SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS - YOUNGSTOWN, INC.
MAHONING COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

Auditor of State
Betty Montgomery

SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS - YOUNGSTOWN, INC.
MAHONING COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Summit Academy Community School for Alternative Learners - Youngstown, Inc.
Mahoning 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 - Youngstown, Inc., Mahoning 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 Summit Academy Community School for Alternative Learners - Youngstown, Inc., Mahoning 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.

Betty Montgomery

Betty Montgomery
Auditor of State

February 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

As management of Summit Academy for Alternative Learners - Youngstown, 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 $497, which is the difference between its assets and liabilities. Net assets increased by $21 during the year as a result of a net income for 2004 of the same amount.

The School has a cash balance of $497, which is also $21 more than the prior year.

The School has an intergovernmental receivable of $144,684 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 less the $90,000 accrued litigation settlement the Board of Directors of management company agreed to pay (See Note 13). 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 (equity) changed during the year. This statement summarizes operating revenues and expenses, along with non-operating revenues and expenses.

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

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

Finally, it should be noted that the School utilizes the accrual basis of accounting. 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 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

	6/30/04	6/30/03	Amount of Change	Percent of Change
Assets				
Cash	$ 497	$ 476	$ 21	4.41%
Management fee receivable	-	14,247	(14,247)	-100.00%
Intergovernmental receivables	144,684	114,329	30,355	26.55%
Total assets	$ 145,181	$ 129,052	$ 16,129	12.50%
Liabilities				
Management fee payable	$ 54,684	$ 114,329	$ (59,645)	-52.17%
Deferred Revenue	-	14,247	(14,247)	-100.00%
Accrued ligitation settlement	90,000	0	90,000	100.00%
Net Assets				
Unrestricted	497	476	21	4.41%
Liabilities and equity	$ 145,181	$ 129,052	$ 16,129	12.50%

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

	YE 6/30/04	YE 6/30/03	Amount of Change	Percent of Change
Operating revenues	$ 2,280,133	$ 1,367,696	$ 912,437	66.71%
Operating expenses	2,493,994	1,556,490	937,504	60.23%
Operating income (loss)	(213,861)	(188,794)	(25,067)	13.28%
Non-operating revenues	303,882	187,990	115,892	61.65%
Non-operating expense	(90,000)	0	90,000	100.00%
Net income (loss)	$ 21	$ (804)	$ 825	-102.61%

With respect to the Balance Sheet, the decline in the management fee receivable reflects essentially that too much foundation revenue was received from the state of Ohio and paid to the management company in 2003, thereby creating a receivable from the management company with related deferred revenue. This situation did not exist at June 30, 2004.

Intergovernmental receivables increased by $30,355 or 26.55% due to more grant money being owed to the School at June 30, 2004. The management fee payable to the management company decreased to $54,684, which is net of the Intergovernmental receivable less the $90,000 accrued litigation settlement.

With respect to the Statement of Revenues, Expenses, and Changes in Net Assets, operating revenues increased by $912,347 or 66.71% due to a significant increase in state foundation revenue. This increase was because of an increase in enrollment of over 70 students.

Non-operating revenues increased by over $115,000 as a result of increased state and federal grant funding.

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SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS - YOUNGSTOWN, INC.
MAHONING COUNTY

BALANCE SHEETS
AS OF JUNE 30, 2004 AND 2003

	2004	2003
ASSETS		
Current assets		
Cash	$ 497	$ 476
Management fee receivable	0	14,247
Intergovernmental receivable	144,684	114,329
Total current assets	$ 145,181	$ 129,052
LIABILITIES AND EQUITY		
Current liabilities		
Management fee payable	$ 54,684	$ 114,329
Accrued litigation settlement	90,000	0
Deferred revenue	0	14,247
Total current liabilities	144,684	128,576
Net assets (accumulated deficit)		
Unrestricted	497	476
Total liabilities and net assets	$ 145,181	$ 129,052

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

SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS - YOUNGSTOWN, INC.
MAHONING COUNTY

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

	2004	2003
Operating revenues		
Materials and fees	$ 3,127	$ 333
State foundation	2,274,911	1,365,760
Other operating revenues	2,095	1,603
Total operating revenue	2,280,133	1,367,696
Operating expenses		
Purchased services	2,493,943	1,556,360
Service charges	51	130
	2,493,994	1,556,490
Operating loss	(213,861)	(188,794)
Non-operating revenues		
State and Federal grants	302,532	187,490
Litigation settlement	(90,000)	0
Contributions and donations	1,350	500
Net non-operating revenues	213,882	187,990
Net Income/(Loss)	21	(804)
Net assets		
at beginning of year	476	1,280
Net assets (accumulated deficit) at end of year	$ 497	$ 476

