

***SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

Board of Trustees
Springfield Academy of Excellence
623 South Center Street
Springfield, Ohio 45506

We have reviewed the *Report of Independent Accountants* of the Springfield Academy of Excellence, Clark County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Springfield Academy of Excellence is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 30, 2007

This Page is Intentionally Left Blank.

**SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY
For the Year Ending June 30, 2006**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1-2
Management's Discussion and Analysis	3-6
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9-10
Notes to the Basic Financial Statements	11-21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i>	22-23
Status of Prior Audit's Citations and Recommendations	24

This Page is Intentionally Left Blank.

Rockefeller Building
614 W Superior Ave Ste1242
Cleveland OH 44113-1306
Phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Springfield Academy of Excellence
Clark County
623 S. Center St.
Springfield, Ohio 45506

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Springfield Academy of Excellence (the School) as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 12, 2007 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.

February 12, 2007

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Management's Discussion and Analysis

For the Year Ended June 30, 2006

(Unaudited)

The discussion and analysis of Springfield Academy of Excellence's (the Academy) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2006 are as follows:

- Total net assets increased \$232,169 in fiscal year 2006 from fiscal year 2005. This increase is due to the increase in current assets, specifically cash on hand, and the decrease in total liabilities exceeding the decrease reported for capital assets at June 30, 2006.
- Total assets increased \$206,502 from the prior year, due primarily to the cash on hand at year end being \$212,594 higher than the previous year and a \$35,877 increase in grants receivable. These increases were somewhat offset by the \$59,253 decrease in capital assets compared with fiscal year 2005.
- The \$172,941 operating loss reported for fiscal year 2006 was \$83,946 less than the operating loss reported for fiscal year 2005, a 32.7 percent increase. While the cost of personnel and other items continue to increase, the primary factor attributing to the operating loss is state and federal grant revenues. These revenues are reported as non-operating while all the costs of these grants are reported as operating. As the Academy's dependence on state and federal grants continues to decrease, the operating deficit also continues to decrease.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity; therefore, the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Management's Discussion and Analysis

For the Year Ended June 30, 2006

(Unaudited)

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the condition of the Academy building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated. Table 1 provides a summary of the Academy's net assets for fiscal year 2006 compared with fiscal year 2005.

Table 1
Net Assets

	<u>2006</u>	<u>2005</u>
Assets:		
Current and other assets	\$ 576,166	\$ 310,411
Capital assets, net	<u>777,403</u>	<u>836,656</u>
Total Assets	<u>1,353,569</u>	<u>1,147,067</u>
Liabilities:		
Current liabilities	137,421	141,968
Non-current liabilities	<u>381,083</u>	<u>402,203</u>
Total Liabilities	<u>518,504</u>	<u>544,171</u>
Net Assets:		
Invested in capital assets	385,721	427,999
Restricted	123,666	75,128
Unrestricted	<u>325,678</u>	<u>99,769</u>
Total Net Assets	<u>\$ 835,065</u>	<u>\$ 602,896</u>

Total net assets of the Academy increased by \$232,169 from the net assets reported at June 30, 2005. Net assets invested in capital assets, net of related debt, decreased by \$42,278 from fiscal year 2005 and represents approximately 46.2 percent of the total net asset for the Academy. Restricted net assets for June 30, 2006 are \$48,538 higher than the amount reported for the prior year and represents approximately 14.8 percent of the Academy's total net assets. The increase for fiscal year 2006 is directly related to the increase in intergovernmental receivables for grants not received before the end of the fiscal year. Unrestricted net assets increased by \$225,909 during the year and are 39.0 percent of total net assets. The increase in cash on hand at year end accounts for the majority of the increase in unrestricted net assets.

Total liabilities of the Academy decreased by \$25,667 at June 30, 2006 compared with the same time a year prior. This decrease is due to the payment of scheduled debt service requirements on the Academy's construction loan which was used to finance the construction of a new school building during the previous two fiscal years. The payment of principal on the construction loan as well as the decrease in compensated absences are the principal components of the decrease in the Academy's liabilities for fiscal year 2006 compared to those for fiscal year 2005.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Management's Discussion and Analysis

For the Year Ended June 30, 2006

(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, as well as revenue and expense comparisons to fiscal year 2005.

