

Summit Academy Akron Elementary School
Summit County, Ohio

Regular Audit

For the Fiscal Years Ended
June 30, 2012 and 2011



Dave Yost • Auditor of State

Board of Directors
Summit Academy Akron Elementary School
88 Kent Street
Akron, Ohio 44305

We have reviewed the *Independent Auditor's Report* of the Summit Academy Akron Elementary School, Summit County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 Summit Academy Akron Elementary School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 31, 2012

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**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

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October 25, 2012

Summit Academy Akron Elementary School
Summit County
88 Kent Street
Akron, Ohio 44305

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Summit Academy Akron Elementary School (the "School"), as of and for the years ended June 30, 2012 and 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the School, as of June 30, 2012 and 2011, and the respective changes in financial position and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 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. 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.

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

Hea & Associates, Inc.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As management of Summit Academy Akron Elementary School (the School), we offer readers of the School's basic financial statements this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

By agreement with its management company, Summit Academy Management, 100% of all revenue (except as follows) is passed through to the management company in order to manage the affairs of the School. In this regard, a cash management system is utilized in which all School cash was 'swept' into the bank account of the management company, except for the interest earned on the School's note receivable from the management company. Such interest totaled \$15,832 at June 30, 2012, and is kept in a separate, non-sweep account for the future benefit of the School.

The School has Medicaid and intergovernmental receivables totaling \$104,564 for federal and state grants earned in 2012, but not received until after June 30, 2012. At the same time, the financial statements show a management fee payable to the management company of the same amount, reflecting the 100% pass-through of revenue to the management company.

The School has net assets of \$94,901, which is the difference between its assets and liabilities. Net assets increased by \$3,965 during the year as a result of a net income for the year.

Overview of the Financial Statements

The financial statements presented by the School are the Balance Sheet, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The *Balance Sheet* presents information on all the School's assets and liabilities, with the difference being the net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating. However, given the School's management agreement with the management company, which calls for 100% of all receipts to be paid to the management company, the School's net assets balance is not expected to change significantly in the near future.

The *Statement of Revenues, Expenses, and Changes in Net Assets* presents information showing how the School's net assets changed during the year. This statement summarizes operating revenues and expenses, along with non-operating revenues and expenses.

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

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

Finally, it should be noted that the School utilizes the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private sector companies in that it recognizes revenues and expenses when earned regardless of when cash is received or paid.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Financial Analysis

The following tables indicate our financial analysis of the School:

Table 1 - Balance Sheets

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Amount of Change</u>	<u>Percent of Change</u>	<u>6/30/2010</u>
Assets					
Current Assets	\$ 120,396	\$ 65,394	\$ 55,002	84.1%	\$ 164,875
Non-current Assets	79,069	79,069	-	0.0%	79,069
Total assets	<u>\$ 199,465</u>	<u>\$ 144,463</u>	<u>\$ 55,002</u>	38.1%	<u>\$ 243,944</u>
Liabilities					
Current Liabilities	\$ 104,564	\$ 53,527	\$ 51,037	95.3%	\$ 156,966
Net Assets					
Unrestricted	94,901	90,936	3,965	4.4%	86,978
Liabilities and net assets	<u>\$ 199,465</u>	<u>\$ 144,463</u>	<u>\$ 55,002</u>	38.1%	<u>\$ 243,944</u>

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

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>Amount of Change</u>	<u>Percent of Change</u>	<u>6/30/2010</u>
Operating revenues	\$ 3,761,165	\$ 1,362,229	\$ 2,398,936	176.1%	\$ 1,856,284
Operating expenses	4,059,641	1,673,726	2,385,915	142.6%	2,308,754
Operating loss	(298,476)	(311,497)	13,021	-4.2%	(452,470)
Non-operating revenues	302,441	315,455	(13,014)	-4.1%	438,034
Net income (loss)	<u>\$ 3,965</u>	<u>\$ 3,958</u>	<u>\$ 7</u>		<u>\$ (14,436)</u>

Current assets increased by \$55,002 or 84.1% due to an increase in cash from interest earned and in intergovernmental receivables due to more Medicaid and federal and state grants being owed to the School at June 30, 2012.

The School had non-current assets consisting of a long-term note receivable of \$79,069 at June 30, 2012. See Note 14 to the financial statements for more detailed information on the note receivable.

Current liabilities increased by \$51,037 or 95.3% due to an increase in management fee payables.

Net assets increased by \$3,965 or 4.4% which was net income for the year ended June 30, 2012.

