



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

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2004 AND 2003



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of the Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio, (the School) as of and for the years ended June 30, 2004 and 2003, which comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Summit Academy Community School for Alternative Learners, Inc., Summit County, Ohio as of June 30, 2004 and 2003 and its change in financial position and cash flows for the years 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 February 7, 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 grants for the year ended June 30, 2004. We previously 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 for the year ended June 30, 2003. These reports are 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.

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Management's Discussion and Analysis is 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of 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

February 7, 2005

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

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

As management of Summit Academy for Alternative Learners, Inc. (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, 2004. 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 \$599,506, which is the difference between its assets and liabilities. Net assets increased by \$77,567 during the year as a result of net income.

The School has a cash balance of \$9,915, which is \$2,779 greater than the prior year.

The School has an intergovernmental receivable of \$68,314 for federal and state grants earned in 2004, but not received until after June 30, 2004. 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

Effective July 1, 2003, the School implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"; Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus"; and Statement No. 38, "Certain Financial Statement Disclosures". These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units, although their impact on the School's financial statements was not significant. These statements also change certain note disclosures and require the inclusion of Management's Discussion and Analysis.

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.

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

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

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

Finally, it should be noted that the School utilizes the accrual basis of accounting. This basis of accounting did not change as a result of the implementation of GASB Statement No. 34. Accrual accounting is similar to the accounting used by most private sector companies in that it recognizes revenues and expenses when earned regardless of when cash is received or paid.

Financial Analysis

The following tables indicate our financial analysis of the School:

Table 1 - Balance Sheets

	<u>6/30/04</u>	<u>6/30/03</u>	Amount of Change	Percent of Change
Assets				
Current assets	\$ 78,247	\$ 109,660	\$ (31,413)	-28.65%
Capital assets	1,259,185	905,569	353,616	39.05%
Other noncurrent assets	<u>0</u>	<u>99,463</u>	<u>(99,463)</u>	-100.00%
Total assets	<u>\$ 1,337,432</u>	<u>\$ 1,114,692</u>	<u>\$ 222,740</u>	19.98%
Liabilities				
Current liabilities	\$ 610,013	\$ 346,358	\$ 263,655	76.12%
Noncurrent liabilities	127,913	246,395	(118,482)	-48.09%
Contributed Capital		45,763	(45,763)	-100.00%
Net Assets				
Invested in capital assets, net of related debt	647,958	522,264	125,694	24.07%
Unrestricted	<u>(48,452)</u>	<u>(46,088)</u>	<u>(2,364)</u>	5.13%
Liabilities, contributed capital and net assets	<u>\$ 1,337,432</u>	<u>\$ 1,114,692</u>	<u>\$ 222,740</u>	19.98%

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

	<u>YE 6/30/04</u>	<u>YE 6/30/03</u>	Amount of Change	Percent of Change
Operating revenues	\$ 804,045	\$ 481,799	\$ 322,246	66.88%
Operating expenses	<u>811,458</u>	<u>581,534</u>	<u>229,924</u>	39.54%
Operating income (loss)	(7,413)	(99,735)	92,322	-92.57%
Non-operating revenues	<u>84,980</u>	<u>143,297</u>	<u>(58,317)</u>	-40.70%
Net income	<u>\$ 77,567</u>	<u>\$ 43,562</u>	<u>\$ 34,005</u>	78.06%

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

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

The School has significant fixed assets in the form of a building and improvements which totals \$1,259,185 net of depreciation. See Note 6 to the Financial Statements for more detailed information on capital assets.

As described in Note 11 and Note 12, the School had debt outstanding including capital leases of \$265,615. Of this amount \$197,178 was a mortgage bearing interest at 8.5%. This loan is required to be refinanced in November of 2004.

With respect to the Balance Sheet, current assets decreased by \$31,413 or 28.65% primarily due to a decrease in intergovernmental receivables of \$14,922 or 17.92%. This decrease is attributed to less state and federal grant funding being owed to the school at June 30, 2004. The management fee payable to the management company decreased by \$14,922 or 17.92% as well.

Non-current assets increased by almost \$255,000 as a result of capital asset additions (\$403,997) net of depreciation (\$50,381), and net of the offset of a note receivable from the management company against a loan payable to the management company (\$48,557) and the utilization of restricted cash to pay certain bank debt (\$50,906) during 2004.

With respect to the Statement of Revenues, Expenses, and Changes in Net Assets, operating revenues increased by \$322,246 or 66.88% due to a significant increase in state foundation revenue. This increase was a result of an increase in enrollment of 20 students.

Non-operating revenues decreased by over \$58,000 as a result of less public contributions and decreased state and federal grant funding.

