



**AKRON COMMUNITY SCHOOL
SUMMIT COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State
Betty Montgomery**

**AKRON COMMUNITY SCHOOL
SUMMIT COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Akron Community School
Summit County
1585 Frederick Boulevard
Akron, Ohio 44320

To the Board of Trustees:

We have audited the accompanying basic financial statements of Akron Community School, Summit County, Ohio, (the School) as of and for the year ended June 30, 2004, 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 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 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 Akron Community School, Summit County, Ohio as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2005, 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.

Management's Discussion and Analysis are not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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

June 29, 2005

Akron Community School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Akron Community School (ACS) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004 (FY 04). The intent of this discussion and analysis is to look at ACS' financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of ACS' financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

Total net assets decreased \$88,665 in 2004.

Total revenue was \$209,851 in 2004.

Total program expenses were \$298,516 in 2004.

Total liabilities decreased \$167,591 with total assets decreasing \$256,256 in 2004.

ACS has no long term debt at June 30, 2004

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand ACS as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the whole School, presenting both an aggregate view of ACS' finances and a longer-term view of those finances. ACS' financial statements are presented based upon the enterprise method of reporting under GASB. As such, ACS summarizes its financial data as expected of a traditional business or corporation.

Reporting ACS as a Whole

Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

The view of ACS as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report ACS' net assets and changes in those assets. This change in net assets is important because it tells the reader that, for ACS as a whole, the financial position of ACS has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include ACS' student enrollment, per-pupil funding as determined by the State of Ohio that restricts revenue growth, change in technology, required educational programs and other factors.

Reporting ACS' Financial Statements

The analysis of ACS' financial statements begins on page 5. These financial statements use the accrual basis of accounting.

Akron Community School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

ACS' major revenue source is the State Basic Aid Foundation. Additional sources of revenue come from federal entitlement programs and miscellaneous state grants.

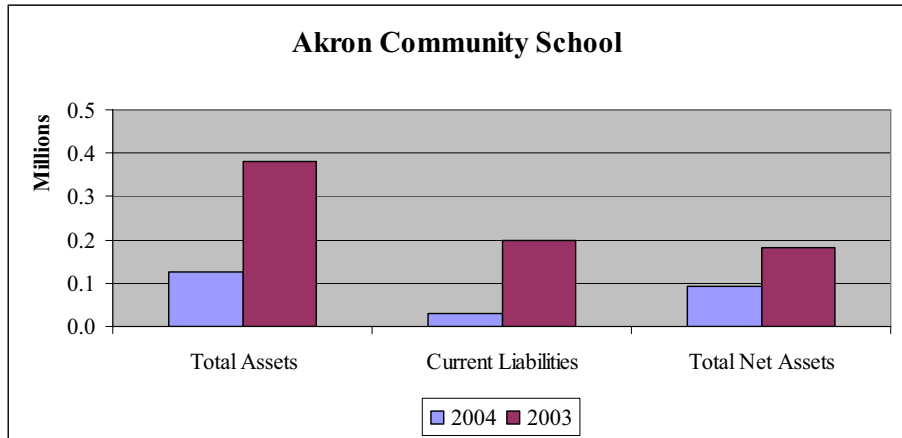
ACS' activities focus on how money flows into and out of the school and the balances left at year-end available for spending in future periods. ACS reports its financial data using an accounting method called *full accrual*, which measures all *financial assets*. The financial statements provide a detailed snap-shot view of ACS' general government operations and the basic services it provides. This information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

	2004	2003
Assets:		
Cash and Other Current Assets	\$37,875	\$255,298
Other Non-Current Assets	-	7,000
Capital Assets, Net	87,375	119,208
Total Assets	125,250	381,506
Liabilities:		
Current Liabilities	31,345	198,936
Net Assets:		
Invested in Capital Assets, Net of Related Debt	87,375	117,958
Unrestricted	6,530	64,612
Total Net Assets	\$93,905	\$182,570

ACS as a Whole

Recall that the Statement of Net Assets provides the perspective of ACS as a whole. Table 1 provides a summary of ACS' net assets for 2004 compared to the prior year. The graph shows the comparative changes in net assets for fiscal years 2004 and 2003.

