



**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2006**



Mary Taylor, CPA
Auditor of State

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Summit Academy Akron Elementary School
Summit County
1111 West Market Street
Akron, Ohio 44313

To the Board of Directors:

We have audited the accompanying financial statements of the Summit Academy Akron Elementary School, Summit County, Ohio, (the School) as of and for the years ended June 30, 2006 and 2005, 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 did not audit the amounts of actual direct and indirect expenses incurred by Summit Academy Management on behalf of the School which total \$1,069,131 and \$1,072,659, as indicated in Note 19. Other auditors audited these amounts and have furnished their report thereon to us, and our opinion, insofar as it relates to the amounts included for Note 19, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Summit Academy Akron Elementary School, Summit County, Ohio, as of June 30, 2006 and 2005 and the respective changes in financial position and 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 May 25, 2007, 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 for the year ended June 30, 2006. We previously issued our report dated March 21, 2006, 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 grants for the year ended June 30, 2005. While we did not opine on the internal control over financial reporting or on compliance, these reports describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read them in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

May 25, 2007

**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, 2006. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

The School has net assets of \$704,958, which is the difference between its assets and liabilities. Net assets increased by \$88,726 during the year as a result of net income.

The School has a cash balance of \$0, which is \$14,704 less than the prior year. In this regard, a cash management system was fully implemented during fiscal year 2006, in which all School cash is 'swept' into the bank account of the management company. As a result, the School has no cash on June 30, 2006.

The School has an intergovernmental receivable of \$25,439 for federal and state grants earned in 2006, but not received until after June 30, 2006. 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.

In addition, an overpayment of state foundation revenue to the School of \$8,457 during fiscal year 2006 is reflected as deferred revenue at June 30, 2006, and also as a management fee receivable from the management company reflecting the needed return of the monies to the School.

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

	6/30/2006	6/30/2005	Amount of Change	Percent of Change	6/30/04
Assets					
Current assets	\$ 33,914	\$ 42,382	\$ (8,468)	-20.0%	\$ 78,247
Capital assets	764,333	790,619	(26,286)	-3.3%	855,188
Total assets	<u>\$ 798,247</u>	<u>\$ 833,001</u>	<u>\$ (34,754)</u>	-4.2%	<u>\$ 933,435</u>
Liabilities					
Current liabilities	\$ 93,289	\$ 157,017	\$ (63,728)	-40.6%	\$ 206,016
Noncurrent liabilities	-	59,752	(59,752)	-100.0%	127,913
Total liabilities	<u>93,289</u>	<u>216,769</u>	<u>(123,480)</u>		<u>333,929</u>
Net Assets					
Invested in capital assets, net of related debt	704,940	641,510	63,430	9.9%	647,958
Unrestricted	18	(25,278)	25,296	-100.1%	(48,452)
	<u>704,958</u>	<u>616,232</u>	<u>88,726</u>	14.4%	<u>599,506</u>
Total liabilities and net assets	<u>\$ 798,247</u>	<u>\$ 833,001</u>	<u>\$ (34,754)</u>	-4.2%	<u>\$ 933,435</u>

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

	6/30/06	6/30/05	Amount of Change	Percent of Change	6/30/04
Operating revenues	\$ 792,498	\$ 781,350	\$ 11,148	1.4%	\$ 804,045
Operating expenses	772,224	844,429	(72,205)	-8.6%	811,458
Operating income (loss)	20,274	(63,079)	83,353	-132.1%	(7,413)
Non-operating revenues - net	68,452	79,805	(11,353)	-14.2%	84,980
Net income	<u>\$ 88,726</u>	<u>\$ 16,726</u>	<u>\$ 72,000</u>	430.5%	<u>\$ 77,567</u>

The School has significant capital assets in the form of land, building and improvements, and furniture, fixtures and equipment which total \$764,333, net of depreciation. See Note 6 to the Financial Statements for more detailed information on capital assets.

As described in Notes 13 and 14, the School also has a mortgage note outstanding of \$59,393 bearing interest at 6.73%. This loan was refinanced in November of 2004, and will now be paid in full in February 2007. Other debt was reduced in 2005 as the result of trading in copiers (\$10,252 of capital lease payable) and by the forgiveness of a loan payable to the management company (\$18,385).

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

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

Current assets decreased by \$8,468 or almost 20.0% primarily due to a decrease in cash of \$14,704. This decrease was due to the implementation of a cash management system during 2006.

