

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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



Mary Taylor, CPA

Auditor of State

Board of Directors
Springfield Academy of Excellence
623 S. 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, 2006 through June 30, 2007. 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

February 5, 2008

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**SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY
For the Year Ending June 30, 2007**

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
Notes to the Basic Financial Statements	10-21
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
Schedule of Findings	24-25
Status of Prior Audit’s Citations and Recommendations	26

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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, 2007, 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, 2007, 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 December 13, 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.

December 13, 2007

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

The discussion and analysis of Springfield Academy of Excellence (the Academy)'s financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2007. 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 2007 are as follows:

- ▶ Total net assets decreased \$599,319 in the fiscal year 2007 from fiscal year 2006. This decrease is due to the decrease in current assets, specifically cash on hand.
- ▶ Total assets decreased \$574,688 from the prior year, due primarily to the cash at year end being \$455,213 lower than the previous year and a \$30,288 decrease in grants receivable.
- ▶ The \$856,153 operating loss reported for fiscal year 2007 was \$683,212 more than the operating loss reported for fiscal year 2006. 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 cost of these grants is reported as operating. As the Academy's dependence on state and federal grants continues to decrease/increase, the operating deficit also continues to decrease/increase.

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

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

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 2007 compared with fiscal year 2006.

Table 1
Net Assets

	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 79,835	\$ 576,166
Capital assets, net	699,046	777,403
Total Assets	<u>778,881</u>	<u>1,353,569</u>
Liabilities		
Current liabilities	173,490	137,421
Non-current liabilities	369,645	381,083
Total Liabilities	<u>543,135</u>	<u>518,504</u>
Net Assets:		
Invested in capital assets (net of related debt)	317,963	385,721
Restricted	6,101	123,666
Unrestricted	(88,318)	325,678
Total Net Assets	<u>\$ 235,746</u>	<u>\$ 835,065</u>

Total net assets of the Academy decreased by \$599,319 from the net assets reported at June 30, 2006. Net assets invested in capital assets, net of related debt, decreased by \$67,758 from fiscal year 2006. Restricted net assets for June 30, 2007 are \$117,565 lower than the amount reported for the prior year. The decrease for fiscal year 2007 is directly related to the decrease in intergovernmental receivables for grants not received before the end of the fiscal year. Unrestricted net assets decreased to \$(88,318) during the year. The decrease in cash on hand at the year's end accounts for the majority of the decrease in unrestricted net assets.

Total liabilities of the Academy increased \$36,069 at June 30, 2007 compared with the same time a year prior. This increase is due to current liabilities, specifically accrued wages, being higher than the prior year and a decrease in scheduled debt service requirements on the Academy's construction loan which was used to finance the construction of a new school building.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007, as well as revenue and expense comparisons to fiscal year 2006.

Table 2
Change in Net Assets

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Foundation payments	\$1,078,805	\$1,640,812
Parity Aid	97,080	223,600
Donated leases	-	130,367
Other operating revenues	185,006	19,031
Non Operating Revenues:		
State and Federal Grant Revenue	273,458	428,764
Gifts and Donations	10,000	1,289
Interest earnings	5,968	5,077
Total Revenues	<u>1,650,317</u>	<u>2,448,940</u>
Operating Expenses:		
Salaries	1,077,784	1,135,302
Fringe benefits	337,144	269,145
Contract management/fiscal	51,442	59,988
Lease payments	118,802	261,653
Other purchased services	297,292	236,711
Materials and supplies	262,212	150,709
Depreciation	72,368	73,243
Non Operating Expenses:		
Interest and fiscal charges	32,592	30,020
Total Expenses	<u>2,249,636</u>	<u>2,216,771</u>
Change in net assets	(599,319)	232,169
Net assets, beginning of year	835,065	602,896
Net Assets, end of year	<u>\$ 235,746</u>	<u>\$ 835,065</u>

Total revenue received by the Academy in fiscal year 2007 decreased \$798,623 compared with fiscal year 2006. As shown on Table 2 above, there was a significant decrease in state foundation payments due to decreased student enrollment. There was also a \$126,520 decrease in parity aid from 2007 to 2006. Parity aid is funding received from the State for the special educational needs of low income students enrolled.

Total expenses for fiscal year 2007 increased \$32,865 compared with expense total reported for the prior fiscal year. Fringe benefits for employees and materials and supplies were the main components of the increase.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

Capital Assets

At June 30, 2007 the capital assets of the Academy totaled \$924,519 with accumulated depreciation being \$225,473. A break down of the Academy's capital assets is presented below.