Table 2
Change in Net Assets

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Foundation payments	\$ 1,640,812	\$ 1,233,252
Disadvantage pupil/parity aid	223,600	278,656
Donated leases	130,367	154,258
Other operating revenues	19,031	23,861
Non Operating Revenues:		
State and federal grants	428,764	383,491
Donations and fundraising	1,289	34,299
Interest earnings	<u>5,077</u>	<u>47</u>
Total Revenues	<u>2,448,940</u>	<u>2,107,864</u>
Operating Expenses:		
Salaries	1,135,302	962,828
Fringe benefits	269,145	234,854
Contract management/fiscal	59,988	-
Lease payments	261,653	263,653
Other purchased services	236,711	196,278
Materials and supplies	150,709	208,743
Depreciation	73,243	56,897
Other expenses	-	23,661
Non Operating Expenses:		
Interest and fiscal charges	<u>30,020</u>	<u>35,998</u>
Total Expenses	<u>2,216,771</u>	<u>1,982,912</u>
Change in net assets	232,169	124,952
Net assets, beginning of year	<u>602,896</u>	<u>477,944</u>
Net Assets, end of year	<u>\$ 835,065</u>	<u>\$ 602,896</u>

Total revenue received by the Academy in fiscal year 2006 increased by \$341,076 or 16.2 percent as compared with fiscal year 2005. As shown in Table 2 above, there was a significant increase in state foundation payments due to increase student enrollment. During the fiscal year, the State replaced funding previously reported as disadvantage pupil impact aid with parity aid. This change resulted in the Academy receiving approximately \$55,000 less in state funding for the special educational needs of low income students enrolled.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Management's Discussion and Analysis

For the Year Ended June 30, 2006

(Unaudited)

In fiscal year 2006, the Church of Jesus Family Worship Center (the Church) forgave numerous lease payments associated with the Academy's use of multipurpose room, office space, and the annex owned by the Church. In fiscal year 2006, the Church and Precious Gifts, a day care center operated by the Church, forgave a total of \$130,367 in lease payments.

In total expenses for fiscal year 2006 increased \$234,859 compared with the expense total reported for the prior fiscal year. Wage increases for employees, increased need for instructional support services, and an increase in the depreciation expense associated with the new school building opened in summer of 2005 were the main components of the increase.

Capital Assets

At June 30, 2006 the capital assets of the Academy totaled \$930,508 with accumulated depreciation being \$153,105. A break down of the Academy's capital assets is presented below.

Table 3
Capital Assets, Net of Depreciation

	<u>2006</u>	<u>2005</u>
Buildings	\$ 517,561	\$ 530,832
Leasehold improvements	220,354	264,425
Equipment	<u>39,488</u>	<u>34,945</u>
Total	<u>\$ 777,403</u>	<u>\$ 830,202</u>

The new school building was completed at the end of the fiscal year, and, therefore fiscal year 2006 is the first year in which a full year of depreciation is being charged against the asset. Fiscal year 2006 depreciation expense totaled \$73,243 compared with \$56,897 reported in fiscal year 2005. During the year, the Academy acquired \$20,444 of computer equipment which was capitalized. See Note 5 of the notes to the basic financial statements for additional information on the Academy's capital assets.

Debt

At June 30, 2006, the debt obligations of the Academy consisted solely of the construction loan obtained to provide financing for the construction of the new school building. The original principal of the loan was \$409,998. At June 30, 2006 the outstanding principal balance was \$391,682 with \$10,599 becoming due in fiscal year 2007. The Academy made total principal payments of \$10,521 during fiscal year 2006. See Note 7 of the notes to the basic financial statements for additional information on the Academy's debt obligations.

Contacting the Academy

This financial report is designed to provide a general overview of the finances of the Springfield Academy of Excellence, Inc. and to show the Academy's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Springfield Academy of Excellence, 623 South Center Street, Springfield, Ohio 45502.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Statement of Net Assets

June 30, 2006

Assets

Current assets:

Cash and cash equivalents	\$ 458,219
Receivables:	
Grants	100,663
Prepaid expenses	<u>10,830</u>

Total current assets 569,712

Noncurrent assets:

Security deposit	6,454
Depreciable capital assets (net of accumulated depreciation)	<u>777,403</u>

Total noncurrent assets 783,857

Total assets 1,353,569

Liabilities:

Current liabilities:

Accounts payable	29,792
Accrued wages payable	77,213
Intergovernmental payable	19,817
Notes payable, current portion	<u>10,599</u>

Total current liabilities 137,421

Noncurrent liabilities:

Notes payable	<u>381,083</u>
---------------	----------------

Total liabilities 518,504

Net Assets:

Invested in capital assets, net of related debt	385,721
Restricted	123,666
Unrestricted	<u>325,678</u>

Total net assets \$ 835,065

See accompanying notes to the financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2006

