



**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Summit Academy Secondary School – Canton  
Stark County  
1111 West Market Street  
Akron, Ohio 44313

To the Board of Directors:

We have audited the accompanying financial statements of the Summit Academy Secondary School – Canton, Stark County, Ohio, (the School) as of and for the year ended June 30, 2005, as listed in the table of contents. 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 did not audit the amount of actual direct and indirect expenses incurred by Summit Academy Management on behalf of the School which totaled \$546,409, as indicated in Note 13. Other auditors audited these amounts and have furnished their report thereon to us, and our opinion, insofar as it relates to the amounts included for Note 13, is based on the report of the other auditors.

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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit and the report of other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Summit Academy Secondary School – Canton, Stark County, Ohio, as of June 30, 2005 and the respective changes in financial position and 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 March 21, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

March 21, 2006

**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

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

As management of Summit Academy Secondary School – Canton (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, 2005. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

**Financial Highlights**

The School has net assets of \$488, which is the difference between its assets and liabilities. Net assets declined by \$4 during the year as a result of a net loss for 2005 of the same amount.

The School also has a cash balance of \$488, which is also \$4 less than the prior year.

The School has an intergovernmental receivable of \$38,268 for federal and state grants earned in 2005, but not received until after June 30, 2005. At the same time, the financial statements show a management fee payable to the management company of the same amount. This reflects the fact that, by agreement, 100% of all receipts of the School must be passed through to the management company in order to manage the affairs of the School.

**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 Assets, and the Statement of Cash Flows.

The *Balance Sheet* presents information on all the School's assets and liabilities, with the difference being the net assets. Over time, increases and decreases in net assets 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 assets balance is not expected to change significantly in the near future.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the School's net assets 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.

**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

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

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 Enterprise method of accounting that follows the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private sector companies. Accrual accounting recognizes revenues and expenses when earned regardless of when cash is received or paid.

**Financial Analysis**

The following tables indicate our financial analysis of the School:

**Table 1 - Balance Sheets**

	<u>6/30/05</u>	<u>6/30/04</u>	<u>Amount of Change</u>	<u>Percent of Change</u>
<b>Assets</b>				
Cash	\$ 488	\$ 492	\$ (4)	0.81%
Intergovernmental receivables	38,268	-	38,268	100.00%
Total assets	<u>\$ 38,756</u>	<u>\$ 492</u>	<u>\$ 38,264</u>	
<b>Liabilities</b>				
Management fee payable	\$ 38,268	\$ -	\$ 38,268	100.00%
<b>Net Assets</b>				
Unrestricted	488	492	(4)	0.81%
Liabilities and net assets	<u>\$ 38,756</u>	<u>\$ 492</u>	<u>\$ 38,264</u>	

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

	<u>Year Ended 6/30/2005</u>	<u>Year Ended 6/30/2004</u>	<u>Amount of Change</u>	<u>Percent of Change</u>
Operating revenues	\$ 337,735	\$ -	\$ 337,735	100.00%
Operating expenses	640,419	96,491	543,928	563.71%
Operating loss	(302,684)	(96,491)	(206,193)	213.69%
Non-operating revenues	302,680	96,983	205,697	212.10%
Net income (loss)	<u>\$ (4)</u>	<u>\$ 492</u>	<u>\$ (496)</u>	100.81%



**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

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

With respect to the Balance Sheet, intergovernmental receivables increased by \$38,268 or 100% because of state and federal grants that were owed to the School at June 30, 2005. The management fee payable to the management company increased by the same amount and percentage.

With respect to the Statement of Revenues, Expenses, and Changes in Net Assets, operating revenue, and in particular foundation revenue, increased by \$337,735 or 100%, as 2005 was the first year of operation for the School.

Non-operating revenues increased by \$205,697 as a result of an increase in state and federal grant funding.