Table 3
Capital Assets, Net of Depreciation

	<u>2007</u>	<u>2006</u>
Buildings	\$ 471,963	\$ 517,561
Leasehold Improvements	176,283	220,354
Equipment	50,800	39,488
Total	<u>\$ 699,046</u>	<u>\$ 777,403</u>

During the year, the Academy purchased \$26,338 in computer equipment which was capitalized. Fiscal year 2007 depreciation expense totaled \$72,368 compared with \$73,243 reported in fiscal year 2006.

Debt

At June 30, 2007, the debt obligation 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, 2007 the outstanding principal balance was \$381,083 with \$11,438 becoming due in fiscal year 2008. The Academy made total principal payments of \$10,599 during the fiscal year 2007. 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, 2007

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 3,006
Receivables:	
Intergovernmental Receivable	70,375
Total Current Assets	<u>73,381</u>

Noncurrent Assets:

Security Deposit	6,454
Capital Assets (Net of Accumulated Depreciation)	699,046
Total Noncurrent Assets	<u>705,500</u>

Total Assets	<u><u>\$ 778,881</u></u>
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Liabilities:

Current Liabilities:

Accounts Payable	\$ 22,897
Accrued Wages Payable	95,043
Intergovernmental Payable	41,078
Accrued Interest Payable	3,034
Notes Payable, Current Portion	11,438
Total Current Liabilities	<u>173,490</u>

Noncurrent Liabilities:

Notes Payable	<u>369,645</u>
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Total Liabilities	<u><u>\$ 543,135</u></u>
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Net Assets:

Invested in Capital Assets, Net of Related Debt	\$ 317,963
Restricted	6,101
Unrestricted	<u>(88,318)</u>

Total Net Assets	<u><u>\$ 235,746</u></u>
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See accompanying notes to the basic financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

Operating Revenues:	
Foundation Payments	\$ 1,078,805
Parity Aid	97,080
Charges for services	146,299
Miscellaneous operating revenue	38,707
Total Operating Revenues	<u>1,360,891</u>
Operating Expenses:	
Salaries	1,077,784
Fringe Benefits	337,144
Contractual management & Fiscal fees	51,442
Lease Payments	118,802
Other purchased services	297,292
Materials and Supplies	262,212
Depreciation	72,368
Total Operating Expenses	<u>2,217,044</u>
Operating Loss	(856,153)
Non-Operating Revenues and (Expenses):	
State and Federal Grant Revenue	273,458
Gifts and Donations	10,000
Interest Earnings	5,968
Interest and Fiscal Charges	(32,592)
Total Non-Operating Revenues	<u>256,834</u>
Changes in Net Assets	(599,319)
Net Assets at Beginning of Year	835,065
Net Assets at End of Year	<u><u>\$ 235,746</u></u>

See accompanying notes to the basic financial statements.

**SPRINGFIELD ACADEMY OF EXCELLENCE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash from State of Ohio	\$ 1,194,385
Cash from Customers	146,299
Cash Payments to Suppliers for Goods and Services	(714,366)
Cash Payments to Employees for Services and Benefits	(1,373,458)
Other Operating Revenue	38,707
Net Cash Used in Operating Activities	<u>(708,433)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Subsidies	303,747
Gifts and Contributions	10,000
Net Cash Provided by Noncapital Financing Activities	<u>313,747</u>

Cash Flows from Capital and Related Financing Activities:

Principal Paid on Notes	(10,599)
Interest Paid on Notes	(29,558)
Cash Payments for Capital Acquisitions	(26,338)
Net Cash Used in Capital and Related Financing Activities	<u>(66,495)</u>

Cash Flows from Investing Activities:

Interest on Investments	<u>5,968</u>
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Net Decrease in Cash and Cash Equivalents (455,213)

Cash and Cash Equivalents, Beginning of Year 458,219

Cash and Cash Equivalents, End of Year \$ 3,006

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating Loss \$ (856,153)

Adjustments to Reconcile Operating Loss to Net Cash used in Operating Activities:

Depreciation	72,368
Changes in Assets and Liabilities:	
Decrease in Grants Receivable	30,288
Decrease in Prepaid Items	10,830
Increase in Accrued Wages Payable	17,830
Decrease in Accounts Payable	(4,857)
Increase in Intergovernmental Payable	21,261
Total Adjustments	<u>147,720</u>

Net Cash Used in Operating Activities \$ (708,433)

See accompanying notes to the basic financial statements.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

1. Description of the Academy and Reporting Entity:

Springfield Academy of Excellence, Inc. (the Academy) is a state non-profit corporation established pursuant to the 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 operations 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 July 1, 2006, 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 include, 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 certified 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 non-profit 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 Academy's significant accounting policies are described below.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

2. Summary of Significant Accounting Policies (continued):

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment 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

Community schools must adopt a spending plan under Ohio Revised Code. Section 5705.391 requires annual appropriations and annual revenues estimates. The contract between the School and its sponsor requires the school to comply with the financial plan that details an estimated budget for each year of the contract.