<u>Operating revenues:</u>	
Foundation payments	\$ 1,640,812
Parity aid	223,600
Donated leases	130,367
Charges for services	18,063
Miscellaneous operating revenue	<u>968</u>
Total operating revenues	<u>2,013,810</u>
 <u>Operating expenses:</u>	
Salaries	1,135,302
Fringe benefits	269,145
Contractual management and fiscal fees	59,988
Lease payments	261,653
Other purchased services	236,711
Materials and supplies	150,709
Depreciation	<u>73,243</u>
Total operating expenses	<u>2,186,751</u>
Operating loss	<u>(172,941)</u>
 <u>Non-operating revenues and (expenses):</u>	
State and federal grant revenue	428,764
Gifts and donations	1,289
Interest earnings	5,077
Interest and fiscal charges	<u>(30,020)</u>
Total non-operating revenues	<u>405,110</u>
Changes in net assets	232,169
Net assets at beginning of year	<u>602,896</u>
Net assets at end of year	<u>\$ 835,065</u>

See accompanying notes to the financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Statement of Cash Flows

Year Ended June 30, 2006

Increase(Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:

Cash from State of Ohio	\$ 1,864,412
Cash from customers	18,063
Cash payments to suppliers for goods and services	(594,847)
Cash payments to employees for services and benefits	(1,414,270)
Other operating revenue	<u>968</u>

Net cash used for operating activities (125,674)

Cash flows from noncapital financing activities:

Federal and state subsidies	392,887
Gifts and contributions	<u>1,289</u>

Net cash provided by noncapital financing activities 394,176

Cash flows from capital and related financing activities:

Principal paid on notes	(10,521)
Interest paid on notes	(30,020)
Cash payments for capital acquisitions	<u>(20,444)</u>

Net cash used for capital and related financing activities (60,985)

Cash flows from investing activities:

Interest on investments	<u>5,077</u>
-------------------------	--------------

Net Increase in Cash and Cash Equivalents 212,594

Cash and Cash Equivalents, Beginning of Year 245,625

Cash and Cash Equivalents, End of Year \$ 458,219

(Continued)

See accompanying notes to the financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Statement of Cash Flows
Year Ended June 30, 2006
(Continued)

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

Operating loss	\$ (172,941)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	73,243
Changes in assets and liabilities:	
Increase in prepaid items	(10,830)
Decrease in accounts payable	(3,490)
Increase in accrued wages payable	7,691
Increase in intergovernmental payable	1,439
Decrease in compensated absences payable	<u>(20,786)</u>
 Total Adjustments	 <u>47,267</u>
 Net cash used for operating activities	 \$ <u>(125,674)</u>

Non-Cash Item:

During the fiscal year ended June 30, 2006 lease obligations of \$130,367 were forgiven and not evidenced by cash transactions.

See accompanying notes to the financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

1. Description of the Academy and Reporting Entity:

Springfield Academy of Excellence, Inc. (the Academy) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702. The Academy's objective is to provide education in a nurturing environment that focuses on the development of the whole child. Emphasis is placed on academic achievement as well as physical, psychological, social and ethical development. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the Academy.

The Academy is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

The Academy was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing after May 29, 2001. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. Effective on July 1, 2005, the Fordham Foundation is the Academy's sponsor for the next five years.

The Academy operates under the direction of a Governing Board of at least seven members. The Governing Board is responsible for carrying out the provisions of the contract which includes, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls the Academy's one instructional/support facility staffed by 18 non-certified and 16 certificated full-time teaching personnel.

2. Summary of Significant Accounting Policies:

The financial statements of the Academy 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 Academy 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 Academy has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in 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.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash and cash equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash. For the purposes of the statement of net assets, investments with an original maturity of three months or less at the time they are purchased by the Academy are considered to be cash equivalents.

E. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of \$500. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of leasehold improvements, equipment, and buildings is computed using the straight-line method over estimated useful lives of seven, five, and forty years, respectively. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

F. Intergovernmental revenues

The Academy currently participates in the State Foundation Program and the State Parity Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met. Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grant have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

G. Accrued liabilities payable

The Academy has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2006, including:

Wages Payable – salary payments made after year-end that were for services rendered in fiscal year 2006. Teaching personnel are paid in 24 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2006 for all salary payments made to teaching personnel during the month of July 2005.