Capital assets decreased by \$26,286 as a result of depreciation.

With respect to the Statement of Revenues, Expenses, and Changes in Net Assets, operating revenues increased by \$11,148 or 1.4%, primarily due to a slight increase in state foundation revenue. Operating expenses decreased by \$72,205 or 8.6%, primarily due to less depreciation and purchased services expenses.

Net non-operating revenues decreased by \$11,353, primarily as a result of more interest expense and less state and federal grants.

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**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**BALANCE SHEETS
AS OF JUNE 30, 2006 AND 2005**

ASSETS

	2006	2005
Current assets		
Cash	\$ -	\$ 14,704
Management fee receivable	8,457	-
Intergovernmental receivables	25,439	27,660
Other	18	18
Total current assets	33,914	42,382
Noncurrent assets		
Capital assets, net of accumulated depreciation	764,333	790,619
Total assets	798,247	833,001

LIABILITIES AND NET ASSETS

Current liabilities		
Management fee payable	\$ 25,439	\$ 27,660
Deferred revenue	8,457	-
Demand notes payable - Canton and Parma	-	40,000
Note payable to bank, current portion	59,393	89,357
Total current liabilities	93,289	157,017
Noncurrent liabilities		
Note payable to bank, less current portion	-	59,752
Net assets		
Invested in capital assets, net of related debt	704,940	641,510
Unrestricted	18	(25,278)
Total net assets	704,958	616,232
Total liabilities and net assets	\$ 798,247	\$ 833,001

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

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
Operating revenues		
Food service	\$ 2,837	\$ -
State foundation	784,635	777,301
Materials and fees	4,992	4,049
Other operating revenues	34	-
Total operating revenues	792,498	781,350
Operating expenses		
Purchased services	745,908	796,752
Depreciation expense	26,286	47,540
Service charges	30	137
Total operating expenses	772,224	844,429
Operating income (loss)	20,274	(63,079)
Non-operating revenues (expenses)		
State and Federal grants	89,405	96,245
Private Foundation grants	3,000	-
Loss on disposal of capital assets	-	(17,029)
Forgiveness of loan payable - SAM	-	18,385
Interest expense	(23,953)	(17,796)
Net non-operating revenue	68,452	79,805
Net income	88,726	16,726
Net assets at beginning of year	616,232	599,506
Net assets at end of year	\$ 704,958	\$ 616,232

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

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

Increase (decrease) in cash

	2006	2005
Cash flows from operating activities		
Cash from the State of Ohio	\$ 793,092	\$ 777,301
Cash from other operating sources	7,863	4,049
Cash payments to management company	(756,586)	(847,458)
Cash payments for service charges	(30)	(137)
Net cash provided by (used for) operating activities	44,339	(66,245)
Cash flows from noncapital financing activities		
State and Federal grants	91,626	136,899
Private Foundation grants	3,000	-
Net cash provided by noncapital financing activities	94,626	136,899
Cash flows from capital and related financing activities		
Payments on notes payable	(129,716)	(48,069)
Cash flows from investing activities		
Interest expense	(23,953)	(17,796)
Net increase (decrease) in cash	(14,704)	4,789
Cash at beginning of year	14,704	9,915
Cash at end of year	\$ -	\$ 14,704
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 20,274	\$ (63,079)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation	26,286	47,540
Reduction of capital lease payable	-	(10,052)
(Increase) decrease in assets:		
Management fee receivable	(8,457)	-
Increase (decrease) in liabilities:		
Deferred revenue	8,457	-
Management fee payable	(2,221)	(40,654)
Total adjustments	24,065	(3,166)
Net cash provided by (used for) operating activities	\$ 44,339	\$ (66,245)

Non-cash financing and investing activities

The loan payable to the management company of \$18,385 at December 31, 2004 was forgiven by the SAM Board during 2005.

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

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**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

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 7 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.

During the years ended June 30, 2006 and 2005, some members of the Board of Directors of SAM also served on the Board of the School. However, effective July 1, 2006, the boards have completely separate members, and all members of the School Board are independent of SAM. In addition, effective the same date, the board members of SAM are elected by the members of the School Board.