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

**BALANCE SHEETS
AS OF JUNE 30, 2004 AND 2003**

ASSETS

	2004	2003
Current assets		
Cash	\$ 9,915	\$ 7,136
Intergovernmental receivable	68,314	83,236
Management fee receivable	0	19,270
Accrued interest	18	18
Total current assets	78,247	109,660
Noncurrent assets		
Capital assets, net of accumulated depreciation	1,259,185	905,569
Note receivable - SAM	0	48,557
Restricted cash	0	50,906
Total noncurrent assets	1,259,185	1,005,032
Total assets	\$ 1,337,432	\$ 1,114,692

LIABILITIES AND NET ASSETS

Current liabilities		
Management fee payable	\$ 68,314	\$ 83,236
Accounts payable - SAM	403,997	0
Deferred revenue	0	19,270
Demand notes payable - Canton and Parma	40,000	40,000
Loan payable - SAM	18,385	66,942
Capital lease payable, current portion	9,252	8,710
Notes payable, current portion	70,065	128,200
Total current liabilities	610,013	346,358
Noncurrent liabilities		
Capital lease payable, less current portion	800	10,052
Notes payable, less current portion	127,113	236,343
Total noncurrent liabilities	127,913	246,395
Contributed capital		45,763
Net assets		
Invested in capital assets, net of related debt	647,958	522,264
Unrestricted	(48,452)	(46,088)
Total net assets	599,506	476,176
Total liabilities, contributed capital and net assets	\$ 1,337,432	\$ 1,114,692

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

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
Operating revenues		
State foundation	\$ 793,720	\$ 477,486
Materials and fees	4,587	4,313
Other operating revenues	5,738	0
Total operating revenue	804,045	481,799
Operating expenses		
Purchased services	760,282	530,823
Depreciation expense	50,381	50,561
Service charges	795	150
	811,458	581,534
Operating loss	(7,413)	(99,735)
Non-operating revenues (expenses)		
State and Federal grants	88,936	107,222
Contributions and donations	16,331	34,883
Interest expense	(20,287)	0
Interest earnings	0	1,192
Net non-operating revenue	84,980	143,297
Net income	77,567	43,562
Depreciation on capital assets acquired by contributed capital	0	11,855
Net assets at beginning of year, as restated	521,939	420,759
Net assets at end of year	\$ 599,506	\$ 476,176

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

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

**STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

Increase (decrease) in cash

	2004	2003
Cash flows from operating activities		
Cash from the State of Ohio	\$ 793,720	\$ 489,421
Cash from other operating sources	10,325	4,313
Cash payments to management company	(853,191)	(555,117)
Cash payments for service charges	(270)	(150)
Net cash used for operating activities	(49,416)	(61,533)
Cash flows from noncapital financing activities		
State and Federal grants	103,858	111,099
Private Foundation grants	16,331	34,883
Cash received on loan receivable	0	12,528
Net cash provided by noncapital financing activities	120,189	158,510
Cash flows from capital and related financing activities		
Reduction of notes payable	(65,693)	(93,643)
Cash flows from investing activities		
Redemption of restricted cash	17,986	0
Interest expense	(20,287)	0
Interest on investments	0	704
Net cash provided by (used for) investing activities	(2,301)	704
Net increase in cash	2,779	4,038
Cash at beginning of year	7,136	3,098
Cash at end of year	\$ 9,915	\$ 7,136
Reconciliation of operating loss to net cash used for operating activities		
Operating loss	\$ (7,413)	\$ (99,735)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	50,381	50,561
Restricted cash service charges	525	0
Reduction of capital lease payable	(8,710)	(8,482)
Reduction of notes payable	(69,277)	0
(Increase) decrease in assets:		
Intergovernmental receivable	0	11,935
Management fee receivable	19,270	(19,270)
Increase (decrease) in liabilities:		
Management fee payable	(14,922)	(15,812)
Deferred revenue	(19,270)	19,270
Total adjustments	(42,003)	38,202
Net cash used for operating activities	\$ (49,416)	\$ (61,533)

Non-cash financing and investing activities

Accounts payable of \$403,997 to the management company for construction in process additions to the School's building were incurred during 2004

By the actions of both Boards, the \$48,557 note receivable from SAM was offset against the \$66,942 loan payable to them, effective June 30, 2004

In addition, \$32,395 of the prior year's restricted cash balance of \$50,906 was used to reduce certain notes payable during 2004

Capital lease payable was reduced in 2004 and 2003 by reducing the management fee expense paid to the management company

Notes payable were reduced in 2004 by reducing the management fee expense paid to the management company.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Summit Academy Community School for Alternative Learners, Inc., located in Summit County (the School), is a state nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The School 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 8 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 the founding members of the School serve on the Board of Directors of SAM, a legally separate 501(c)(3) corporation. 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 - Parma, Inc., Summit Academy Community School for Alternative Learners – Lorain, Inc., Summit Academy Community School for Alternative Learners – Xenia, Inc., Summit Academy Community School for Alternative Learners– Middletown, Inc., Summit Academy Community School for Alternative Learners – Youngstown, Inc., and Summit Academy for the Creative Arts, Inc. These schools, which also have 3 common board members, are legally separate corporations and the results of their operations are not included in these financial statements.