Total net assets decreased \$88,665. The primary reason for this decrease is that current year expenses exceeded current year revenues. While ACS did not increase its student enrollment from fiscal year 2003 to 2004, the removal of this additional revenue source without a decrease in costs resulted in this significant decrease.



Cash and other current assets decreased from \$255,298 in 2003 to \$37,875 in 2004. The major reason for this decrease is the payment of previous year liabilities and that current year expenses were greater than current year revenue. After the payment of the intergovernmental receivable was received, the cash was used to pay current year activities.

The other reason for the decrease in Total Assets is that Capital Assets, Net decreased by \$31,833 from 2003 to 2004. This is due to the depreciation of Capital Lease Improvements and Equipment. The capitalization threshold is \$500 per each item.

Liabilities decreased by \$167,591. Again, this decrease for 2004 was due to the payment of previous year liabilities and that current year expenses were greater than current year revenue. The net impact was a decrease in net assets of \$88,665.

Akron Community School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

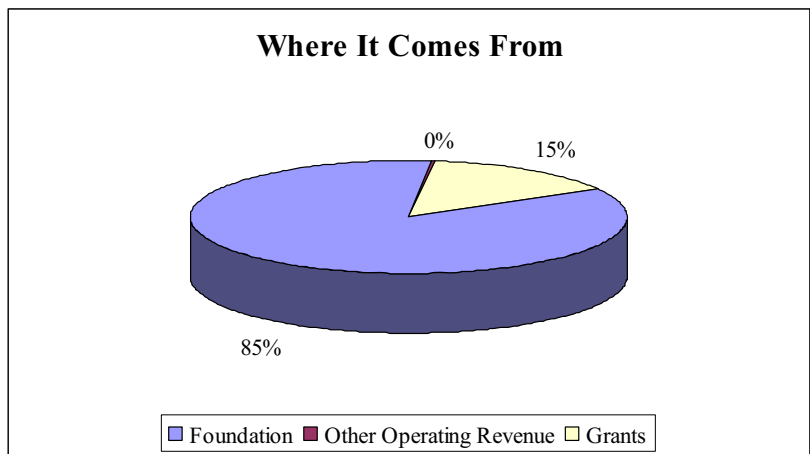
Community School Activities

The overall revenue generated by a community school is solely dependent upon student enrollment plus the per-pupil allotment given by the State foundation and from the federal entitlement programs. Thus community school dependence upon legislative and congressional decisions on per-pupil funding hampers revenue growth. Foundation payments made up 85 percent of revenues for ACS in fiscal year 2004. Grant revenues decreased substantially primarily due to loss of the Federal Charter School Grant awards and carryover of federal entitlement programs. Table 2 shows the total cost of services for the past 2 years. That is, it identifies the cost of these services supported by unrestricted State entitlements and restricted state and federal grants. The decline in funding corresponds to the removal of the federal sub-grant revenue. The loss of this revenue represented a 67% decrease in overall revenues from fiscal year 2003.

	2004	2003
<u>Operating Revenues</u>		
Foundation	\$178,416	\$160,771
Other Operating Revenue	91	1,095
<u>Non-Operating Revenues</u>		
Grants	31,047	419,302
Interest	297	0
Total Revenues	209,851	581,168
<u>Operating Expenses</u>		
Salaries	0	129,075
Fringe Benefits	0	39,593
Purchased Services	253,952	168,052
Materials and Supplies	3,128	75,923
Depreciation	31,833	31,833
Other Operating Expenses	9,603	6,158
Total Expenses	298,516	450,634
Total Increase/(Decrease) in Net Assets	(\$88,665)	\$130,534

ACS Budgeting Highlights

Community schools are exempt from appropriations law but are required to maintain the finances under full accrual accounting as required by Generally Accepted Accounting Principles (GAAP). This requirement is prescribed by the Ohio Department of Education through each sponsor. Accordingly, ACS' budget is prepared and approved according to a ridged process required by the ACS Board. The Board reviews the budget monthly to stay compliant with its due diligence requirements. Budgets are revised at least once each year to reflect actual data.