SAM also provides management services to the following 26 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 Middle School – Cincinnati
- Summit Academy Community School – Columbus
- Summit Academy Middle School – Columbus
- Summit Academy Community School – Dayton
- Summit Academy Secondary School - Dayton
- Summit Academy Community School for Alternative Learners – Lorain
- Summit Academy Middle School – Lorain
- Summit Academy Secondary School – Lorain
- Summit Academy Community School - Painesville
- Summit Academy Community School for Alternative Learners – Parma
- Summit Academy Secondary School – Parma
- Summit Academy Community School for Alternative Learners – Middletown
- Summit Academy Secondary School – Middletown
- Summit Academy Community School – Toledo
- Summit Academy Secondary School – Toledo
- Summit Academy Community School – Warren
- Summit Academy Middle School - Warren
- Summit Academy Community School for Alternative Learners – Xenia
- Summit Academy Community School for Alternative Learners – Youngstown
- Summit Academy Middle School – Youngstown
- Summit Academy Secondary School – Youngstown

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

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

The School has been approved for operation under an annual contract with the Lucas County Educational Service Center (Sponsor). The contract 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, five-member Board of Directors (the Board). The School's Code of Regulations specifies that Board vacancies 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 the assets and the 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, Lucas County Educational Service Center, 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, 2006 AND 2005
(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 into an account of the management company in accordance with the management agreement discussed in Note 7.

E. Capital Assets and Depreciation

Prior to July 1, 2001, capital assets were capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets were recorded at their fair market value as of the date received. After June 30, 2001, all capital assets are paid for and capitalized by the management company (see Note 7).

Depreciation of furniture, fixtures and equipment is computed using the straight-line method over the estimated useful lives of 5-10 years. Buildings are depreciated over an estimated useful life of 40 years.

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 7. Accrued liabilities also include deferred revenue related to the overpayment of state foundation revenue to the School.

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.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

NOTE 3 - DEPOSITS

At June 30, 2006 and 2005, the carrying amount of the School's deposits was \$0 and \$14,704, respectively, and the bank balance was \$0 and \$13,204, respectively. Based on the criteria described in GASB statement No. 40, "Deposits and Investment Risk Disclosures", the bank balance at June 30, 2005 was entirely covered by Federal Depository Insurance.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2006, consisted of management fee and intergovernmental (e.g. federal grants) receivables. Management fee receivables resulted from the overpayment of state foundation revenue to the school, and are offset by deferred revenue. All intergovernmental receivables are considered collectible in full, due to the stable condition of these programs, and the current year guarantee of federal funds. Management fee receivables are also considered fully collectible.

NOTE 5 – NOTE RECEIVABLE

During 2004, by action of both the School's and SAM's Board of Directors, a note receivable from SAM of \$48,557 was offset against a loan payable to SAM of \$66,942, resulting in a net liability to SAM of \$18,385. During 2005, this liability was forgiven by the SAM Board of Directors.

NOTE 6 – CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2006 and 2005 is as follows:

	2006	2005
Land	\$ 45,000	\$ 45,000
Building and improvements	821,448	821,448
Furniture, fixtures and equipment	175,834	175,834
	1,042,282	1,042,282
Less accumulated depreciation	(277,949)	(251,663)
Total Capital Assets Net of Depreciation	\$ 764,333	\$ 790,619

NOTE 7 – 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% of revenues received. 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 also provides certain facilities and is responsible for maintenance of those facilities. See Note 19 for the amount of actual direct and indirect expenses incurred by SAM on behalf of the School.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

NOTE 8 – 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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

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 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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS’ Retirement Board. The School’s required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$26,650, \$29,036, and \$20,504, respectively; 100% percent has been contributed for fiscal years 2006, 2005, and 2004.

B. State Teachers Retirement System of Ohio

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 system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

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

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

NOTE 8 – DEFINED BENEFIT PENSION PLANS (continued)

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

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

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$47,538, \$67,527, and \$36,326, respectively; 100 percent has been contributed for fiscal years 2006, 2005, and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$3,797 made by the School and \$8,747 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. As of June 30, 2006, one member of the School Board has elected Social Security. The School's liability is 6.2 percent of wages paid.

NOTE 9 – POST EMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$3,657 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was \$3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

NOTE 9 – POST EMPLOYMENT BENEFITS (continued)

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$12,408.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2006 were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive health care benefits.

NOTE 10 – OTHER BENEFITS

SAM has contracted with a private carrier to provide School employees with medical/surgical benefits. SAM pays most 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 11 – TRANSACTIONS WITH RELATED PARTIES

A. Note Receivable

See Note 5 above.