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 have a new school building which was constructed during the FY 05 school year.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

2. Summary of Significant Accounting Policies (continued):

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.

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, 2007, including:

Wages Payable – salary payments made after year-end that were for services rendered in fiscal year 2007. 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, 2007 for all salary payment made to teaching personnel during the month of July 2007.

Intergovernmental Payable – payment for the employer's share of the retirement contribution (\$13,306), worker's compensation (\$742), Medicare (\$1,378), and the SERS surcharge of (\$7,152) associated with services rendered during fiscal year 2007, but were not paid until the subsequent fiscal year. Also included in intergovernmental payable is the liability for the FY 07 ODE overpayment of \$18,500.

H. Security Deposits

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.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

2. Summary of Significant Accounting Policies (continued):

I. 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.

J. 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.

K. 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, 2007, the carrying amount of the Academy's deposits was \$3,006 and the bank balance was \$21,103, all of which was covered by the Federal Deposit Insurance Corporation (FDIC).

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

4. Intergovernmental Receivables:

Receivables at June 30, 2007, consisted of an intergovernmental grant from the Federal government, which is considered to be collectible in full and included the following principal components:

<u>Grant Program</u>	
Title I Grant	\$ 4,691
Food Service Reimbursement	23,334
Title II-A Innovative Grant	2,830
Title IV-A Safe and Drug Free	1,876
Special Ed., Part B-IDEA	5,165
TANF, After School	32,479
Intergovernmental Receivable	<u>\$ 70,375</u>

5. Capital Assets:

A summary of the Academy's capital assets at June 30, 2007, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets:				
Buildings	\$ 530,832	\$ -	\$ 32,327	\$ 498,505
Leasehold Improvements	308,495	-	-	308,495
Equipment	91,181	26,338	-	117,519
Total Assets	<u>\$ 930,508</u>	<u>\$ 26,338</u>	<u>\$ 32,327</u>	<u>\$ 924,519</u>
Depreciation:				
Buildings	\$ (13,271)	\$ (13,271)	\$ -	\$ (26,542)
Leasehold Improvement	(88,141)	(44,071)	-	(132,212)
Equipment	(51,693)	(15,026)	-	(66,719)
Accumulated Depreciation	<u>\$ (153,105)</u>	<u>\$ (72,368)</u>	<u>\$ -</u>	<u>\$(225,473)</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 2007, 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

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

6. Risk Management (continued):

are 90% co-insured. Commercial general liability covers each single occurrence for \$1 million with a \$2 million general aggregate limit. 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:

Obligation	Beginning Balance	Principal Pmts.	Ending Balance	Amount Due in One Year
Construction loan – Huntington National Bank at 7.64%	<u>\$ 391,682</u>	<u>\$ 10,599</u>	<u>\$ 381,083</u>	<u>\$11,438</u>
	<u>\$ 391,682</u>	<u>\$ 10,599</u>	<u>\$ 381,083</u>	<u>\$11,438</u>

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)%. For the fiscal year 2007 the interest rate was 7.64%. The loan was guaranteed in full by the Church of Jesus, Inc. through a third mortgage secured on a real property located at 623 South Center Street, Springfield, Ohio. In addition, the Ohio School Facilities Commission has guaranteed 85% of the project for the first 15 years of the loan.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

7. Notes Payable (continued):

Future principal obligations of the loan are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 11,438	\$ 28,720
2009	12,343	27,815
2010	13,320	26,838
2011	14,374	25,784
2012	15,511	24,646
Thereafter	314,097	165,857
Total	<u>\$ 381,083</u>	<u>\$299,660</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 the School Employees Retirement System, 300 East Board 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% of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14% 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 2007, 10.58% 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, 2007, 2006, and 2005 were \$35,757, \$39,946, and \$34,910, respectively; 100% has been contributed for each of the fiscal years.

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.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

8. Defined Benefit Pension Plans (continued):

STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website 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 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% 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 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, 2007, plan members were required to contribute 10% of their annual covered salaries. The Academy was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$116,046, \$121,651, and \$87,900, respectively; 100% has been contributed for each of the fiscal years.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

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 retire 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. Benefits 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% 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, 2006, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2007, 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 benefits 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% contributions is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.42% of covered payroll, compared to 3.43% covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, 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 2007 fiscal year equaled \$17,042.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

9. Postemployment Benefits (continued):

The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$178,221,113. At June 30, 2006, 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, 2007 for a monthly fee of \$4,325.

11. Restricted Net Assets:

At June 30, 2007 the Academy reported restricted net assets totaling \$6,101. The nature of the net asset restrictions were all federal specific educational program grants.

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 the 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 2007, which did not result in any material adjustments to the funding received.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

12. Contingencies (continued):

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.