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

SUMMIT ACADEMY COMMUNITY SCHOOL FOR ALTERNATIVE LEARNERS - YOUNGSTOWN, INC.
MAHONING COUNTY

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

	2004	2003
Increase (decrease) in cash		
Cash flows from operating activities:		
Cash received from other operating sources	$ 5,222	$ 1,936
Cash from the State of Ohio	2,289,158	1,365,760
Cash payments to management company	(2,567,835)	(1,463,732)
Cash payments for service charges	(51)	(130)
Net cash used for operating activities	(273,506)	(96,166)
Cash flows from noncapital financing activities:		
State and Federal grants	272,177	94,862
Miscellaneous receipts from local sources	1,350	500
Net cash provided by noncapital financing activities	273,527	95,362
Net increase/decrease in cash	21	(804)
Cash at beginning of year	476	1,280
Cash at end of year	$ 497	$ 476
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (213,861)	$ (188,794)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Change in assets and liabilities:		
(Increase) decrease in assets:		
Intergovernmental receivable	0	7,739
Management fee receivable	14,247	(14,247)
Increase (decrease) in liabilities:		
Management fee payable	(59,645)	84,889
Deferred revenue	(14,247)	14,247
Total adjustments	(59,645)	92,628
Net cash used for operating activities	$ (273,506)	$ (96,166)

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

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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 - Youngstown, Inc., located in Mahoning 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 6 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, 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 – Parma, Inc., Summit Academy Community School for Alternative Learners – Middletown, 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 was effective November 24, 2003, and replaced a prior sponsorship contract with the Ohio Department of Education.

The School operates under a self-appointing 5 member Board of Trustees (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board are filled by the appointment of a successor trustee by a majority vote of the then-existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor. These include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by 30 non-certified and 21 certified full-time teaching personnel who provide services to 204 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is reported as 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 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, the implementation of GASB Statement No. 34 has had no significant impact on the School's financial statements.

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

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues (Continued)

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.

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 6.

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 were $497 and $476, respectively, and the bank balances were $29,467 and $476. All of the bank balances were 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 - PURCHASED SERVICES

As per the agreement with SAM (see Note 6), 100% of the School's revenue is paid to SAM as a management fee. The related expense totaled $2,493,943 and $1,556,360 during 2004 and 2003, respectively, with the following estimated breakdown of the School's purchased services from SAM:

	2004	2003
Salaries, wages and benefits	$1,937,957	$1,158,241
Professional services	161,496	255,123
Occupancy costs	194,234	0
Materials and supplies	142,117	142,996
Other	58,139	0
Total purchased services	$2,493,943	$1,556,360

NOTE 6 – AGREEMENT WITH SUMMIT ACADEMY MANAGEMENT

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

NOTE 7 – 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.

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 $31,687, $25,369 and $12,985, 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.

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

On behalf of the School, SAM also contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to member and beneficiaries. 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. 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. SAM 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 $41,463, $40,092 and $22,897, respectively. The full amount has been contributed for 2003 and 2002. For 2004, approximately 83% of the required contribution has been paid with the remaining amount shown as a liability by SAM.

NOTE 8 – POST EMPLOYMENT BENEFITS

On behalf of the School, SAM provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute. Both systems are funded on a pay-as-you-go basis.

NOTE 8 – POST EMPLOYMENT BENEFITS (Continued)

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 SAM, this amount equaled $3,189 and $3,084 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.

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 years 2004 and 2003, the minimum pay was established at $25,400 and $14,500, respectively. 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 $23,640 and $19,654 during 2004 and 2003, respectively.

NOTE 9 – TRANSACTIONS WITH RELATED PARTIES

A. Management Fee Payable

As of June 30, 2004 and 2003, the School had a management fee payable to SAM of $54,684 and $114,329, respectively. These payables consist of grants receivable to be transferred to SAM to cover expenses incurred by SAM on the School's behalf.

B. Risk Management

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, SAM contracted with a commercial insurance company for property and general liability insurance on behalf of the School. Property coverage carries a $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.

NOTE 9 – TRANSACTIONS WITH RELATED PARTIES (Continued)

B. Risk Management (Continued)

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 this period.

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

C. Benefits

SAM has contracted with a private carrier to provide employees within the School medical/surgical benefits. SAM pays a portion of the monthly premium for full-time employees and for part-time employees depending on the employee's status. The employees are responsible for the remaining amounts. For fiscal year 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 10 - CONTINGENCIES

GRANTS – The School receives financial assistance from federal and state agencies in the form of grants, which are then remitted to SAM. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 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 11 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school funding scheme that is thorough and efficient…". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 12 – TAX EXEMPT STATUS

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

NOTE 13 – SUBSEQUENT EVENT

LITIGATION - With neither party admitting fault, the School paid $90,000 on January 31, 2005, to settle a lawsuit involving a long-term lease agreement. This suit was filed prior to the end of the June 30, 2004 fiscal year. In conjunction with this settlement, the Board of Directors of Summit Academy Management agreed to reduce its management fees in order to let the School make this payment (see Note 6).

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 indicated no significant difference between the amount due and the amount the School received.

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 - Youngstown, Inc.
Mahoning County
1111 West Market Street
Akron, Ohio 44313

To the Board of Trustees:

We have audited the financial statements of the Summit Academy Community School for Alternative Learners - Youngstown, Inc., Mahoning 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, in which we noted the School implemented Governmental Accounting Standards 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 another matter involving the internal control over financial reporting that does 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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This report is intended solely for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

February 7, 2005

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; ***Explain***:
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-YOUNGSTOWN

MAHONING 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