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 replaced a prior sponsorship contract with the Ohio Department of Education, 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 Board vacancies 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. The School has one instructional/support facility staffed by 11 non-certified and 7 certified full-time teaching personnel who provide services to 57 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 COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS, INC.
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the assets and the 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. 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 Management's Discussion and Analysis and the elimination of contributed capital, the implementation of GASB Statement No. 34 has not had a significant impact on the School's financial statements. The elimination of contributed capital had the following affect on the July 1, 2004 beginning net assets:

TABLE

Net Assets/Retained Earnings, June 30, 2003	\$476,176
GASB 34 restatement adjustment: Elimination of contributed capital	<u>45,763</u>
Net Assets, June 30, 2003	<u>\$521,939</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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.

E. Cash

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

F. Capital Assets and Depreciation

Prior to July 1, 2001, capital assets were capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets were recorded at their fair market value as of the date received. The School maintained a capitalization threshold of \$500. The School does not possess any infrastructure nor does it capitalize interest expense. As of July 1, 2003, contributed capital has been included as part of unrestricted net assets.

Improvements made during 2004 to the School's building were paid for by SAM, and were capitalized by the School. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expenses.

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

As of July 1, 2001, all new capital assets used by the School belong to SAM as further described in Note 8.

G. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 8.

I. 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, 2004 and 2003 the carrying amount of the School's deposits was \$9,915 and \$58,042 respectively, and the bank balance was \$32,839 and \$58,042. All of the bank balance was covered by federal depository insurance.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental (e.g. 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.

NOTE 5 – NOTE RECEIVABLE

The note receivable from SAM of \$48,557 as of June 30, 2003, consisted of a bank loan obtained in the School's name with the proceeds given to SAM. By the action of both the School's Board of Trustee's and the SAM Board of Trustees subsequent to year end, the note receivable was offset against the loan payable to SAM of \$66,942, effective June 30, 2004. This resulted in a net liability of \$18,385.

NOTE 6 – CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Land	\$ 45,000	\$ 45,000
Building and improvements	1,225,445	821,448
Furniture, fixtures and equipment	<u>219,221</u>	<u>219,221</u>
	1,489,666	1,085,669
Less accumulated depreciation	<u>(230,481)</u>	<u>(180,100)</u>
Total Capital Assets Net of Depreciation	<u>\$ 1,259,185</u>	<u>\$ 905,569</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 7 - PURCHASED SERVICES

As per the agreement with SAM (see Note 8), 100% of the School's revenue is paid to SAM as a management fee. The related expense totaled \$760,282 and \$530,823 during 2004 and 2003, respectively, with the following estimated breakdown of the School's purchased services from SAM:

	2004	2003
Salaries, wages and benefits	\$ 570,212	\$ 513,193
Professional services	47,518	10,181
Occupancy costs	83,631	0
Educational materials and supplies	41,816	7,449
Other	17,105	0
Total Purchased Services	\$ 760,282	\$ 530,823

NOTE 8 – 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 also provides certain facilities and is responsible for maintenance of those facilities.

NOTE 9 – 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", and the School is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employees Retirement System

On behalf of the School, SAM contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, survivor, and health care benefits based on eligible service credit 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, Columbus, Ohio 43215-3746.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10% (9% for 2003) 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 years 2004 and 2003, 9.09% and 8.17%, respectively, 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. The School's required contributions for pension obligations to SERS for the years ended June 30, 2004, 2003 and 2002 were \$20,504, \$20,081 and \$25,529, respectively. The full amount has been contributed for 2003 and 2002. For 2004, approximately 50% of the required contribution has 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), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to members and beneficiaries. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

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.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries; this contribution percentage was 9.3% for 2003. The School was required to contribute 14% for 2004 and 2003, with 13% used to fund pension obligations and 1% used to fund health care benefits. 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. 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 for the years ended June 30, 2004, 2003 and 2002 were \$36,326, \$31,122 and \$25,478, respectively. The full amount has been contributed for 2003 and 2002. For 2004, approximately 83% has been contributed with the remaining amount shown as a liability to SAM.

NOTE 10 – 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 STRS 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 years ended June 30, 2004 and 2003, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$2,794 and \$2,394 for 2004 and 2003, respectively.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.8 billion at June 30, 2003 (the latest information available). For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 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. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 10 – POST EMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For fiscal years 2004 and 2003, employer contributions to fund health care benefits were 4.91% and 5.83%, respectively, of the covered payroll. 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 2004, the minimum pay was established at \$25,400; for 2003, the minimum pay was \$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 (the latest information available) 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 the School, the amount to fund health care benefits, including surcharge, equaled \$15,320 and \$15,133 during 2004 and 2003, respectively.

