



**APEX ACADEMY
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



Mary Taylor, CPA
Auditor of State

**APEX ACADEMY
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Apex Academy
Cuyahoga County
16005 Terrace Road
East Cleveland, Ohio 44112

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Apex Academy, Cuyahoga County, Ohio, (the Academy), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the contract service fees incurred by the Academy which totaled \$2,863,707 as indicated in Note 9 to the basic financial statements. Other auditors audited these amounts and have furnished their report thereon to us and we base our opinion, insofar as it relates to the amounts included in Note 9, on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Apex Academy, Cuyahoga County, Ohio, as of June 30, 2005, and the changes in financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

April 24, 2008

**APEX ACADEMY
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION) THROUGH
JUNE 30, 2005**

The discussion and analysis of Apex Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period from June 22, 2004 (date of incorporation) through June 30, 2005. 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 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 Government issued June, 1999.

Financial Highlights

For the period ended June 30, 2005, total assets were \$94,477, total liabilities were \$69,097, and total net assets were \$25,380.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the academy.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report the activities for the Academy, which encompass all the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities. The Academy has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION) THROUGH
JUNE 30, 2005**

Reporting the Academy as a Whole (Continued)

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources.

The table below provides a summary of the Academy's net assets for the period ended June 30, 2005:

Assets—current	\$ 94,477
Liabilities—current	<u>69,097</u>
Net assets—unrestricted	<u>\$ 25,380</u>

The unrestricted net assets represent the accumulated results of the Academy's operations to date. These assets can be used to finance day to day operations without constraints, such as legislative or legal requirements. The results of the current year operations for the Academy as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which shows the change in net assets.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION) THROUGH
JUNE 30, 2005**

Statement of Revenues, Expenses and Changes in Net Assets

The table below shows the changes in net assets as well as a listing of revenues and expenses for the period from June 22, 2004 (date of incorporation) through June 30, 2005:

Operating revenues:	
Foundation payments	\$ 2,467,051
Food services	6,707
Other revenues	<u>180</u>
Total operating revenues	<u>2,473,938</u>
Operating expenses—	
Contracted service fee	<u>2,863,707</u>
Operating loss	(389,769)
Nonoperating revenues:	
Federal grants	175,288
State grants	34,249
Private sources—NHA	<u>205,612</u>
Total nonoperating revenues	<u>415,149</u>
Change in net assets	\$ <u>25,380</u>

As reported in the Statement of Revenues, Expenses and Changes in Net Assets, the cost of business activities was \$2,863,707. These activities were primarily funded by the Academy's state aid (based on student count) and governments and organizations that subsidized certain programs with grants. Revenues—Private sources — NHA represent a credit granted by NHA for the excess of Academy expenses over public revenues available.

The Academy experienced an increase in net assets of \$25,380 in 2005. Under the terms of the agreement with NHA, NHA provides a spending account to the Board of Directors for discretionary expenditures. The primary reason for the change in net assets is the timing of these discretionary expenditures.

General Economic Factors

The Academy depends on legislative and governmental support to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the Academy in 2006.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION) THROUGH
JUNE 30, 2005**

Contacting the Academy's Financial Management

The financial report is designed to provide users of the report with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report, contact the Chief Financial Officer of National Heritage Academies, Inc., 3850 Broadmoor SE, Ste. 201, Grand Rapids, MI 49512

**APEX ACADEMY
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**STATEMENT OF NET ASSETS
JUNE 30, 2005**

ASSETS:

Cash	\$ 27,504
Intergovernmental receivable	<u>66,973</u>

Total assets	<u>94,477</u>
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LIABILITIES:

Intergovernmental payable	1,026
Due to National Heritage Academies, Inc.	<u>68,071</u>

Total liabilities	<u>69,097</u>
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NET ASSETS—Unrestricted	<u><u>\$ 25,380</u></u>
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See notes to financial statements.

**APEX ACADEMY
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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION)
THROUGH JUNE 30, 2005**

OPERATING REVENUES:	
Foundation payments	\$ 2,467,051
Food services	6,707
Other revenues	<u>180</u>
Total operating revenues	<u>2,473,938</u>
OPERATING EXPENSES—Contracted service fee	<u>2,863,707</u>
OPERATING LOSS	<u>(389,769)</u>
NONOPERATING REVENUES:	
Federal grants	175,288
State grants	34,249
Private sources—National Heritage Acadmies, Inc.	<u>205,612</u>
Total nonoperating revenue	<u>415,149</u>
CHANGE IN NET ASSETS	25,380
NET ASSETS—Beginning of year	<u>-</u>
NET ASSETS—End of year	<u>\$ 25,380</u>

See notes to financial statements.