With respect to the Statement of Revenues, Expenses, and Changes in Net Assets, operating revenues increased by \$2,398,936 or 176.1%, due to a significant increase in contract revenue, as the School became the employer of record for certain Summit Academy staff members, in order to take advantage of certain federal grant money received by all Summit Academy Schools. Operating expenses increased by

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SUMMIT COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

\$2,385,915 or 142.6%, due to the increase in staffing costs associated with the contract revenue. Net non-operating revenues decreased by \$13,014 or 4.1%, as a result of a decrease in state and federal grant revenues.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
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**BALANCE SHEETS
AS OF JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
Current assets		
Cash	\$ 15,832	\$ 9,890
Interest receivable	-	1,977
Medicaid receivables	21,667	229
Intergovernmental receivables	82,897	53,298
Total current assets	120,396	65,394
Noncurrent assets		
Long-term note receivable	79,069	79,069
Total assets	\$ 199,465	\$ 144,463
LIABILITIES AND NET ASSETS		
Current liabilities		
Management fee payable	\$ 104,564	\$ 53,527
Net assets		
Unrestricted	94,901	90,936
Total liabilities and net assets	\$ 199,465	\$ 144,463

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

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
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**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
Operating revenues		
Medicaid revenues	\$ 57,202	\$ 24,126
Food service	1,707	2,025
Contract service revenue	2,052,064	-
State foundation	1,645,258	1,331,090
Materials and fees	4,934	4,988
Total operating revenues	3,761,165	1,362,229
Operating expenses		
Staffing costs	2,136,110	-
Purchased services	1,923,240	1,673,575
Other expenses	291	151
Total operating expenses	4,059,641	1,673,726
Operating loss	(298,476)	(311,497)
Non-operating revenues (expenses)		
Interest income	3,965	3,958
State and Federal grants	298,476	311,497
Net non-operating revenue	302,441	315,455
Net income (loss)	3,965	3,958
Net assets at beginning of year	90,936	86,978
Net assets at end of year	\$ 94,901	\$ 90,936

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

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
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**STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
Increase (decrease) in cash		
Cash flows from operating activities		
Cash from contract services	\$ 2,052,064	\$ -
Cash from the State of Ohio	1,645,258	1,331,090
Cash from Medicaid revenue	35,764	39,834
Cash from other operating sources	6,641	7,013
Cash payments related to staffing costs	(2,136,110)	-
Cash payments to management company	(1,872,203)	(1,777,014)
Other cash payments	(291)	(151)
Net cash (used for) operating activities	(268,877)	(399,228)
Cash flows from noncapital financing activities		
State and Federal grants	268,877	399,228
Cash flows from investing activities		
Interest collected from management company note	5,942	1,981
Net increase (decrease) in cash	5,942	1,981
Cash at beginning of year	9,890	7,909
Cash at end of year	\$ 15,832	\$ 9,890
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (298,476)	\$ (311,497)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Change in assets and liabilities:		
(Increase) decrease in assets:		
Medicaid receivables	(21,438)	15,708
Increase (decrease) in liabilities:		
Management fee payable	51,037	(103,439)
Total adjustments	29,599	(87,731)
Net cash used for operating activities	\$ (268,877)	\$ (399,228)

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

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Summit Academy Akron Elementary School, located in Summit County (the School), is a state nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The School provides educational, literary, scientific, and related teaching services for “at-risk” children with the symptoms of Attention Deficit Hyperactivity Disorder (ADHD) and Asperger’s Syndrome. The School, which is part of the State’s education program, is independent of any public school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

As further described in Note 5 to the financial statements, the School has contracted with Summit Academy Management, Inc. (SAM) to employ and facilitate the day-to-day management of the School. SAM is a legally separate nonprofit corporation, the results of which are not reflected in these financial statements.

The governing boards of SAM and the School have completely different members, and all members of the School Board are independent of SAM. In addition, 3 board members of SAM are elected by the majority vote of the affiliated school boards.

SAM also provides management services to the following 25 legally separate community schools whose results of operations are not included herein:

- Summit Academy Akron Middle School
- Summit Academy Secondary School - Akron
- Summit Academy Community School for Alternative Learners - Canton
- Summit Academy Secondary School - Canton
- Summit Academy Community School - Cincinnati
- Summit Academy Transition High School - Cincinnati
- Summit Academy Community School - Columbus
- Summit Academy Middle School - Columbus
- Summit Academy Transition High School - Columbus
- Summit Academy Community School - Dayton
- Summit Academy Transition High School - Dayton
- Summit Academy Community School for Alternative Learners - Lorain
- Summit Academy Middle School - Lorain
- Summit Academy Secondary School - Lorain
- Summit Academy Community School for Alternative Learners - Middletown
- Summit Academy Secondary School - Middletown
- Summit Academy Community School - Painesville
- Summit Academy Community School - Parma
- Summit Academy Community School - Toledo
- Summit Academy Toledo Learning Center
- Summit Academy Community School - Warren
- Summit Academy School for Alternative Learners – Warren Middle and Secondary
- Summit Academy Community School for Alternative Learners – Xenia
- Summit Academy – Youngstown
- Summit Academy Secondary School – Youngstown

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY (continued)

The School has been approved for operation under a contract with the Educational Service Center of Lake Erie West (the Sponsor). The contract was extended for a term ending on June 30, 2015, and then renews for additional one-year terms from July 1 to June 30, unless the Sponsor has given written notice of termination at least 90 days prior to the expiration date.

