



**AKROS MIDDLE SCHOOL
SUMMIT COUNTY**

INITIAL AUDIT

FOR THE PERIOD AUGUST 25, 2010 THROUGH JUNE 30, 2011



Dave Yost • Auditor of State

**AKROS MIDDLE SCHOOL
SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Akros Middle School
Summit County
265 Park Street
Akron, Ohio 44304

To the Board of Directors:

We have audited the accompanying basic financial statements of Akros Middle School, Summit County, Ohio, (the School) as of and for the period August 25, 2010 through June 30, 2011, 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Akros Middle School, Summit County, Ohio, for the period August 25, 2010 through June 30, 2011, and the changes in its financial position and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note L to the financial statements, the School is experiencing certain financial difficulties and has a net asset deficiency of \$85,706. Management's plans in regard to this matter are also described in Note L. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2012, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

March 16, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

AKROS MIDDLE SCHOOL

Year Ended June 30, 2011

The discussion and analysis of the Akros Middle School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

Financial Highlights

The discussion and analysis of Akros Middle School's financial performance provides an overall review of Akros' financial activities for the fiscal year ended June 30, 2011. Readers should also review the basic financial statements and notes to enhance their understanding of Akros' financial performance.

Highlights

Akros Middle School, a community school, began its first year of operation on August 25, 2010 and had eighty-two students participating in the program by the end of the year.

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.

The School uses the enterprise presentation for all of its activities.

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2011. These statements include all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED

AKROS MIDDLE SCHOOL

Year Ended June 30, 2011

As this is the first year of operation, only current year activity has been presented in the tables below. Two year comparisons will be presented in subsequent periods.

The table below provides a summary of the School's net assets for fiscal year 2011.

Statement of Net Assets

<u>ASSETS</u>	
Current assets	\$ 74,909
Capital assets, net	119,815
Other assets	374
TOTAL ASSETS	<u>\$ 195,098</u>
 <u>LIABILITIES</u>	
Current liabilities	<u>\$ 280,804</u>
 <u>NET ASSETS</u>	
Invested in capital assets	\$ 119,815
Unrestricted	(205,521)
TOTAL NET ASSETS	<u>\$ (85,706)</u>

Total assets were \$195,098. This was primarily due to cash and capital assets.

Statements of Revenues, Expenses and Changes in Net Assets

The table that follows shows the change in net assets for fiscal year 2011, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED

AKROS MIDDLE SCHOOL

Year Ended June 30, 2011

Change in Net Assets

OPERATING REVENUES

Foundation payments	\$ 617,955
Other	948

NON-OPERATING REVENUES

State and federal grants	420,386
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TOTAL REVENUES	<u>1,039,289</u>
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OPERATING EXPENSES

Salaries	460,747
Retirement	49,540
Insurance	12,135
Rent	160,600
Purchased services	226,631
Materials and supplies	164,437
Utilities	16,263
Depreciation	12,691
Other operating expenses	21,951

TOTAL OPERATING EXPENSES	<u>1,124,995</u>
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CHANGE IN NET ASSETS	<u>\$ (85,706)</u>
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Budgeting Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the community school's contract with its Sponsor. The contract between the School and the sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the School.

MANAGEMENT'S DISCUSSION AND ANALYSIS—CONTINUED

AKROS MIDDLE SCHOOL

Year Ended June 30, 2011

Capital Assets

At the end of fiscal year 2011 the School had \$119,815, invested in computers and software, furniture and equipment, land improvements and leasehold improvements (net of depreciation). The table below shows the Capital Assets by category.

Capital Assets (Net of Depreciation)

Computers and Software	\$ 3,648
Furniture and Equipment	53,466
Land Improvements	2,922
Leasehold Improvements	59,779
	<u>\$ 119,815</u>

For more information on capital assets, see Note B in the Notes to the Basic Financial Statements.

Current Financial Issues

The School received revenue for 82 students in 2011 and continues to enroll students on a daily basis. State law governing community schools allows for the School to have open enrollment across traditional school district boundaries. The School receives its support almost entirely from State Aid. Per pupil revenue from State Aid for the School averaged \$7,536 in fiscal year 2011 with no increase in State Basic Aid planned in fiscal year 2012. The School receives additional revenues from grant subsidies.

The School contracted with the St. Aloysius Orphanage as its sponsor. State law allows sponsors to assess the schools up to 3 percent of State revenues as an oversight fee, a cost that was not incurred through the sponsorship by ODE. St. Aloysius Orphanage charged 1.5 percent of State Aid to be paid by the School for fiscal year 2011.