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**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2005**

**ASSETS**

**Current assets**

Cash  
Intergovernmental receivable

**Total assets**

<b>2005</b>
\$ 488
38,268
<u>\$ 38,756</u>

**LIABILITIES AND NET ASSETS**

**Current liabilities**

Management fee payable

**Net Assets**

Unrestricted

**Total liabilities and net assets**

\$ 38,268
488
<u>\$ 38,756</u>

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

**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>2005</u>
<b>Operating revenues</b>	
State foundation	\$ 337,735
<b>Operating expenses</b>	
Purchased services	640,415
Service charges	<u>4</u>
Total operating expenses	<u>640,419</u>
<b>Operating loss</b>	(302,684)
<b>Non-operating revenues</b>	
State and Federal grants	<u>302,680</u>
<b>Net Loss</b>	(4)
Net assets at beginning of year	<u>492</u>
<b>Net assets at end of year</b>	<u><u>\$ 488</u></u>

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

**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**Increase (decrease) in cash**

	<b>2005</b>
<b>Cash flows from operating activities:</b>	
Cash from the State of Ohio	\$ 337,735
Cash payments to management company	(602,147)
Cash payments for service charges	(4)
Net cash used for operating activities	(264,416)
<b>Cash flows from noncapital financing activities:</b>	
State and Federal grants	264,412
Net decrease in cash	(4)
Cash at beginning of year	492
<b>Cash at end of year</b>	<b>\$ 488</b>

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

Operating loss	\$ (302,684)
<b><u>Adjustments to reconcile operating loss to net cash used for operating activities:</u></b>	
Change in liabilities:	
Increase in liabilities:	
Management fee payable	38,268
Net cash used for operating activities	<b>\$ (264,416)</b>

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

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**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

Summit Academy Secondary School - Canton, located in Stark 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. Three of SAM's Board of Directors also serve on the Board of the School. SAM is a legally separate 501(c)(3) corporation, the results of which are not reflected in these financial statements. SAM also manages the day-to-day activities of the following 26 schools:

- 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 Community School – Cincinnati
- Summit Academy Middle School – Cincinnati
- Summit Academy Community School – Columbus
- Summit Academy Middle School – Columbus
- Summit Academy Community School – Dayton
- Summit Academy Secondary School - Dayton
- Summit Academy Community School for Alternative Learners – Lorain
- Summit Academy Middle School – Lorain
- Summit Academy Secondary School – Lorain
- Summit Academy Community School - Painesville
- Summit Academy Community School for Alternative Learners – Parma
- Summit Academy Secondary School – Parma
- Summit Academy Community School for Alternative Learners – Middletown
- Summit Academy Secondary School – Middletown
- Summit Academy Community School – Toledo
- Summit Academy Secondary School – Toledo
- Summit Academy Community School – Warren
- Summit Academy Middle School - Warren
- Summit Academy Community School for Alternative Learners – Xenia
- Summit Academy Community School for Alternative Learners – Youngstown
- Summit Academy Middle School – Youngstown
- Summit Academy Secondary School – Youngstown

**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

The School has been approved for operation under an annual contract with the Lucas County Educational Service Center (Sponsor). The contract renews for additional one-year terms from July 1 to June 30, unless either party has given advance written notice of at least 90 days. This sponsorship contract was effective November 24, 2003.

The School operates under a self-appointing 5 member Board of Trustees (the Board). The School's Code of Regulations specifies 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. 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 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.

**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 the difference between assets and liabilities. 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 Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor, Lucas County Educational Service Center, 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, except for Section 5705.391 as it relates to five-year forecasts and spending plans.



**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

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

**D. Cash**

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

**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, 2005, the carrying amount of the School's deposits was \$488, and the bank balance was \$488. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", all of the bank balance was covered by Federal Depository Insurance.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2005 consisted of intergovernmental (e.g. state foundation 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 SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

**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% 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 13 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 of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

Plan members are required to contribute 10% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established, and may be amended up to statutory maximum amounts, by the SERS Retirement Board. The School's required contributions for pension obligations to SERS, including an amount for indirect SAM personnel, for the year ended June 30, 2005 were \$14,044. Approximately 53% of the required contributions have been paid with the remaining amount shown as a liability by SAM.

**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 system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614)227-4090.

