SUMMIT ACADEMY MIDDLE SCHOOL - LORAIN
LORAIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

SUMMIT ACADEMY MIDDLE SCHOOL - LORAIN
LORAIN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Summit Academy Middle School - Lorain
Lorain County
1111 West Market Street
Akron, Ohio 44313

To the Board of Directors:

We have audited the accompanying financial statements of the Summit Academy Middle School - Lorain, Lorain County, Ohio, (the School) as of and for the years ended June 30, 2007 and 2006, 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 $936,529 and $876,498, as indicated in Note 14. 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 14, 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 Middle School - Lorain, Lorain County, Ohio, as of June 30, 2007 and 2006 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 March 24, 2008, 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, 2007. We previously 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 grants for the year ended June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 24, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

As management of Summit Academy Middle School – Lorain (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, 2007. 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 is passed through to the management company in order to manage the affairs of the School. In this regard, a cash management system was fully implemented during fiscal year 2006, in which all School cash was 'swept' into the bank account of the management company. As a result, the School has no cash on June 30, 2007 or 2006.

The School also has no net assets (the difference between its assets and liabilities) as of June 30, 2007 or 2006.

The School has intergovernmental receivables of $12,505 for federal and state grants earned in 2007, but not received until after June 30, 2007. The School also has a state foundation receivable of $9,493 at June 30, 2007 reflecting the underpayment of state foundation revenue to the School during fiscal year 2007. At the same time, the financial statements show a management fee payable to the management company for the combined amount of $21,998, reflecting the 100% pass-through of revenue to the management company.

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.

Financial Analysis

The following tables indicate our financial analysis of the School:

Table 1 - Balance Sheets

	6/30/2007	6/30/2006	Amount of Change	Percent of Change	6/30/2005
Assets					
Cash	$ -	$ -	$ -	0.0%	$ 120,378
Management fee receivable	-	25,618	(25,618)	-100.0%	-
State foundation receivable	9,493	-	9,493	100.0%	-
Intergovernmental receivables	12,505	15,732	(3,227)	-20.5%	-
Total assets	$ 21,998	$ 41,350	$ (19,352)	-46.8%	$ 120,378
Liabilities					
Management fee payable	$ 21,998	$ 15,732	$ 6,266	39.8%	$ 120,378
Deferred revenue	-	25,618	(25,618)	100.0%	-
Net Assets					
Unrestricted	-	-	-	0.0%	-
Liabilities and net assets	$ 21,998	$ 41,350	$ (19,352)	-46.8%	$ 120,378

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

	Year Ended 6/30/2007	Year Ended 6/30/2006	Amount of Change	Percent of Change	Period Ended 6/30/2005
Operating revenues	$ 916,828	$ 830,974	$ 85,854	10.3%	$ 151,113
Operating expenses	1,280,249	1,038,592	241,657	23.3%	151,113
Operating loss	(363,421)	(207,618)	(155,803)	-75.0%	-
Non-operating revenues	363,421	207,618	155,803	75.0%	-
Net income	$ -	$ -	$ -	0.0%	$ -

Note – The School began operations on February 22, 2005.

On the Balance Sheet, intergovernmental receivable decreased by $3,227 or 20.5% because less state and federal grants were owed to the School at June 30, 2007. In addition, management fee receivable and deferred revenue declined by $25,618 or 100.0%, and state foundation receivable increased $9,493 or 100% as the School was underpaid state foundation revenue during 2007 ($9,493), while the School was overpaid during 2006 ($25,618). The management fee payable to the management company increased by $6,266 or 39.8% as a result of the state foundation receivable and decrease in intergovernmental receivable.

With respect to the Statement of Revenues, Expenses, and Changes in Net Assets, operating revenue increased by $85,854 or 10.3%, due to an increase in state foundation revenue caused by an increase in enrollment. Operating expenses increased by $241,657 or 23.3% due to the overall increase in revenues.

Non-operating revenues increased by $155,803 or 75.0% as a result of more state and federal grant funding during 2007.

SUMMIT ACADEMY MIDDLE SCHOOL - LORAIN
LORAIN COUNTY

BALANCE SHEETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Current assets		
Cash	$ -	$ -
Management fee receivable	-	25,618
State foundation receivable	9,493	-
Intergovernmental receivables	12,505	15,732
Total current assets	$ 21,998	$ 41,350
LIABILITIES AND NET ASSETS		
Current liabilities		
Management fee payable	$ 21,998	$ 15,732
Deferred revenue	-	25,618
Total current liabilities	21,998	41,350
Net Assets		
Unrestricted	-	-
Total liabilities and net assets	$ 21,998	$ 41,350

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

SUMMIT ACADEMY MIDDLE SCHOOL - LORAIN
LORAIN COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Operating revenues		
Food service	$ 2,776	$ 2,143
Materials and fees	4,449	5,698
Private foundation grants	14,880	-
Other operating revenues	139	-
State foundation	894,584	823,133
Total operating revenues	916,828	830,974
Operating expenses		
Purchased services	1,280,110	1,038,592
Other expenses	139	-
Total operating expenses	1,280,249	1,038,592
Operating loss	(363,421)	(207,618)
Non-operating revenues		
State and Federal grants	363,421	207,618
Net income	-	-
Net assets at beginning of year	-	-
Net assets at end of year	$ -	$ -