B. Notes Payable

During fiscal year 2001, two \$20,000 demand notes bearing interest of 6.8% were signed and made payable to Summit Academy Community School for Alternative Learners – Canton, and Summit Academy Community School for Alternative Learners – Parma. These notes, along with interest totaling \$17,000, were paid in full during fiscal year 2006.

C. Management Fee Payable

At June 30, 2006 and 2005, the School had a management fee payable to SAM of \$25,439 and \$27,660, respectively. These payables consist of intergovernmental grants receivable to be transferred to SAM to cover expenses incurred by SAM on the School's behalf. During fiscal years 2006 and 2005, the School paid management fees to SAM totaling \$756,586 and \$847,458, respectively.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

NOTE 12 – 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 \$50,000. 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 in any of the past 3 years, and there was no significant reduction in coverage amounts from the prior year policy.

NOTE 13– MORTGAGE NOTE PAYABLE

On May 4, 1999, the School entered into a \$400,000 real estate mortgage with a local bank for the purchase of a school building. Until fiscal year 2005, the loan required monthly payments of \$7,205, including interest at 8.5%. However, during November 2004, the remaining loan balance of \$173,263 was refinanced, with the new loan requiring monthly payments of \$8,056, including interest at 6.73%, through February 2007. As of June 30, 2006, the balance of this loan is \$59,393.

NOTE 14 – CAPITAL LEASES

In a prior year, the School entered into capital lease agreements for three copiers, two of which were used by other Summit Academy schools. The leases met the criteria of capital leases as defined by Statement of Financial Accounting Standards (FASB) No. 13, "Accounting for Leases", which defines a capital lease generally as one that transfers benefits and risks of ownership to the lessee. The capital leases were recorded at the present value of the future minimum lease payments at the inception date of the lease, and had a net book value of \$17,029 when they were traded-in on new copiers during 2005. The new leases are being paid by the management company.

NOTE 15 – CONTINGENCIES

Grants – The School receives financial assistance from federal and state agencies in the form of grants, which are then remitted to SAM. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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, 2006.

Litigation – A suit was filed in the US District Court, Southern District of Ohio, Western Division, on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on this School is not presently determinable.

NOTE 16 – STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**SUMMIT ACADEMY AKRON ELEMENTARY SCHOOL
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005
(Continued)**

NOTE 17 – TAX EXEMPT STATUS

The School has been granted status as a tax exempt, non-profit organization under Internal Revenue Code Section 501(c)(3), effective March 1, 1999.

NOTE 18 – SUBSEQUENT EVENT

ODE Review - The Ohio Department of Education (ODE) conducts reviews of enrollment data made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review for fiscal year 2006 resulted in a \$8,457 adjustment to the School's state foundation revenue reflecting an overpayment to the School during the year. This amount is reflected as a management fee receivable and as deferred revenue on the financial statements. It will be repaid to the ODE through the reduction of future foundation payments.

NOTE 19 – MANAGEMENT COMPANY EXPENSES

As per the agreement with SAM (see Note 7), 100% of the School's revenue is paid to SAM as a management fee. The related 'purchased services' expense totaled \$745,908 and \$796,752 for the years ended June 30, 2006 and 2005, respectively.

The amount of actual direct and indirect expenses incurred by Summit Academy Management on behalf of the School was as follows:

	2006	2005
Utilities Services	\$ 56,464	\$ 35,950
Property Services	34,971	28,820
General Supplies	53,612	21,718
Professional & Technical Services	38,832	12,978
Retirement & Insurance Services	103,515	67,553
Salaries & Wages	485,181	547,157
Other Direct Expenses	44,391	97,518
Total Direct Costs	816,966	811,694
Total Indirect Costs (Overhead)	252,165	260,965
Total Expenses	\$ 1,069,131	\$ 1,072,659

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.

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Mary Taylor, CPA

Auditor of State

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

Summit Academy Akron Elementary School
Summit County
1111 West Market Street
Akron, Ohio 44313

To the Board of Directors:

We have audited the financial statements of the Summit Academy Akron Elementary School, Summit County, Ohio, (the School) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 25, 2007. This report also indicated that amounts presented in Note 19 were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the 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*. However, in a separate letter to the School's management dated May 25, 2007, we reported other matters related to noncompliance we deemed immaterial.

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Summit Academy Akron Elementary School
Summit County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

May 25, 2007



Mary Taylor, CPA
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
JULY 10, 2007**