The School operates under a self-appointing Board of Directors (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board are filled by the appointment of a successor director by a majority vote of the then-existing directors. The Board is responsible for carrying out the provisions of the contract with the Sponsor. These include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The School does not apply FASB statements or interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is the difference between assets and liabilities. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are generally not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor, Educational Service Center of Lake Erie West, requires a detailed budget in the form of a five-year forecast, as described in Ohio Revised Code Section 5705.391.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash

The School's revenues are received into a demand deposit account, and then are swept (except for the interest revenue discussed in Note 14) into an account of the management company in accordance with the management agreement discussed in Note 5. This agreement was modified for fiscal year 2012, as further discussed in Note 5.

E. Capital Assets and Depreciation

All capital assets are paid for, capitalized and depreciated by the management company (see Note 5).

F. Intergovernmental Revenues

The School participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

The School also participates in various federal and state grant programs through the Ohio Department of Education. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

G. Accrued Liabilities

Accrued liabilities include amounts payable to SAM for various intergovernmental (grant) receivables, in accordance with the School's management contract as further described in Note 5.

H. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – DEPOSITS

At June 30, 2012 and 2011, the carrying amount of the School's deposits was \$15,832 and \$9,890, and the bank balance was \$15,832 and \$9,890, respectively. The entire bank balance was covered by the Federal Deposit Insurance Corporation.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2012 and 2011 consisted of Medicaid, intergovernmental (e.g. state and federal grants) and interest receivables. All receivables are considered collectible in full, due to the nature of the item, the stable condition of these programs, and the current year guarantee of federal funds.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

NOTE 5 – AGREEMENT WITH SUMMIT ACADEMY MANAGEMENT

The School has contracted with Summit Academy Management (SAM) to facilitate the day-to-day operations of the School. Per the agreement, the School pays SAM, as a management fee, 100 percent of revenues received, except for interest as disclosed in Note 14. In turn, SAM is responsible for all costs and decisions associated with operating the School. Such costs and decision areas include, but are not limited to: personnel (all teaching and administrative personnel are employees of SAM); insurance; pension and retirement benefits; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, and legal and financial management services. SAM is also responsible for the maintenance of the School's facility. See Note 15 for the amount of actual direct and indirect expenses incurred by SAM on behalf of the School.

During the year ended June 30, 2012, the agreement with SAM was modified to permit certain federal grant monies to be paid to the School, and to remain in the School, so that the School could become the employer of record for certain employees in order to receive these grant monies. Such grant monies totaled \$84,046 for Summit Academy Akron Elementary School, and \$2,052,064 for the other 25 Summit Academy Schools, with the latter grant monies being recorded as 'contract service revenue' on Summit Academy Akron Elementary School. All such grant monies flowed through SAM before being paid to Summit Academy Akron Elementary School where they were paid out as staffing costs during fiscal year 2012, or shortly thereafter, and modifications to the agreement with SAM expired once all grant monies were received by the School.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

The School has contracted with SAM to provide all teaching and administrative personnel. Such personnel are employees of SAM; however, the School is responsible for monitoring and ensuring that SAM makes pension contributions on its behalf. The retirement systems consider the School as the "Employer of Record", therefore the School is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. School Employees Retirement System

On behalf of the School, SAM contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, disability and survivor 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 contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posed on the SERS' website at www.ohsers.org under Employers/Audit Resources.

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 2012, 12.65 percent and .05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$20,785, \$36,790, and \$40,128, respectively. 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

On behalf of the School, SAM also contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publically available, stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., 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's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan 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, 2012, 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$112,858, \$76,468, and \$76,655, respectively. 70.8 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$0 made by the School and \$0 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System or State Teachers Retirement System. As of June 30, 2012, one member of the Board of Directors has elected Social Security. The contribution rate is 6.2 percent of wages.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
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**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

On behalf of the School, SAM participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated 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, Medicare Advantage and traditional indemnity plans.

A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicaid Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, .55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800. During fiscal year 2012, the school paid \$3,946 in surcharges.

Active employee members do not contribute to the postemployment benefit plans. These SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. 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.