Intergovernmental payable – payment for the employer's share of the retirement contribution (\$18,094), workers' compensation (\$603) and Medicaid (\$1,120) associated with services rendered during fiscal year 2006, but were not paid until the subsequent fiscal year

H. Security Deposit

The Academy entered into several leases for the use of the building for the administration of the Academy, for computer start-up costs and computer equipment, and for use of a certain phone company for which security deposits were required to be paid at the signing of the agreement. These amounts are held by the respective leaser/vendor.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

K. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly by the Academy's primary mission. For the Academy, operating revenues include foundation payments and disadvantaged pupil impact aid received from the State of Ohio. Operating expenses are necessary costs incurred to support the Academy's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various state and federal grants, as well as interest revenue and expense comprise the non-operating revenues and expenses of the Academy.

L. Estimates

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

3. Cash Deposits:

At June 30, 2006, the carrying amount of the Academy's deposits was \$458,219 and the bank balance was \$491,250. Of the bank balance \$100,000 was covered by federal deposit insurance and the remaining amounts are collateralized with securities held by the pledging financial institution's trust department or agent in the Academy's name. The School has no policy on custodial credit risk.

4. Receivables:

Receivables at June 30, 2006, consisted of an intergovernmental grant the Federal government which is considered to be collectible in full and include the following principal components:

<u>Grant Program</u>	
Title I Grant	\$ 57,036
Food Service Reimbursement	18,875
Title VI-B Grant	14,901
Title II-A Innovative Grant	9,056
Other Grants	<u>795</u>
Intergovernmental Receivable	<u>\$ 100,663</u>

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

5. Capital Assets:

A summary of the Academy's capital assets at June 30, 2006, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Depreciable capital assets:</u>				
Building	\$ 530,832	\$ -	\$ -	\$ 530,832
Leasehold improvements	308,495	-	-	308,495
Equipment	<u>70,737</u>	<u>20,444</u>	-	<u>91,181</u>
	<u>910,064</u>	<u>20,444</u>	-	<u>930,508</u>
<u>Less: accumulated depreciation on:</u>				
Building	-	(13,271)	-	(13,271)
Leasehold improvements	(44,070)	(44,071)	-	(88,141)
Equipment	<u>(35,792)</u>	<u>(15,901)</u>	-	<u>(51,693)</u>
	<u>(79,862)</u>	<u>(73,243)</u>	-	<u>(153,105)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 830,202</u>	<u>\$ (52,799)</u>	<u>\$ -</u>	<u>\$ 777,403</u>

6. Risk Management:

Property and liability – The Academy 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. For fiscal year 2006, the Academy contracted with Cincinnati Insurance Co. for property, general liability, auto, and excess liability insurance. Property is covered for \$237,900 and contents are insured for \$343,900. There is a deductible of \$250 and property and contents are 90 percent co-insured. Commercial general liability covers each single occurrence for \$1 million with a \$2 million general aggregate limit. Automobile liability has a combined single limit of \$1 million. The excess liability is covered for \$1 million for each occurrence and \$1 million in the aggregate.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

Worker's compensation – The Academy pays the State Worker's Compensation System a premium for employee injury by the State.

Employee insurance benefits – The Academy has contracted through an independent agent to provide employee medical insurance to its full-time employees who work 25 or more hours per week.

7. Notes Payable:

The activity of the Academy's promissory notes payable is summarized as follows:

<u>Obligation</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Construction loan - Huntington National Bank - 7.64%	<u>\$ 402,203</u>	<u>\$ -</u>	<u>\$ 10,521</u>	<u>\$ 391,682</u>
Total	<u>\$ 402,203</u>	<u>\$ -</u>	<u>\$ 10,521</u>	<u>\$ 391,682</u>

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

The Academy entered into a construction loan with Huntington National Bank for the construction of a new school building. The total amount of the loan was set at \$409,998. The interest rate was set at Prime plus one (1) percent. For fiscal year 2006 the interest rate was 7.64 percent. The loan was guaranteed in full by the Church of Jesus, Inc. through a third mortgage secured on real property located at 623 South Center Street, Springfield, Ohio. In addition, the Ohio School Facilities Commission has guaranteed 85 percent of the project for the first 15 years of the loan.

Future principal and interest obligations of the loan are as follows:

<u>Fiscal Year Ending, June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 10,599	\$ 29,558	\$ 40,157
2008	11,438	28,720	40,158
2009	12,343	27,815	40,158
2010	13,320	26,838	40,158
2011	14,374	25,784	40,158
2012-2016	90,842	109,946	200,788
2017-2021	132,942	67,847	200,789
2022-2024	<u>105,824</u>	<u>12,710</u>	<u>118,534</u>
Total	<u>\$ 391,682</u>	<u>\$ 329,218</u>	<u>\$ 720,900</u>

8. Defined Benefit Pension Plans:

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$39,946, \$34,910, and \$26,115, respectively; 100 percent has been contributed for each of the fiscal years.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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 divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$121,651, \$87,900, and \$66,512, respectively; 100 percent has been contributed for each of the fiscal years.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

9. Postemployment Benefits:

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$8,689 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$17,042.