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

SUMMIT ACADEMY MIDDLE SCHOOL - LORAIN
LORAIN COUNTY

STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Increase (decrease) in cash		
Cash flows from operating activities:		
Cash received from other operating sources	$ 22,244	$ 7,841
Cash from the State of Ohio	859,473	848,751
Cash payments to management company	(1,248,226)	(1,168,856)
Cash payments for service charges and other expenses	(139)	-
Net cash used for operating activities	(366,648)	(312,264)
Cash flows from noncapital financing activities:		
State and Federal grants	366,648	191,886
Net decrease in cash	-	(120,378)
Cash at beginning of year	-	120,378
Cash at end of year	$ -	$ -
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (363,421)	$ (207,618)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Change in assets and liabilities:		
(Increase) decrease in assets:		
State Foundation receivable	(9,493)	-
Management fee receivable	25,618	(25,618)
Increase (decrease) in liabilities:		
Management fee payable	6,266	(104,646)
Deferred revenue	(25,618)	25,618
Total adjustments	(3,227)	(104,646)
Net cash used for operating activities	$ (366,648)	$ (312,264)

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

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NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Summit Academy Middle School - Lorain, located in Lorain County (the School), is a state nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. It began operations February 22, 2005. 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.

During the year ended June 30, 2006, 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. 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 23 legally separate community schools whose results of operations are not included herein:

- Summit Academy Akron Elementary School
- 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 Community School – Columbus
- Summit Academy Middle School – Columbus
- Summit Academy Community School – Dayton
- Summit Academy Community School for Alternative Learners – 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 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

The School has been approved for operation under a contract with the Lucas County Educational Service Center (Sponsor). The contract was extended for a term ending May 30, 2011 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.

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

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, 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.

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 5.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Capital Assets and Depreciation

The School does not possess any capital assets. All capital assets used by the School belong to SAM as further described in 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) state foundation receivables, in accordance with the School's management contract as further described in Note 5. Accrued liabilities also include deferred revenue representing the overpayment of state foundation revenue to the School during fiscal year 2006.

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, 2007 and 2006, the carrying amount of the School's deposits was $0, and the bank balance was $0.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2007 and 2006 consisted of intergovernmental (e.g. federal grants), state foundation, and management fee receivables. All intergovernmental and state foundation 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 – 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. 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 maintenance of the School's facility. See Note 14 for the amount of direct and indirect expenses incurred by SAM on behalf of 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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

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 2007, 10.68 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, 2007 and 2006 and the period from February 22, 2005 through June 30, 2005 were $21,523, $20,992, and $3,810, respectively; 100 percent has been contributed for fiscal years 2007 and 2006 and for the period from February 22, 2005 through June 30, 2005.

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 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.strs.org.

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account.

Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the 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.

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

For the fiscal year ended June 30, 2007, 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 2006, 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, 2007 and 2006, and the period from February 22, 2005 through June 30, 2005 were $32,403, $23,782, and $3,689, respectively; 85.2 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006 and for the period from February 22, 2005 through June 30, 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were $0 made by the School District 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. As of June 30, 2007, no members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

NOTE 7 - POSTEMPLOYMENT BENEFITS

On behalf of the School, SAM provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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 funded 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 cost 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, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled $2,493 for fiscal year 2007.

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

For SERS, coverage is made available to service retirees with ten or more fiscal 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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer’s SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $9,730.

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 year. Expenses for health care at June 30, 2006, (the latest information available), 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 benefits.

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, 2007 and 2006, the School had a management fee payable to SAM of $21,998 and $15,732, respectively. These payables consist of state foundation and intergovernmental (grants) receivables to be transferred to SAM to cover expenses incurred by SAM on the School's behalf. During fiscal years 2007 and 2006, the School paid management fees to SAM totaling $1,248,226 and $1,168,856, 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 contents insured 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 in any of the past three years, and there was no significant reduction in coverage amounts from the prior year policy.

NOTE 11 - 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2007.

Litigation – A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the School cannot presently be determined.

NOTE 12 – 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 January 26, 2007.

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 2007 resulted an adjustment to state foundation revenue of $9,493 reflecting an underpayment to the School during the year. This amount is reflected on the financial statements as a state foundation receivable and is included in management fee payable.

NOTE 13 – SUBSEQUENT EVENTS (continued)

New Schools – Effective July 1, 2007, the following schools began operations under the management of SAM:

- Summit Academy Transition High School – Cincinnati
- Summit Academy Elementary School – Cleveland West
- Summit Academy Transition High School – Columbus
- Summit Academy Transition High School – Dayton

NOTE 14 – 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 $1,280,110 and $1,038,592 for the years ended June 30, 2007 and 2006, respectively.

Summit Academy Management incurred the following direct and indirect expenses on behalf of the School during fiscal years 2007 and 2006:

	2007	2006
Salaries and Wages	$ 341,645	$ 335,003
Retirement and Insurance Benefits	76,183	71,116
Professional and Technical Services	44,616	33,853
Property Services	67,072	45,798
Utilities Services	28,727	32,719
General Supplies	47,808	47,940
Food and Related Supplies	23,912	34,602
Other Direct Costs	20,335	22,693
Total Direct Costs	650,298	623,724
Total Indirect Costs (Overhead)	286,231	252,774
Total Expenses	$ 936,529	$ 876,498

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.

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 Middle School - Lorain
Lorain County
1111 West Market Street
Akron, Ohio 44313

To the Board of Directors:

We have audited the financial statements of the Summit Academy Middle School - Lorain, Lorain County, Ohio, (the School) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 24, 2008. This report also indicated that amounts presented in Note 14 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

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

We noted a certain matter that we reported to the School's management in a separate letter dated March 24, 2008.

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 March 24, 2008, we reported other matters related to noncompliance we deemed immaterial.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 24, 2008

Mary Taylor, CPA
Auditor of State

SUMMIT ACADEMY MIDDLE SCHOOL-LORAIN

LORAIN 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
APRIL 10, 2008

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