ACS' board reviews the financial statements of the school monthly.

Akron Community School
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, ACS had \$87,375 net of depreciation invested in leasehold improvements, furniture and equipment.

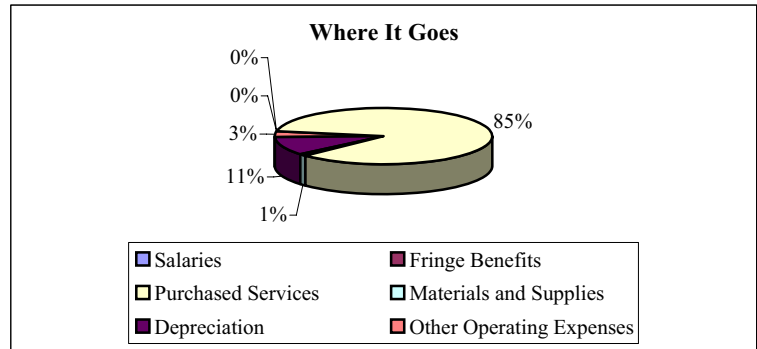
Debt

At June 30, 2004 ACS had \$31,345 in total liabilities. Most of this is accounts payable, and an intergovernmental payable. ACS has a no other long term debt at June 30, 2004.

Current Financial Related Activities

At this time, ACS has suspended its operations due to not having the minimum 25 students required to open. It is possible that ACS may open its doors next fiscal year.

Anticipated funding and budgets for the year was based on DPIA revenue guaranteed at 102% of FY 03 funding. During the spring of fiscal year 2004, the State legislature passed a budget correction bill which required community schools to be funded according to their actual DPIA enrollment. Furthermore community schools were limited to only one class (out of five classes) of poverty count indicators. In July 2004, ACS received notice from ODE that a negative adjustment of \$4,935 had been determined for fiscal year 2004.



If ACS is to open in the future, ACS must look for ways to increase its efficiency and effectiveness. As described in the previous pages, ACS has limited means to increase its revenue relative to traditional school districts. Community Schools cannot seek additional funds from through levies and is limited to the per pupil revenue given to it. As such, ACS must constantly monitor budgets and develop revenue models to accurately anticipate changes in funding and timing of cash.

Contacting ACS' Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of ACS' finances and to reflect ACS' accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jane G. Bechtel, Director 1585 Frederick Blvd Akron, OH 44320

Akron Community School
Statement of Net Assets
June 30, 2004

Assets

Current Assets:

Cash and Cash Equivalents	\$17,241
Receivables:	
Accounts Receivable	12,872
Intergovernmental Receivable	2,827
Management Fee Receivable	<u>4,935</u>
Total Current Assets	<u>37,875</u>

Noncurrent Assets:

Capital Assets:

Depreciable Capital Assets, net	<u>87,375</u>
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<i>Total Noncurrent Assets</i>	<u>87,375</u>
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Total Assets	<u>125,250</u>
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Liabilities

Current Liabilities:

Accounts Payable	26,410
Intergovernmental Payable	<u>4,935</u>

Total Current Liabilities	<u>31,345</u>
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Total Liabilities	<u>31,345</u>
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Net Assets

Invested In Capital Assets	87,375
Unrestricted	<u>6,530</u>

Total Net Assets	<u><u>\$93,905</u></u>
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See accompanying notes to the basic financial statements

Akron Community School
Statement of Revenues,
Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

<u>Operating Revenues</u>	
Foundation	\$178,416
Miscellaneous	91
	<hr/>
Total Operating Revenues	178,507
	<hr/>
<u>Operating Expenses</u>	
Purchased Services	253,952
Materials and Supplies	3,128
Depreciation	31,833
Other	9,603
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Total Operating Expenses	298,516
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Operating Loss	(120,009)
	<hr/>
<u>Non-Operating Revenues</u>	
Interest Income	297
Operating Grants	31,047
	<hr/>
Total Non-Operating Revenues	31,344
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Change in Net Assets	(88,665)
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Net Assets Beginning of Year-Restated	182,570
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Net Assets End of Year	\$93,905
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See accompanying notes to the basic financial statements