Contacting the School's Financial Management

This financial report is designed to provide our readers with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional information, contact Ray Conser, Director for the Akros Middle School, 265 Park Street, Akron, Ohio 44304 or e-mail at rconser@akros4kids.org.

STATEMENTS OF NET ASSETS

AKROS MIDDLE SCHOOL

June 30, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	31,800
State and federal grants receivable		20,897
Prepaid expense		22,212
		<u>74,909</u>

TOTAL CURRENT ASSETS

PROPERTY AND EQUIPMENT

Computer equipment		4,394
Furniture and equipment		62,791
Land improvements		3,062
Leasehold improvements		62,259
		<u>132,506</u>
Less: accumulated depreciation		(12,691)
		<u>119,815</u>

OTHER ASSETS

Deposits		374
		<u>374</u>

TOTAL ASSETS 195,098

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable		5,175
Due to related party		175,174
Accrued wages and benefits		100,455
		<u>280,804</u>

TOTAL CURRENT LIABILITIES

NET ASSETS

Invested in capital assets		119,815
Unrestricted net assets		(205,521)
		<u>(85,706)</u>

TOTAL NET ASSETS \$ (85,706)

See accompanying notes to the basic financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

AKROS MIDDLE SCHOOL

Year ended June 30, 2011

OPERATING REVENUES

Foundation payments	\$ 617,955
Other	948

TOTAL OPERATING REVENUES	<u>618,903</u>
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OPERATING EXPENSES

Salaries	460,747
Retirement	49,540
Insurance	12,135
Rent	160,600
Purchased services	226,631
Materials and supplies	164,437
Utilities	16,263
Depreciation	12,691
Other operating expenses	21,951

TOTAL OPERATING EXPENSES	<u>1,124,995</u>
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OPERATING LOSS	<u>(506,092)</u>
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NON-OPERATING REVENUES

State and federal grants	<u>420,386</u>
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<u>420,386</u>

CHANGE IN NET ASSETS	(85,706)
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NET ASSETS AT BEGINNING OF YEAR	<u>0</u>
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NET ASSETS AT END OF YEAR	<u><u>\$ (85,706)</u></u>
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See accompanying notes to the basic financial statements.

STATEMENTS OF CASH FLOWS

AKROS MIDDLE SCHOOL

Year ended June 30, 2011

Increase (Decrease) in Cash and Cash Equivalents

Cash flows from operating activities:		
Cash received from State of Ohio		\$ 597,058
Cash payments to employees for services and benefits		(426,552)
Cash payments to suppliers for goods and services		(558,261)
Cash payments for other operating expenses		(21,861)
Other operating revenues		948
	Net cash used in operating activities	<u>(408,668)</u>
Cash flows from noncapital financing activities:		
State and federal grants		<u>420,386</u>
	Net cash provided by noncapital financing activities	<u>420,386</u>
Cash flows from capital and related financing activities:		
Cash payments for related party		175,174
Cash payments for capital acquisitions		(132,506)
Cash payments for deposits		(374)
Cash payments for payroll liability for next year		(22,212)
	Net cash provided by capital and related financing activities	<u>20,082</u>
	Net increase in cash and cash equivalents	31,800
	Cash and cash equivalents at beginning of year	<u>0</u>
	Cash and cash equivalents at end of year	<u>\$ 31,800</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss		<u>\$ (506,092)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation		12,691
(Increase) decrease in assets:		
Accounts receivable		(20,897)
Increase (decrease) in liabilities:		
Accounts payable		5,175
Accrued wages and benefits		100,455
	Total adjustments	<u>97,424</u>
	Net cash used in operating activities	<u>\$ (408,668)</u>

See accompanying notes to the basic financial statements.

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NOTES TO FINANCIAL STATEMENTS

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE A – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Akros Middle School (the School) is a not-for-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to educate students in grades six through eight. The School, 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 School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School was approved for operation under a year to year contract with the St. Aloysius Orphanage for a period of five years commencing with the fiscal year ended June 30, 2011.

The School operates under the direction of a self-appointing, five-member Board of Directors. The 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 Board controls the School's one instructional/support facility staffed by 3 non-certified and 10 certified full-time teaching personnel who provide services to approximately 82 students.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements. The School has elected not to follow FASB guidance for its proprietary activities issued after November 30, 1989. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

The following are the most significant of the School's accounting policies.

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

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Measurement Focus and Basis of Accounting: The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the financial records and reported in the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

Budgetary Process: Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with the sponsor. The contract between the School and the sponsor, the St. Aloysius Orphanage, does not prescribe a budgetary process for the School.