**APEX ACADEMY
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**STATEMENT OF CASH FLOWS
PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION)
THROUGH JUNE 30, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	\$ 2,467,051
Cash received from food services	6,707
Cash received from other operating revenue	180
Cash paid on behalf of the Academy for goods and services	<u>(2,795,636)</u>
Net cash used for operating activities	<u>(321,698)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal grants received	109,341
State grants received	34,249
Support from private sources—National Heritage Academies, Inc.	<u>205,612</u>
Net cash provided by noncapital financing activities	<u>349,202</u>
NET INCREASE IN CASH	27,504
CASH—Beginning of year	<u>-</u>
CASH—End of year	<u>\$ 27,504</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Operating Loss	\$ (389,769)
 Changes in Assets and Liabilities—	
Decrease in deferred state revenue	-
Increase in due to National Heritage Academies, Inc	<u>68,071</u>
Net change in assets and liabilities	<u>68,071</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (321,698)</u>

See notes to financial statements.

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**APEX ACADEMY
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**NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION)
THROUGH JUNE 30, 2005**

1. NATURE OF OPERATIONS

Apex Academy (the "Academy") is an Ohio Public School Academy which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The Academy operates under an approved charter received from Lucas County Educational Service Center ("LCESC" or the "Sponsor"), which is responsible for oversight of the Academy's operations. The charter's term expires on May 30, 2011 at which time it will automatically renew on a year-to-year basis, unless at least 90 days written notice is given by either the Academy or LCESC. The Academy provides education to students in kindergarten through the fifth grade, at no cost to the parent. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation.

The Academy was established and is operated as a non-profit corporation under Chapter 1702 of the Ohio Revised Code and believes itself to be exempt from taxation under Internal Revenue Code Section 115(1) because its income is derived from the exercise of an essential governmental function and accrues to the State of Ohio. Donations to the Academy qualify as a charitable deduction under Internal Revenue Code Section 170(c)(1).

The Academy operates under the direction of a Board of Directors (the "Board"). The Board is responsible for carrying out the provisions of the contract with the Sponsor which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Board has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the Academy operates. The facility lease term is from July 1st to June 30th and is renewable on a year to year basis. The agreement will automatically renew on a year-to-year basis, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the Academy or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the Academy from all revenue sources. NHA provides a spending account to the Board for discretionary expenses on an annual basis. Revenues—private sources—National Heritage Academies, Inc. represent a contribution granted by NHA for the excess of Academy expenses over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America ("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.

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**NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION)
THROUGH JUNE 30, 2005**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Academy does not apply FASB statements or interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. 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 statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprises activities.

C. Basis of Accounting

Basis of Accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.391(A) of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually, and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

**APEX ACADEMY
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**NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION)
THROUGH JUNE 30, 2005**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Cash Deposits

For cash management, all cash received by the Chief Financial Officer is pooled in a non-interest bearing central bank account. Total cash for the Academy is presented as "Cash" on the accompanying Statement of Net Assets. Cash as of June 30, 2005, represents bank deposits, which are covered by federal depository insurance.

G. Current Liabilities

Due to National Heritage Academies, Inc.—this amount consists of payments due to NHA for management services rendered in fiscal year 2005.

H. Operating Revenues and Expenses

Intergovernmental Revenues—the Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as nonoperating revenue in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when resources are required to be used or the fiscal year when use is 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.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At fiscal year end June 30, 2005, the Academy had no restricted net assets.

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**NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION)
THROUGH JUNE 30, 2005**

3. DEPOSITS AND INVESTMENTS

At fiscal year end June 30, 2005, the Academy's bank balance was \$27,504. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, none of the bank balance was exposed to custodial risk as discussed below, all of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Bank or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

4. RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of receivables follows:

<u>Intergovernmental Receivables</u>	<u>Amounts</u>
Title I	\$49,626
Title IIA	4,192
Title IID	1,299
Title V	1,590
IDEA, Part B	<u>10,266</u>
Total Intergovernmental Receivables	<u>\$66,973</u>

5. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System—NHA, on behalf of certain employees at 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 43215-3476.

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**NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION)
THROUGH JUNE 30, 2005**

5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and NHA is required to contribute at an actuarially determined rate. The current NHA rate is 14 percent of annual covered payroll. A portion of NHA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57 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. NHA's required contribution for pension obligations to SERS for the period ended June 30, 2005, was \$23,482 and 100 percent was contributed.

B. State Teachers Retirement System—NHA, on behalf of teachers at 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 East Broad St., Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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 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 DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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**NOTES TO FINANCIAL STATEMENTS
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5. DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. State Teachers Retirement System (Continued)

Plan members are required to contribute 10 percent of their annual covered salaries. NHA was required to contribute 14 percent, of which 13 percent was the portion used to fund pension obligations. 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. NHA's required contribution for pension obligations for the period ended June 30, 2005, was \$95,698 and 100 percent was contributed.

6. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through STRS Ohio and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. 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 benefit recipients and sponsored 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. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the period ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$957 for fiscal 2005.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2005 the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were approximately \$254.8 million 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 members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. 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 2005, the minimum pay was established at \$27,400. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$8,287.

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**NOTES TO FINANCIAL STATEMENTS
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6. POST-EMPLOYMENT BENEFITS (CONTINUED)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provided 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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were approximately \$178.2 million. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of approximately \$158.8 million. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants receiving health care benefits.

7. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained through Indiana Insurance Company. General liability coverage provides \$1,000,000 per occurrence and \$5,000,000 in the aggregate with no deductible. The Indiana Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate. There have been no significant reductions in insurance coverage during fiscal year 2005, and claims did not exceed coverage during the period.

8. 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 management, any such disallowed claims will not have a material adverse effect on the financial position of the Academy.

B. Litigation

A lawsuit entitled Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 33`4, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Apex Academy cannot presently be determined.

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**NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION)
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8. CONTINGENCIES (CONTINUED)

C. 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 the State funding being adjusted. The Academy does not anticipate any material adjustments to State funding for fiscal year 2005, as a result of such a review.

9. CONTRACTED SERVICE FEE

NHA has informed the Academy that the contracted service fee includes payment for the following:

Instruction:	
Basic instruction	\$ 1,251,422
Added needs	91,073
Special education	46,865
Support services:	
Pupil services	61,563
Instructional staff	121,358
Board of education	37,476
Executive administration	277,692
Office of the principal	237,809
Business support services	38,562
Operations and maintenance	392,341
Central services	176,466
Food services	131,080
 Total contracted service fee	 <u><u>\$ 2,863,707</u></u>

10. SPONSORSHIP AGREEMENT

The Academy entered into a sponsorship agreement with the LCESC. This agreement provides that LCESC receives approximately one percent of State Foundation funds received by the Academy from the State of Ohio. This amounted to \$24,674 for fiscal year 2005.

**APEX ACADEMY
CUYAHOGA COUNTY**

**NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JUNE 22, 2004 (DATE OF INCORPORATION)
THROUGH JUNE 30, 2005**

11. OPERATING LEASE

The Academy has entered into a sub-lease agreement with National Heritage Academies for a facility to house the Academy. The lease term is from July 1, 2004 through June 30, 2005. Annual rental payments required by the lease are \$359,200, payable in twelve monthly payments of \$29,333. This lease is renewable on a year to year basis.

The Academy subsequently renewed the sub-lease with National Heritage Academies on June 1, 2006 for the period of July 1, 2005 through June 30, 2006. Annual rental payments required by the lease are \$598,880, payable in twelve monthly payments of \$49,907. The increase in the rental payments reflected additional capital investments made to the facility.

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Mary Taylor, CPA

Auditor of State

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

Apex Academy
Cuyahoga County
16005 Terrace Road
East Cleveland, Ohio 44113

To the Board of Trustees:

We have audited the basic financial statements of the Apex Academy, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2005, which comprise the School's basic financial statements and have issued our report thereon dated April 24, 2008, which indicated that the amounts presented in Note 9 were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001.

Apex Academy
Cuyahoga County
Independent Accountants' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

We intend this report solely for the information and use of the management, and the Board of Trustees. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

April 24, 2008

**APEX ACADEMY
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER	2005-001
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Financial Report Filing

Ohio Revised Code Section 117.38 provides that each public office shall file a financial report for each fiscal year, within one hundred and fifty days for entities reporting on a GAAP basis. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part, this report shall contain the following:

- Amount of collections and receipts, and accounts due from each source; and
- Amount of expenditures for each purpose.

Ohio Administrative Code Section 117-2-03(B) further clarifies the filing requirements of Ohio Revised Code Section 117.38. This section provides that all school districts, including educational service centers and community schools, shall file their annual financial reports pursuant to generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

- Management Discussion and Analysis;
- Statement of Net Assets as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP;
- Cash flow statement as prescribed by GAAP; and
- Notes to the financial statements as prescribed by GAAP.

The Academy had not filed its financial statements for the year ended June 30, 2005.

We recommend the Academy organize its financial recordkeeping, develop tickler files as a reminder of filing dates and take all other steps necessary to file its financial statements within the prescribed time period. If these financial statements are not filed within the prescribed timetable the Academy may be assessed a late filing penalty.



Mary Taylor, CPA
Auditor of State

APEX ACADEMY

CUYAHOGA 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 13, 2008**