The surcharge, added to the unallocated portion of the 14 percent 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 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

10. Fiscal Services:

The Academy entered into a contract with Keys to Improving Dayton Schools, Inc. (KIDS) to provide treasurer and financial management services for a twelve month period beginning July 1, 2005 for a monthly fee of \$3,750.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

11. Restricted Net Assets:

At June 30, 2006 the Academy reported restricted net assets totaling \$123,666. The nature of the net asset restrictions are as follows:

Federal specific educational program grants	\$ 105,098
Capital related grants and contributions	7,165
State specific educational program grants	3,272
Miscellaneous restricted grants and contributions	<u>8,131</u>
Total	<u>\$ 123,666</u>

12. Contingencies:

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. The Ohio Department of Education completed its review of the Academy's enrollment data for fiscal year 2006 which did not result in any material adjustments to the funding received.

C. 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 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 effect of this suit, if any, on the Academy is not presently determinable.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

13. Operating Leases:

The Academy is leasing the use of land, office and classroom space, and various pieces of equipment through operating leases with the Church of Jesus Family Worship Center (the Church), the Precious Gifts Day Care Center (the Day Care Center), and Modular Designs. Lease obligations to the Church for fiscal year 2006 totaled \$180,001. The Academy paid \$58,000 of these obligations, with the Church forgiving the remaining \$122,001. Lease obligations to the Day Care Center totaled \$21,852 in fiscal year 2006. The Academy paid \$13,486 of these obligations, with Precious Gifts forgiving the remaining \$8,366. Lease obligations to Modular Designs totaled \$61,800 that the Academy paid in full.

Individual lease obligations include:

- A ninety-nine year lease between the Church and the Academy which stipulates the Academy will be permitted to use Church grounds for an annual fee of one dollar for construction of the new school building. For fiscal year 2006, the lease was forgiven by the Church. Lease payments are expected to remain the same for the remaining term of the lease.
- A lease of land from the Church in the amount of \$144,001; of which \$22,000 was paid by the Academy and the remaining \$122,001 was forgiven by the Church. Lease payments are expected to remain the same for the remaining term of the lease.
- A lease of the Annex and other building space from the Church, beginning October 1, 2001 through July 1, 2006 in the amount of \$3,000 per month. During fiscal year 2006, the Academy paid \$36,000 related to this lease agreement. Lease payments are expected to remain the same for the remaining term of the lease.
- In March 2004, the Academy signed lease agreement with Modular Designs for 12 double modular systems for a twelve month period with lease obligations of \$5,150 per month. During fiscal year 2006, the Academy paid \$61,800 to Modular Designs related to these lease payments. Lease payments are expected to remain the same for the remainder of the lease.
- The Academy leases food storage space and freezer space, and certain equipment from the Day Care Center. Lease obligations related to these items totaled \$21,852 for fiscal year 2006 with the Academy paying a total of \$13,486 during the fiscal year. The remaining \$8,366 was forgiven. Lease payments are expected to remain the same for the remaining term of these leases.

14. Related Parties:

During the fiscal year ended June 30, 2006, the Academy made payments on several lease agreements with the Precious Gifts Day Care Center (the Day Care Center) and the Church of Jesus Family Worship Center (the Church), which are affiliated with the Director and a Trustee of the Academy. The Director is the operator of the Day Care Center and the Trustee is the Pastor of the Church. Lease expenses recognized to the Day Care Center were \$21,852 and to the Church were \$180,001 for the fiscal year ended June 30, 2006.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2006

15. Other Purchased Services:

During the fiscal year ended June 30, 2006, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$	65,666
Property services		23,384
Communications and networking services		8,068
Travel and meeting expense		15,534
Utilities		33,444
Contracted Trade or Craft		8,590
Pupil transportation		52,576
Insurance		10,947
Dues and fees		4,041
Other		<u>14,461</u>
	\$	<u>236,711</u>

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland, OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Springfield Academy of Excellence
Clark County
623 S. Center St.
Springfield, Ohio 45506

To the Board of Trustees:

We have audited the financial statements of the Springfield Academy of Excellence (the "School") as of and for the year ended June 30, 2006, which collectively comprise the School's basic financial statements and have issued a report thereon dated February 12, 2007. 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.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris and Associates, Inc.
February 12, 2007

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2005, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

SPRINGFIELD ACADEMY OF EXCELLENCE

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2007**