
SUMMIT COUNTY**

**TABLE OF CONTENTS**

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

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Summit Academy Community School for the Creative Arts, 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 the Creative Arts, Inc., Summit County, Ohio, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and Statement 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 the Creative Arts, Inc., Summit County, Ohio, as of June 30, 2003, 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 January 21, 2004 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

January 21, 2004

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**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2003**

**ASSETS**

**Current assets:**

Cash	\$ 435
Intergovernmental receivable	53,509
<b>Total assets</b>	<b><u>\$ 53,944</u></b>

**LIABILITIES AND EQUITY**

**Current liabilities:**

Management fee payable	<u>\$ 53,509</u>
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**Equity**

Retained earnings	435
<b>Total liabilities and equity</b>	<b><u>\$ 53,944</u></b>

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

**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<b><u>Operating revenues</u></b>	
Materials and fees	\$ 4,000
State foundation	841,611
Other operating revenues	390
Total operating revenue	<u>846,001</u>
<b><u>Operating expenses</u></b>	
Purchased services	<u>1,041,051</u>
<b>Operating loss</b>	<b><u>(195,050)</u></b>
<b><u>Non-operating revenues</u></b>	
State and Federal grants	<u>220,264</u>
<b>Net Income</b>	<b>25,214</b>
Accumulated deficit at beginning of year	<u>(24,779)</u>
Retained earnings at end of year	<b><u>\$ 435</u></b>

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



**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**Decrease in cash**

**Cash flows from operating activities:**

Cash received from other operating sources	\$ 4,390
Cash from the State of Ohio	816,338
Cash payments to management company	<u>(1,012,674)</u>
Net cash used for operating activities	<u>(191,946)</u>

**Cash flows from noncapital financing activities:**

State and Federal grants	<u>191,887</u>
Net cash provided by noncapital financing activities	<u>191,887</u>

Net decrease in cash (59)

Cash at beginning of year 494

Cash at end of year \$ 435

**Reconciliation of operating loss to net cash used for operating activities:**

Operating loss \$ (195,050)

**Adjustments to reconcile operating loss to net cash used for operating activities:**

Change in assets and liabilities:	
Increase (decrease) in liabilities:	
Management fee payable	28,377
Deferred revenue	<u>(25,273)</u>
Total adjustments	<u>3,104</u>

Net cash used for operating activities \$ (191,946)

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

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**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

Notes to the Financial Statements  
June 30, 2003

**NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Summit Academy for the Creative Arts, Inc., located in Summit County (the School), is a state nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The School provides educational, literary, scientific, and related teaching services for "at-risk" children with the symptoms of Attention Deficit 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 6 to the financial statements, the School entered into a contract with Summit Academy Management, Inc. (SAM) during the fiscal year, 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 – Canton, Inc., Summit Academy Community School for Alternative Learners, Inc., Summit Academy Community School for Alternative Learners – Xenia, Inc., Summit Academy Community School for Alternative Learners – Lorain, Inc., Summit Academy Community School for Alternative Learners – Middletown, Inc., Summit Academy Community School for Alternative Learners – Parma, Inc., and Summit Academy Community School for Alternative Learners – Youngstown, 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 contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year ended June 30, 2001. The School operates under a self-appointing five-member 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 four non-certified and nine certified full-time teaching personnel who provide services to sixty students.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.**  
**SUMMIT COUNTY**

Notes to the Financial Statements  
June 30, 2003

**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. Equity (i.e., net total assets) is reported as retained earnings. 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, requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

**D. Cash**

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

**E. Fixed Assets and Depreciation**

The School does not possess any fixed assets. All fixed assets used by the School belong to SAM as further described in Note 6.

**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.

**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

Notes to the Financial Statements  
June 30, 2003

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$400,000 to be received over three years in order to offset start-up costs of the School. The School received \$150,000 during fiscal year 2003, for a total of \$400,000 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 include amounts payable to SAM for unremitted revenues in accordance with the School's management contract which is further described in Note 6.

**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 year-end, the carrying amount of the School's deposits was \$435, and the bank balance was \$435. All of the bank balance was covered by federal depository insurance.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2003, consisted of intergovernmental (e.g. federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of the State programs, and the current year guarantee of federal funds.

**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

Notes to the Financial Statements  
June 30, 2003

**NOTE 5 - PURCHASED SERVICES**

Per the agreement with SAM (see Note 6), 100% of the School's revenue is paid to SAM as a management fee. This amounted to \$1,041,051 and the following is a breakdown of the School's services purchased from SAM:

Salaries and Benefits	\$ 773,668
Professional Services	204,279
Materials and Supplies	63,035
Other	<u>69</u>
Total	<u><u>\$ 1,041,051</u></u>

**NOTE 6 – AGREEMENT WITH SUMMIT ACADEMY MANAGEMENT, INC.**

Upon incorporation, 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, developing and maintaining state-mandated testing and requirements, and completing all required administrative reports. SAM also purchases and provides all materials for School operations and maintains the School's accounting records.

A. SAM's Financial Responsibilities

Per the agreement with SAM, the School pays to SAM, as a management fee, 100% of revenues received. 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

All teaching and administrative personnel are employees of SAM. SAM shall have the responsibility to select, assign, evaluate, and discharge personnel assigned to the school.