Akron Community School
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Increase in Cash and Cash Equivalents	
<u>Cash Flows from Operating Activities</u>	
Cash Received from State	\$183,351
Other Cash Receipts	750
Cash Payments for Employee Benefits	(4,057)
Cash Payments for Goods and Services	(435,765)
Other Cash Payments	<u>(9,603)</u>
Net Cash Used in Operating Activities	<u>(265,324)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating Grants Received	278,220
Net Cash Provided by Noncapital Financing Activities	<u>278,220</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payment on Capital Lease	(1,250)
<u>Cash Flows from Investing Activities</u>	
Interest on Investments	<u>297</u>
Net Increase in Cash and Cash Equivalents	11,943
Cash and Cash Equivalents Beginning of Year	<u>5,298</u>
Cash and Cash Equivalents End of Year	<u><u>\$17,241</u></u>
<u>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</u>	
Operating Loss	(\$120,009)
Adjustments:	
Depreciation	31,833
(Increase) Decrease in Assets:	
Accounts Receivable	(12,872)
Management Fee Receivable	(4,935)
Security Deposit	7,000
Increase (Decrease) in Liabilities:	
Accounts Payable	(167,219)
Accrued Wages	(191)
Intergovernmental Payable	<u>1,069</u>
Net Cash Used in Operating Activities	<u><u>(\$265,324)</u></u>

See accompanying notes to the basic financial statements

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AKRON COMMUNITY SCHOOL
Summit County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

I. Description of the School and Reporting Entity

Akron Community School (ACS), originally Seven Hills Community School (SHCS), is a nonprofit corporation established on October 28, 1999 pursuant to Ohio Revised Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under §501(c)(3) of the Internal Revenue Code (issued on November 7, 2001). Management is not aware of any course of action or series of events that have occurred that might adversely affect ACS' tax-exempt status. ACS, which is part of Ohio's education program, is independent of any school district. ACS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of ACS.

ACS (as SHCS) was approved for operation under a contract between the Governing Authority of ACS (as SHCS) and the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 2000 and terminating on June 30, 2005. Effective July 7, 2004 this contract was assigned to the Lucas County Educational Service Center. The Governing Authority is responsible for carrying out the provisions of the community school contract. On August 21, 2003, the Board of Trustees for Akron Community School resigned their membership to the Board of Trustees for Akron Community School.

The Sponsor is responsible for evaluating the performance of the school and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration. On February 14, 2002 the Board of Trustees changed the name of Seven Hills Community School to Akron Community School and the School was subsequently moved to Akron with the approval of the Sponsor.

The Governing Authority controls ACS' one instructional facility is staffed by the Management Company who provide services to 25 students. ACS operated under a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualification of teachers.

II. Summary of Significant Accounting Policies

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

1. Change in Accounting Principle

For the year ended June 30, 2004, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis- for State and Local Governments". Except for the addition of Managements Discussion and Analysis, the implementation of GASB Statement No. 34 has not had a significant impact on the Schools financial statements.

AKRON COMMUNITY SCHOOL
Summit County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

2. 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.

3. 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 Statement of Net Assets. Operating statements present increases (*e.g.*, revenues) and decreases (*e.g.*, 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 used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

4. Cash

All monies received by ACS are deposited in demand deposit accounts.

5. 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 for in the school's contract with its sponsor. The contract between ACS and its Sponsor does not prescribe a budgeting process for ACS.

6. Intergovernmental Receivable

Monies due to ACS for the year ended June 30, 2004 are recorded as Intergovernmental Receivable.

7. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the dates received. ACS does not possess any infrastructure. Leasehold improvements are also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

AKRON COMMUNITY SCHOOL
Summit County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

II. Summary of Significant Accounting Policies (Continued)

7. Capital Assets and Depreciation (Continued)

Depreciation of leasehold improvements, computers, furniture and equipment is computed using the straight-line method over their estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. All items with a useful life of one year or greater and a value of \$500 or more are capitalized. Estimated useful lives are as follows:

Capital Asset Classification	Years
Computers and Office Equipment	3
Leasehold Improvements	5
Furniture	10

8. Intergovernmental Revenues

ACS currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid Program ("DPIA"). Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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 the expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

ACS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. During the 2003 fiscal year, \$250,000 was recorded as Due from Other Governments. During fiscal year 2004, this amount was received. Revenue received from this program was recognized as non-operating revenue on the prior year's financial statements.

Amounts received under the above named programs for the 2004 fiscal year totaled \$ 209,463.

9. Compensated Absences

Under the terms of the Management Company contract, ACS is not responsible for the payment of benefits. Thus there are no accruals for compensated absences.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

III. Deposits

At fiscal year end June 30, 2004, the carrying amount of ACS' deposits totaled \$17,241 and its bank balance was \$17,241. All of the bank balance was covered by the Federal Depository Insurance Corporation.

AKRON COMMUNITY SCHOOL
Summit County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

IV. Capital Assets

A summary of ACS' Capital assets at June 30, 2004 follows:

Leasehold Improvements	\$137,980
Computers and Office Equipment	12,561
Furniture, Equipment & Materials	500
Less Accumulated Depreciation	<u>(63,666)</u>
Net Capital Assets	<u>\$87,375</u>

V. Purchased Services

Purchased Services include the following:

Management Company Fees	\$ 238,989
Property Services	14,353
Communications	610
Total	<u>\$ 253,952</u>

VI. Operating Leases

ACS leased its facilities from LRC-Frederick Investors, LLC under a five-year lease agreement effective August 1, 2002. Payments made under the terms of the lease for rent total \$84,000 per year. Effective September 1, 2003 the management company assumed payment of the lease under its management agreement with ACS.

VII. Risk Management

1. Property and Liability Insurance

ACS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2004, ACS contracted with Chisholm Moon Insurance Company for its directors and officers insurance. Effective August 23, 2003, the management company assumes all other general liability, property and casualty liability. There was not significant reduction in coverage from the prior year and settlements have not exceeded insurance coverage in the past three years.

2. Workers' Compensation

ACS does not make premium payments to the Ohio Worker's Compensation System for employee injury coverage. Effective August 23, 2003, the management company assumes all liability for its employees working at ACS with the Ohio Worker's Compensation System.

AKRON COMMUNITY SCHOOL
Summit County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

VIII. Defined Benefit Pension Plans

ACS has contracted with Lighthouse Educational and Professional Development Corporation (Lighthouse Academy) to provide all teaching and administrative personnel (see Note XXII) Such personnel are employees of Lighthouse Academy; however, ACS is responsible for monitoring and ensuring that Lighthouse Academy makes pension contributions on its behalf. The retirement systems consider ACS as the "Employer of Record" and ACS is ultimately responsible for remitting retirement contributions to each of the systems noted below.

1. School Employees Retirement System

On behalf of ACS, Lighthouse Academy 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 financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and ACS is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of ACS' contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17 percent 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 a statutory maximum amount, by the SERS' Retirement Board. ACS' required contribution to SERS for the fiscal years ended June 30, 2004 and 2003 was \$0 and \$1,480, respectively. Effective August 23, 2003, the management company assumes all liability for its employees working at ACS with the School Employees Retirement System.

2. State Teachers Retirement System

On behalf of ACS, Lighthouse Academy contributes to the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (614)227-4090.

AKRON COMMUNITY SCHOOL
Summit County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

VIII. Defined Benefit Pension Plans (continued)

2. 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 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. The Combined Plan offers features of both the DC 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 the 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 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 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 become 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, 2004, plan members were required to contribute 10 percent of their annual covered salary and ACS is required to contribute 14 percent, 13 percent was the portion used to fund pension obligation. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions. ACS' required contribution to STRS for the fiscal years ended June 30, 2004 and 2003 was \$14,112 and \$14,425, respectively. Effective August 23, 2003, the management company assumes all liability for its employees working at ACS with the State Teachers Retirement System.