On behalf of the school, SAM's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$817, \$5,755, and \$3,497, respectively. 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011 and 2010, were \$1,113, \$1,997, and \$2,178, respectively. 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

NOTE 7 - POSTEMPLOYMENT BENEFITS (continued)

B. State Teachers Retirement System

On behalf of the School, SAM contributes to the cost sharing multiple employer defined benefit Health Plan (the 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 Comprehensive Annual Financial Report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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 fiscal year 2012, 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 years ended June 30, 2012, 2011, and 2010 were \$8,061, \$4,903, and \$5,475, respectively; 70.8 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

NOTE 8 - OTHER BENEFITS

SAM has contracted with a private carrier to provide employees within the School medical/surgical benefits. SAM pays a portion of the monthly premium for full-time employees and for part-time employees depending on the employee's status. The employees are responsible for the remaining amounts. SAM's and the employees' monthly premiums vary depending upon family size and the level of coverage the employee selected.

SAM also allows employees to participate in 403(b) deferred annuities through four vendors.

NOTE 9 – TRANSACTIONS WITH RELATED PARTIES

As of June 30, 2012 and 2011, the School had a management fee payable to SAM of \$104,564 and \$53,527, respectively. These payables consist of Medicaid and intergovernmental (grants) receivables to be transferred to SAM to cover expenses incurred by SAM on the School's behalf. During fiscal years 2012 and 2011, the School paid management fees to SAM totaling \$1,872,203 and \$1,777,014, respectively.

NOTE 10 – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. SAM has contracted with a commercial insurance company for property and general liability insurance on behalf of the School. Property coverage carries a \$5,000 deductible, with the School's building insured for \$1,300,000 and its contents for \$60,000. General liability coverage provides \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a \$2,500 deductible.

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

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

NOTE 11 - CONTINGENCIES

Student Attendance – The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

Grants – The School received financial assistance from federal and state agencies in the form of grants. The expenditure 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 of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2012, if applicable, cannot be determined at this time.

NOTE 12 – TAX EXEMPT STATUS

Effective March 1, 1999, the School was granted its status as a tax exempt, non-profit organization under Internal Revenue Code Section 501(c) (3).

NOTE 13 – SUBSEQUENT EVENTS

ODE Review – After the end of the year, the Ohio Department of Education (ODE) conducts reviews of enrollment data submitted by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review for fiscal year 2012 resulted in no significant adjustment to the School's state foundation revenue.

NOTE 14 – SALE OF PROPERTY

On July 30, 2008, the land and building owned by the Summit Academy Akron Elementary School (known as the Hardy Building) were sold to SAM by action of the School's board of directors as well as the board of SAM. The agreed upon selling price was the appraised value of \$600,000, with \$520,931 being credit given to SAM for forgone management fees as well as capital improvements paid for by SAM during the course of SAM's tenure as the management company for the school. The remaining portion of the selling price (\$79,069) is to be paid in the form of a note payable which is due on June 30, 2018. The interest rate on the note is 5%, and is payable semi-annually on January 1 and July 1. Such interest is not to be included in the revenue passed through to SAM as described in Note 5.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

NOTE 15 – MANAGEMENT COMPANY EXPENSES

As per the agreement with SAM (see Note 5), 100 percent of the School's revenue is paid to SAM as a management fee. The related 'purchased services' expense totaled \$1,923,240 and \$1,673,575 for the years ended June 30, 2012 and 2011, respectively.

Summit Academy Management incurred the following actual direct and indirect expenses on behalf of the School during fiscal years 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Utilities Services	\$ 100,726	\$ 130,817
Property Services	121,349	115,904
General Supplies	46,007	86,857
Professional and Technical Services	123,469	139,361
Retirement and Insurance Services	223,549	206,269
Salaries and Wages	853,073	862,893
Food and Related Supplies	48,760	33,371
Capital Outlay	24,109	34,707
Other Direct Costs	20,977	19,547
Total Direct Costs	<u>1,562,019</u>	<u>1,629,726</u>
Total Indirect Costs (Overhead)	<u>190,934</u>	<u>222,040</u>
Total Expenses	<u><u>\$ 1,752,953</u></u>	<u><u>\$ 1,851,766</u></u>

Summit Academy Management charges expenses benefiting more than one school (i.e. indirect overhead expenses) pro rata based on the number of students within each school it manages.

October 25, 2012

Summit Academy Akron Elementary School
Summit County
88 Kent Street
Akron, Ohio 44305

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Summit Academy Akron Elementary School (the “School”) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 2012. 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 Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective 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 auditing procedures for the purpose of expressing our opinion 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and the School’s sponsor, and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

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Dave Yost • Auditor of State

SUMMIT ACADEMY AKRON ELEMENTARY 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
JANUARY 15, 2013**