Cash: Cash held by the School is reflected as "cash and cash equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Property and Equipment: Property and equipment are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School maintains a capitalization threshold of \$1,000, while repairs are charged to expense. The School does not possess any infrastructure and does not capitalize interest costs.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Depreciation of computer equipment, furniture and equipment, land improvements and leasehold improvements is computed using the straight-line method based on estimated useful life of 5 to 20 years. Depreciation expense for the year ended June 30, 2011 was \$12,691.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Purchased Services: The School purchased services in the amount of \$226,631 for the year ended June 30, 2011.

This includes the following at June 30:

Busing and transportation fees	\$ 11,313
Professional development	41,427
School psychologist	3,465
Speech and hearing services	3,850
Professional and legal	16,248
Maintenance services	6,483
Repairs and maintenance	25,201
Instructional purchased services	29,300
Special instructional purchased services	33,995
Other general services	55,349
	<u>\$ 226,631</u>

Compensated Absences: Each employee of the School is entitled to five paid sick days each year. Days not used during the year are not carried over to the following year and the School does not pay employees for unused sick days. Employees of the School do not earn vacation.

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Intergovernmental Revenue: The School currently participates in the State Foundation Program, Public Charter School Program, the State Poverty Aid Program, the State Meals Program, the EMIS Subsidy Program, the Food Service Federal Grant Programs, the IDEA Part B Program, Title I, Title II-A, Title II-D, Title IV-A, the Fiscal Stabilization Program and the Education Jobs Fund. Revenues received from these programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided on a reimbursement basis.

Accrued Liabilities: The School has recognized certain expenses due but unpaid as of June 30, 2011. These expenses are reported as accrued liabilities in the accompanying financial statements.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes: The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provisions for federal income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for years ended June 30, 2011. The School believes that it has appropriate support for the tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

NOTE C – DEPOSITS AND INVESTMENTS

Deposits: At June 30, 2011, the carrying amount of the School’s deposits was \$31,800, and the bank balance totaled \$37,306. \$37,306 of the bank balance was covered by the federal depository insurance.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE C – DEPOSITS AND INVESTMENTS – CONTINUED

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end June 30, 2011, 100% of the School's bank balances were insured and collateralized.

NOTE D – STATE AND FEDERAL GRANTS RECEIVABLE

Receivables at June 30, 2011 consisted of state and federal grants. All state and federal grants are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

NOTE E – RISK MANAGEMENT

Property and Liability: The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2011, the School contracted with Philadelphia Insurance Companies for property and general liability insurance with a \$3,000,000 aggregate limit. Settled claims did not exceed insurance coverage in the past year.

Workers' Compensation: The School pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

Employee Medical, Dental, and Vision Benefits: The School has contracted with a private carrier to provide its full-time salaried employees medical/surgical benefits and life insurance. The School paid premiums, up to \$446 per month per employee, for this coverage.

NOTE F – DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE F—DEFINED BENEFIT PENSION PLANS - CONTINUED

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.81% of annual covered salary was the portion used to fund pension obligations.

The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2011, was \$1,317, 63% has been contributed for fiscal year 2011.

State Teachers Retirement System of Ohio

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, by calling (888) 227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation among various investment accounts. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers Plan 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 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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE F – DEFINED BENEFIT PENSION PLANS – CONTINUED

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.

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 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.

The School's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2011, was \$25,548; 100 percent has been contributed for fiscal year 2011.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, there were no members of the governing board that elected Social Security.

NOTE G – POST EMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description - The School participates in two cost sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS at 300 East Broad Street, Suite 100, Columbus, OH 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal

NOTES TO FINANCIAL STATEMENTS—CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE G—POST EMPLOYMENT BENEFITS - CONTINUED

Revenue Code Section 401(h). For 2011, 1.43% of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$35,800. During fiscal year 2011, the School paid surcharges of \$0.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal year ended June 30, 2011, \$860; 63% has been contributed for fiscal year 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, the actuarially required allocation was 0.76% of covered payroll. The School's contribution for Medicare Part B for the fiscal year ended June 30, 2011, was \$457; 63% has been contributed for fiscal year 2011.

State Teachers Retirement System

Plan Description - The School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal year ended June 30, 2011, was \$1,965; 100% has been contributed for fiscal year 2011.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE H – CONTINGENCIES

Grants: The School received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2011.

Enrollment FTE: The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (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 conclusion of this review could result in state funding being adjusted. For fiscal year 2011 these reviews resulted in adjustments of \$20,897. This amount is reflected as State and Federal grants receivable on the School's statement of net assets and will be included in the School's future foundation settlements.