NOTE 11 – TRANSACTIONS WITH RELATED PARTIES

A. Note Receivable and Loan Payable

At June 30 2004 and 2003, the School had an outstanding loan payable to the management company. This loan bears interest at 0% with no specific terms of repayment. By actions of the School's and SAM's Boards of Trustees subsequent to June 30, 2004, this loan payable was offset by a \$48,557 note receivable from SAM, thereby reducing the loan balance from \$66,942 at June 30, 2003 to \$18,385 at June 30, 2004.

B. Notes Payable

During fiscal year 2001, two \$ 20,000 demand notes bearing interest of 6.8% were signed and are payable to Summit Academy Community School for Alternative Learners – Canton, Inc., and Summit Academy Community School for Alternative Learners – Parma, Inc., the balance which remains outstanding as of June 30, 2004.

C. Accounts Payable – SAM

During 2004, the management company paid for improvements to the building owned by the School. As a result, the School owed SAM \$403,997 at June 30, 2004 for these improvements.

D. Management Fee Payable

At June 30, 2004 and 2003, the School had a management fee payable to SAM of \$68,314 and \$83,236, respectively. These payables consist of grants receivable to be transferred to SAM to cover expenses incurred by SAM on the School's behalf.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 11 – TRANSACTIONS WITH RELATED PARTIES (Continued)

E. 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 \$2,500 deductible and has a \$2,630,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a \$2,500 deductible.

The School also has liability insurance. However, during 2003 the School had no liability coverage under any policy for a period of almost two months. In addition, the School's property insurance policy lapsed for almost three weeks during fiscal 2003. Management is not aware of any significant pending claims related to these periods.

Settled claims have not exceeded insurance coverage in any of the past 3 years, and there was no significant reduction in coverage amounts from the prior year policy.

F. 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 2004 and 2003, 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 (SERS) and the State Teachers Retirement System of Ohio (STRS) for the employees working within the School.

NOTE 12– NOTES PAYABLE

On May 4, 1999, the School entered into a \$400,000 real estate mortgage with a local bank for the purchase of a school building. The loan requires monthly payments of \$7,205, including interest at 8.5%, through November 2006. The School retired \$64,133 of this loan during 2004. The loan had an outstanding principal balance of \$197,178 and \$261,311 at June 30, 2004 and 2003, respectively. It is required to be re-financed in November 2004.

At June 30, 2003, the School owed \$49,114 to a local bank. This bank note required monthly payments of \$2,906, including interest at prime plus 1.5%, and was originally issued to cover operating expenses. Originally due in December 2004, the note was paid in full during June 2004.

At June 30, 2003, the School also owed \$48,557 to another local bank. This bank note required monthly payment of \$1,560, including interest at 8.5%, and was originally issued to cover operating expenses. Originally due in fiscal year 2006, the note was paid in full during June 2004.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 13 – CAPITAL LEASES

In a prior year, the School entered into capital lease agreements for three copiers, two of which are used by other Summit Academy schools. The leases meet the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which Defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The capital leases have been recorded at the present value of the future minimum lease payments (\$10,052) as of the inception date of the lease. The following is a schedule of the future minimum lease payments as of June 30, 2004:

2005	\$ 9,613
2006	<u>801</u>
	10,414
Less amount representing interest	<u>(362)</u>
Present value of minimum lease payments	<u>\$10,052</u>

NOTE 14 - 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 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, 2004.

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.

NOTE 15 - 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Continued)**

NOTE 16 – TAX EXEMPT STATUS

The School was granted status as a tax exempt, non-profit organization under Internal Revenue Code Section 501(c)(3), effective November 5, 2002.

NOTE 17 – SUBSEQUENT EVENT

ODE REVIEW - The Ohio Department of Education conducts reviews of enrollment data 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 significant 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 Alternative Learners, Inc.
Summit County
1111 West Market Street
Akron, Ohio 44313

To the Board of Trustees:

We have audited the financial statements of the business type activities of the Summit Academy Community School for Alternative Learners, Inc., 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 February 7, 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 *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 tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the School's management in a separate letter dated February 7, 2005.

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 for the purpose of expressing our opinions 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 certain matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the School's management in a separate letter dated February 7, 2005.

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Summit Academy Community School for Alternative Learners, Inc.
Summit County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of 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

February 7, 2005

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Ohio Rev. Code Section 3314.03(A)(11)(b) requires community schools to purchase liability insurance, or otherwise provide for the potential liability of the school. The School had no liability insurance for a period of almost two months and no property coverage for a period of almost three weeks.	Yes	



**Auditor of State
Betty Montgomery**

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

SUMMIT COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 8, 2005**