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 2007 totaled \$68,160. The Academy paid \$49,080 of these obligations. Lease obligations to the Day Care Center totaled \$21,072 in fiscal year 2007. Lease obligations to Modular Designs totaled \$61,800. The Academy paid \$48,650 of these obligations.

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 2007, the lease was forgiven by the Church. Lease payments are expected to remain the same for the remaining term of the lease.
- The Academy signed a lease agreement with Modular Designs for 12 double-unit modular systems. During fiscal year 2007, the Academy paid \$48,650 to Modular Designs related to this lease. Lease payments are expected to remain the same for the remaining term of this lease.
- A lease of the Annex and other building space from the Church, beginning October 1, 2001 through July 1, 2007 in the amount of \$3,000 per month. During fiscal year 2007, the Academy paid \$33,000 related to this lease agreement. Lease payments are expected to remain the same for the remaining term of the lease.

SPRINGFIELD ACADEMY OF EXCELLENCE, INC.

Notes to the Basic Financial Statements

June 30, 2007

13. Operating Leases (continued):

- The Academy leases food storage space and freezer space and certain equipment from the Day Care Center. Lease obligations related to these items totaled \$21,072 during the fiscal year. Lease payments are expected to remain the same for the remaining term of the leases.

14. Related Parties:

During the fiscal year ended June 30, 2007, the Academy made payments on several lease agreements with the Day Care Center and 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 \$21,072 and lease expenses recognized to the Church were \$49,080 for the fiscal year ended June 30, 2007.

15. Other Purchased Services:

During the fiscal year ended June 30, 2007, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 120,108
Property services	11,273
Travel and meeting expense	5,634
Communications	15,741
Utilities	32,342
Contracted Trade or Craft	1,473
Pupil transportation	60,956
Other Purchased	21,989
Other Objects (800)	27,776
	<u>\$ 297,292</u>

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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, 2007, which collectively comprise the School's basic financial statements and have issued a report thereon dated December 13, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We consider the deficiency described in the accompanying Schedule of Findings, item 2007-SAE-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

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, grants 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 that are required to be reported under *Government Auditing Standards*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We noted certain matters that we have reported to management of the School in a separate letter dated December 13, 2007.

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 & Associates, Inc.

December 13, 2007

**SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007**

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

**FINDING NUMBER 2007-SAE-01
Material Weakness**

Timely Financial Information

The School had a loss of Net Assets during the fiscal year ending June 30, 2007 in the amount of \$599,315. The loss was mainly due to a reduction in State Foundation payments. State Foundation payments are based on student enrollment. State Foundation payments represent 65 and 67 percent, respectively of total revenues for fiscal years 2007 and 2006. The School's State Foundation payments dropped \$562,007 from fiscal 2006 to fiscal year 2007, while The School's total expenses increased \$32,865 during the same period.

We recommend the Board take appropriate action, such as reducing expenses, when facing such a reduction in revenue.

School Response

School year 2006-2007 was a pivotal year for the governing board of SAE. We had a cash reserve of well over \$350,000. This year however we lost a large number of students due to the voucher system being offered because of the inability of the school to show it could meet state standards in academics. Because we are a school of choice and our parents support this cause we found our selves on the losing edge, our parents chose proven private institutions for their students. As a board we decided that we had to produce data that would support that we had the ability and the staff to meet the state standards or we needed to decide how long would we continue to serve the community with no results. We live in a community where local foundation support was out of the question because of the loyalty to the city school system. With the assistance of TANF dollars and our own reserves we decided to invest everything to:

1. Bring our teachers pay up to a comparable level with the City Schools.
2. To terminate any staff that was not committed to the goal of educating the students by not renewing out their contracts. This was determined by data that was a matter of record.
3. To tutor students and coach teachers to help students to understand the curriculum and past the test with extra hours after school.
4. To come out of academic emergency, because we had an obligation to our sponsor and SAE family to produce better student outcomes.
5. Hiring extra support staff to assist our teachers, and hiring grant writers to find dollars to support our efforts
6. Buying off past due debts not paid by former treasurer.

**SPRINGFIELD ACADEMY OF EXCELLENCE
CLARK COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2007**

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

**FINDING NUMBER 2007-SAE-01
Material Weakness
(Continued)**

Guess what....it worked!!!! We knew we had to be fiscally responsible but what good was the money without the results that count, that year we not only came out of academic emergency we moved up TWO benchmarks to CONTINUOUS IMPROVEMENT becoming the first city school district to have this designation. We needed this for our board, our staff, and most important our parents who trusted us with their children's educational needs. We as a board believe that we will be able to recover and be recognized with our proven academic ability thus increasing our enrollment, thus enabling us to be financially secure and most important making a difference in the lives of the children in our community through our nurturing of the whole child.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, as of June 30, 2006, 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
FEBRUARY 15, 2008**