NOTE I – RENTAL AGREEMENT

As of September 1, 2010, the School entered into a three-year lease with Charter Development Foundation, Inc. (a related party) for the use of classrooms and office space. Annual rent for the use of these facilities is \$204,600 payable in monthly installments of \$17,050. The lease expires on August 31, 2013. The School is responsible for paying all taxes, utilities and maintenance costs.

Total rent expense was \$160,600 for the year ended June 30, 2011.

Future minimum payments as of June 30, 2011 are as follows:

	<u>Total</u>
2012	\$ 204,600
2013	204,600
2014	34,100
	<u>\$ 443,300</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

AKROS MIDDLE SCHOOL

June 30, 2011

NOTE J – RELATED PARTY TRANSACTIONS

The School has a lease with Charter Development Foundation, Inc., a not-for-profit organization established and managed by the developer of the school (See Note I.)

The School has a due to related party in the amount of \$175,174 to Edge Learning, Inc., a not-for-profit organization established and managed by the developer of the school. The payable resulted from Edge Learning, Inc., paying expenses for the School during fiscal year ended June 30, 2011.

NOTE K – SUBSEQUENT EVENTS

On January 16, 2012, the School entered into a loan agreement in the amount of \$150,000 with Charter Development Foundation, Inc., a not-for-profit organization established and managed by the developer of the school. The proceeds of this loan are to be used to partially repay Edge Learning, Inc., for the expenses of the school paid for by Edge Learning, Inc., during fiscal year ended June 30, 2011. This loan will be reflected in the financial statements for the fiscal year ending June 30, 2012.

NOTE L – FISCAL DISTRESS

The School had an operating loss of \$506,092 and deficit net assets of \$85,706 at June 30, 2011. Management intends to eliminate these deficits by increasing enrollment and improving operating efficiencies.



Dave Yost • Auditor of State

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

Akros Middle School
Summit County
265 Park Street
Akron, Ohio 44304

To the Board of Directors:

We have audited the accompanying basic financial statements of Akros Middle School, Summit County, Ohio, (the School) as of and for the period August 25, 2010 through June 30, 2011 and have issued our report thereon dated March 16, 2012, wherein we noted the School is experiencing financial difficulties. 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 School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of 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 internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-01 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of reasonably assuring whether the School'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated March 16, 2012.

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

We intend this report solely for the information and use of management, the Board of Directors, the School's sponsor, and others within the School. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 16, 2012

AKROS MIDDLE SCHOOL
SUMMIT COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2011

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

Payroll Processing

<i>Finding Number</i>	2011-01
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SIGNIFICANT DEFICIENCY

The School contracted its payroll processing, which is a significant accounting function, to a third party administrator. The School has not established procedures to determine whether the service organization has sufficient controls in place, and operating effectively, to help ensure payroll transactions are completely and accurately processed. As such, we were unable to rely on the service organization controls in our audit and therefore, we performed detail substantive testing to gain assurance over payroll transactions processed by the service organization.

The School should implement procedures to help ensure the completeness and accuracy of payroll transactions processed by its third-party administrator. AT Section 801, *Reporting on Controls at a Service Organization* (SSAE No. 16), prescribes standards for reporting on the processing (i.e. control and design operation) of transactions by service organizations. An unqualified *Independent Service Auditor's Report on Management's Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls Report* (Type 2 Service Organization Control Report (SOC 1)) report should provide the School with an appropriate level of assurance that payroll is being processed completely and accurately.

The School should specify in their contract with the third-party administrator that an annual Type 2 SOC 1 report be issued. The School should be provided a copy of the Type 2 SOC 1 report in a timely fashion and should review the report to determine the adequacy of the service organization's internal control system. A Type 2 SOC 1 report should be conducted in accordance with America Institute of Certified Public Accountants' (AICPA) Standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State.

Official's Response: Akros Middle School will work with their current third party administrator (Ahola Payroll Services) into obtaining and issuing a Type 2 SOC 1 report. Akros will also look into the cost of contracting with another Payroll Service that issue Type 2 SOC1 reports.

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Akros Middle School
Summit County
265 Park Street
Akron, Ohio 44304

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Akros Middle School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated March 16, 2012, we noted the Board had not adopted an anti-harassment policy.
2. We inquired with the Board's management regarding the aforementioned policy. They stated they have not yet adopted an anti-harassment policy. The Board should adopt a policy as required by Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and the School's Sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 16, 2012



Dave Yost • Auditor of State

AKROS MIDDLE SCHOOL

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 8, 2012**