**NOTE 7 – 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.

**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.**  
**SUMMIT COUNTY**

Notes to the Financial Statements  
June 30, 2003

**NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)**

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 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2002, 5.46% 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 years ended June 30, 2003 and 2002 were \$18,972 and \$12,480, respectively.

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 member and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand along 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.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor.

The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.**  
**SUMMIT COUNTY**

Notes to the Financial Statements  
June 30, 2003

**NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)**

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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3% of their annual covered salaries. SAM was required to contribute 14%; 13% 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 years ended June 30, 2003 and 2002 were \$43,892 and \$20,328, respectively.

**NOTE 8 – 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 School 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.

All State Teachers Retirement System recipients and sponsored dependents are eligible for health care benefits. The STRS 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, 2003, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For SAM, this amount equaled \$3,376 during the 2003 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002 (the latest information available). For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.



**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.**  
**SUMMIT COUNTY**

Notes to the Financial Statements  
June 30, 2003

**NOTE 8 – POST EMPLOYMENT BENEFITS (Continued)**

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.

For fiscal year 2003, employer contributions to fund health care benefits were 5.83% of the covered payroll. For fiscal year 2002, 8.54% 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 2003, the minimum pay was established at \$14,500. 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, 2003 were \$204,930,737 and the target level was \$307.4 million.

At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits. For SAM, the amount to fund health care benefits, including surcharge equaled \$14,953 during the 2003 fiscal year.

**NOTE 9 – TRANSACTIONS WITH RELATED PARTIES**

A. Accounts Payable

As of June 30, 2003, the School had a management fee payable to SAM for \$53,509. This payable consists of the intergovernmental receivable to be transferred to SAM to cover expenses incurred by SAM.

B. 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 2003, SAM contracted with a commercial insurance company for property and general liability insurance on behalf of the School. Property coverage carries a \$2,500 deductible and has a \$2,570,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a \$2,500 deductible.

The School currently has liability insurance. However, the School changed insurance companies during the audit period and had no liability coverage under any policy for a period of almost two months. For the same reason, the School's property insurance policy lapsed for almost three weeks. Management is not aware of any material pending claims related to this period.

Settled claims have not exceeded insurance coverage in any of the past 2 years and there was no significant reduction in coverage amounts from the prior year policy.

**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

Notes to the Financial Statements  
June 30, 2003

**NOTE 9 – TRANSACTIONS WITH RELATED PARTIES (Continued)**

C. Benefits

SAM has contracted with a private carrier to provide employees within the School medical/surgical benefits. SAM pays a portion of the monthly premium for full-time employees and for part-time employees depending on the employee's status. The employees are responsible for the remaining amounts. For fiscal year 2003, 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 their employees working within the School.

**NOTE 10 - CONTINGENCIES**

**GRANTS** – The School received financial assistance from federal and state agencies in the form of grants, which was paid 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, 2003.

**LITIGATION** – A lawsuit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the state constitution and state laws. On April 21, 2003, the Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The affect of this suit, if any, on the School is not presently determinable.

**NOTE 11 - 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 12 – TAX EXEMPT STATUS**

The School has filed for status as an exempt organization under Internal Revenue Code Section 501(c)(3). As of June 30, 2003 the Internal Revenue Service has not yet granted this exemption. Should the School fail to obtain federal tax-exempt status, it will be subject to federal income tax, the effect of which has not been assessed.

**SUMMIT ACADEMY FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

Notes to the Financial Statements  
June 30, 2003

**NOTE 13 – 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 results of this review indicated no difference between the amount due and the amount the School received.

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**Auditor of State  
Betty Montgomery**

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

Summit Academy Community School for the Creative Arts, 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 the Creative Arts, Inc., Summit County, Ohio, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated January 21, 2004. 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, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated January 21, 2004.

**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 over financial reporting 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 January 21, 2004.

111 Second St., NW / Fourth Floor / Canton, OH 44702  
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Summit Academy Community School for the Creative Arts, Inc.  
Summit County  
Independent Accountants' Report 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, 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

January 21, 2004

**SUMMIT ACADEMY COMMUNITY SCHOOL FOR THE CREATIVE ARTS, INC.  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2003**

<b>FINDING NUMBER:</b>	<b>2003-001</b>
------------------------	-----------------

**Ohio Rev. Code Section 3314.03(A)(11)(b)** states that the governing authority of each community school is required to purchase liability insurance, or otherwise provide for the potential liability of the school.

The School currently has liability insurance. However, the School changed insurance companies during the audit period and had no liability coverage under any policy for a period of almost two months. For the same reason, the School's property insurance policy lapsed for almost three weeks.

Failure to hold liability and property insurance exposes the School and its directors, to various risks of loss related to theft, damage to and destruction of assets; injuries to employees; natural disasters, etc.

The School should maintain adequate and comprehensive insurance coverage for potential risks at all times. The School should consult with its legal counsel and its insurance provider and inquire if a contingent liability insurance policy could be purchased to cover any potential liabilities that could have occurred during the time periods not covered during the year.

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**Auditor of State  
Betty Montgomery**

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

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**SUMMIT ACADEMY COMMUNITY SCHOOL FOR THE CREATIVE ARTS, 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 4, 2004**