**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS (Continued)**

B. State Teachers Retirement System (continued)

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, with investment decisions being made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DB and DC Plans. 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 5 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. Benefits are established by Chapter 3307 of the Ohio revised Code.

A DB or Combined Plan member with 5 or more years credited service that 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, 2005, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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, including an amount for SAM indirect personnel, for the year ended June 30, 2005 were \$25,242. The full amount has been contributed for 2005.

**NOTE 7 – POST EMPLOYMENT BENEFITS**

On behalf of the School, SAM provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio, and to retired classified employees and their dependents through 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.

STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the years ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$1,942 for 2005.

**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 7 – POST EMPLOYMENT BENEFITS (continued)**

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients statewide.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service up, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of the covered payroll, a decrease of 1.48% from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2% of each employer's SERS salaries. For the 2005 fiscal year, the School paid \$5,168 to fund health care benefits, including the surcharge.

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, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 8 – TRANSACTIONS WITH RELATED PARTIES**

**A. Management Fee Payable**

As of June 30, 2005, the School had a management fee payable to SAM of \$38,268. This payable consists of grants receivable to be transferred to SAM to cover expenses incurred by SAM on the School's behalf.

**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 2004, SAM 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 building insured for \$1 million and its contents for \$60,000. General liability coverage provides \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a \$2,500 deductible.

Settled claims did not exceeded insurance coverage during the past year.

**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 8 – 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 2005, SAM's and the employees' monthly premiums varied depending on family size and the level of coverage the employee selected.

SAM also contributed to the School Employees Retirement System of Ohio and the State Teachers Retirement System of Ohio for the employees working within the School.

**NOTE 9 - CONTINGENCIES**

**GRANTS** – The School receives financial assistance from federal and state agencies in the form of grants, which are then remitted to SAM. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

**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. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

**NOTE 10 - 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 11 – 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, 2005, 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 determined.

**SUMMIT ACADEMY SECONDARY SCHOOL - CANTON  
STARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 12 – SUBSEQUENT EVENT**

**ODE REVIEW** – After the end of the year, the Ohio Department of Education 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 2005 resulted in no significant adjustment to the School's state foundation revenue.

**NOTE 13 – MANAGEMENT COMPANY EXPENSES**

As per the agreement with SAM (See Note 5), 100% of the School's revenue is paid to SAM as a management fee. The related 'purchased services' expense totaled \$640,415 for the year ended June 30, 2005.

Summit Academy Management incurred the following actual direct and indirect expenses on behalf of the School:

<b>Direct Expenses:</b>	
Salaries & Wages	\$ 146,510
Employee's Benefits	34,020
Professional & Technical Services	51,145
Property Services	15,791
Travel	2,173
Communications	5,995
Utilities	5,441
Transportation	-
Books, Periodicals & Films	27,792
Food & Related Supplies	86
Other Supplies	5,688
Computers & Technology	12,454
Depreciation	5,334
Interest	10,215
Other Direct Costs	2,421
<b>Indirect Expenses:</b>	
Overhead	221,344
<b>Total Expenses</b>	<b>\$ 546,409</b>

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 14 – START-UP**

Although the School was incorporated in November 2003, it did not begin operations until July 1, 2004. During the period prior to July 1, 2004, the School received \$96,983 of Federal Charter School start-up grant funds through the Ohio Department of Education. These funds were used to pay the management company for incurring start-up costs on behalf of the School, except for \$492 which were retained as Net Assets at July 1, 2004.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Summit Academy Secondary School – Canton  
Stark County  
1111 West Market Street  
Akron, Ohio 44313

To the Board of Directors:

We have audited the financial statements of the Summit Academy Secondary School – Canton, Stark County, Ohio, (the School) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 21, 2006 which indicated that amounts presented in Note 13 were audited by other auditors. 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 the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

**Compliance and Other Matters**

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. However, in a separate letter to the School's management dated March 21, 2006, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Chase Tower / 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 Secondary School – Canton  
Stark County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of management and the Board of Directors. It is not intended for 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

March 21, 2006





**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 SECONDARY SCHOOL - CANTON**

**STARK 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  
MAY 11, 2006**