IX. Post-Employment Benefits

On behalf of ACS, Lighthouse Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified 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 on a pay-as-you-go basis.

AKRON COMMUNITY SCHOOL
Summit County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

IX. Post-Employment Benefits (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. 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 percent of covered payroll. As of June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund, from which payments for health care benefits are paid. For ACS, this amount equaled \$1,085 during fiscal 2004. STRS pays health care benefits from the Health Care Reserve 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 were \$268,379,000 and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five 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 percent of the premium. After the allocation for the basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For 2004 fiscal year, employer contributions used to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For ACS, the amount to fund health care benefits, including surcharge, equaled \$0 for fiscal 2004. The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level of the health care fund. The target level of the health care reserve is 150 percent of the annual health care expenses.

Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million dollars. At June 30, 2002, SERS had net assets available for health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

X. State School Funding Decision

On December 11, 2003, 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...". ACS is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

AKRON COMMUNITY SCHOOL
Summit County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

XI. Contingencies

1. Grants

ACS received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of ACS. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of ACS at June 30, 2004.

2. 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 affect of this suit, if any, on the School is not presently determinable.

3. Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment 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 conclusions of this review could result in state funding being adjusted. Based on ODE's review, \$4,935 is recorded as a liability based upon adjustments to the DPIA program during fiscal year 2004. The effect of any other reviews cannot be determined.

XII. Management Agreement

On August 21, 2003, the School contracted with Lighthouse Educational and Professional Development Corporation (Lighthouse Academy) 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. Lighthouse Academy will also initiate purchases and approve expenditures made by the School and maintain the School's accounting records. Three of the School Board members also serve on the Board of Trustees for Lighthouse Academy. \$244,653 was paid as a management fee to Lighthouse Academy of which \$26,410 was due at June 30, 2004.

AKRON COMMUNITY SCHOOL
Summit County
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

XII. Management Agreement (Continued)

A. Lighthouse's Financial Responsibilities

Effective August 21, 2003, ACS was to reimburse Lighthouse for all of its educational and management expenses. In turn, Lighthouse 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.

Since Lighthouse is responsible for providing all operating costs of the School, it allowed the School to pay less than 100% of its revenue as a management fee so that the school could pay the final principal of payment on its Capital lease.

B. Personnel

As of August 21, 2003, all teaching and administrative personnel are employees of Lighthouse Academy. Lighthouse Academy has the responsibility to select, assign, evaluate, and discharge personnel assigned to the School. Compensation is set according to Lighthouse's compensation policies for teachers, principals and non-instructional staff.

XIII. Related Parties

Three members of the ACS Board of Trustees are also members of the Lighthouse Academy governing board. These members are Jane Bechtel, Reese Miller, and Deborah Medges. ACS contracts with Lighthouse Academy for all educational and business management services. Also, the following Lighthouse Academy employees are members of the ACS Board of Trustees: Jane Bechtel, Patricia Garris, and Sandra Cole.

XIV. Prior Period Adjustment

There was an error posting depreciation expense to the capital assets in FY 2003. The amount of the error was \$7,760. Both capital assets and net assets have been corrected for this error as follows:

Retained Earnings at 6/30/03	\$190,330
Restatement	(7,760)
Net Assets at 6/30/03	<u>\$182,570</u>

XV. Subsequent Events

On or about October 1, 2004, the Board of Trustees for Akron Community School suspended operations. A final determination at a later date regarding the fiscal viability of the school will be made to determine if it will reopen.

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**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**

Akron Community School
Summit County
1585 Frederick Boulevard
Akron, Ohio 44320

To the Board of Directors:

We have audited the basic financial statements of the Akron Community School, Summit County, Ohio, (the School) as of and for the year ended June 30, 2004, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 29, 2005, wherein we noted the School implemented Governmental Accounting Standards Board Statement No. 34. 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. In a separate letter to the School's management dated June 29, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

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*.

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Akron Community School
Summit 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 Trustees. 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

June 29, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

AKRON COMMUNITY SCHOOL

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
AUGUST 9, 2005**