



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
Betty Montgomery**

88 East Broad Street
P. O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490
www.auditor.state.oh.us

January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

INDEPENDENT ACCOUNTANTS' REPORT

Rhea Academy Community School
Montgomery County
113 East Third Street
Dayton, Ohio 45402

To the Board of Governance:

We have audited the accompanying balance sheet of the Rhea Academy Community School, Montgomery County, (the School), as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit and the Statement of Cash Flows for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhea Academy Community School, Montgomery County, as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As shown in the financial statements, for the year ended June 30, 2001, the School has incurred a cash overdraft payable of \$50,486, an operating loss in the amount of \$165,660, a working capital deficiency of \$335,348, and accumulated a deficit retained earnings of \$239,524. Accordingly, there is substantial doubt about the School's ability to continue as a going concern. Management's plans in regards to this matter are described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2003 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

January 10, 2003

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001**

Assets

Fixed Assets (net, where applicable, of accumulated depreciation)	\$ <u>108,829</u>
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Total Assets	\$ <u>108,829</u>
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Liabilities and Accumulated Deficit

Current Liabilities

Accounts Payable	\$ 77,624
Cash Overdraft Payable	50,486
Intergovernmental Payable	173,048
Accrued Wages and Benefits Payable	31,381
Current Portion of Loan Payable	<u>2,809</u>

Total Current Liabilities	335,348
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Non-Current Liabilities

Loan Payable	<u>13,005</u>
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Total Liabilities	<u>348,353</u>
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Accumulated Deficit	<u>(239,524)</u>
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Total Liabilities and Accumulated Deficit	\$ <u>108,829</u>
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The accompanying notes to the financial statements are an integral part of this statement.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2001**

Operating Revenues

Foundation Payments	\$ 436,021
Disadvantaged Pupil Impact Aid	<u>87,837</u>
Total Operating Revenue	<u>523,858</u>

Operating Expenses

Salaries	213,862
Fringe Benefits	64,412
Purchased Services	146,384
Materials and Supplies	19,414
Depreciation	63,544
Intergovernmental Disbursements	74,850
Other Expenses	<u>107,052</u>
Total Operating Expenses	<u>689,518</u>

Operating Loss (165,660)

Non-Operating Revenues

Federal Grants	40,000
State Grants	5,530
Private Grants	60,000
Interest Income	1,135
Other Non Operating Revenue	<u>8,431</u>
Total Non-Operating Revenues	<u>115,096</u>

Net Loss (50,564)

Accumulated Deficit at Beginning of Year (Restated) (188,960)

Accumulated Deficit at End of Year \$ (239,524)

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

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 373,234
Cash Payments for Employee Salaries	(184,122)
Cash Payments for Employee Benefits	(49,023)
Cash Payments for Purchased Services	(156,470)
Cash Payments for Materials and Supplies	(22,547)
Cash Payments for Other Operating Expenses	<u>(43,858)</u>
Net Cash Used For Operating Activities	<u>(82,786)</u>

Cash Flows from Capital and Related Financing Activities:

Principal Payments - Loan	(1,289)
Purchase of Fixed Assets	(56,402)
Leashold Improvement Payments	<u>(60,000)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(117,691)</u>

Cash Flows from Noncapital Financing Activities:

State Grants	5,530
Federal Grants	40,000
Private Grants	60,000
Other Revenue	<u>14,214</u>
Net Cash Provided By Noncapital Financing Activities	<u>119,744</u>

Cash Flows from Investing Activities

Interest Income	<u>1,135</u>
Net Decrease in Cash and Cash Equivalents	(79,598)

Cash and Cash Equivalents at Beginning of Year (Restated)	<u>29,112</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$ (50,486)</u></u>
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Reconciliation of Operating Loss to Net Cash Used For Operating Activities:

Operating Loss	\$ (165,660)
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Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities:

Depreciation	63,544
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Change in Assets and Liabilities:

Increase in Accounts Payable	61,725
(Decrease) in Intergovernmental Payable	(58,504)
Increase in Accrued Wages & Benefits Payable	<u>16,109</u>
Total Adjustments	<u>19,330</u>

Net Cash Used For Operating Activities	<u><u>\$ (82,786)</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

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**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL

Rhea Academy Community School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the sixth grade. The School qualified as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school. The School was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing on June 26, 1999. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 2 noncertified and 6 certified full-time teaching personnel who provide services to 93 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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 statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. 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 measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 used 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 not required to follow 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 requires monthly spending plans for subsequent fiscal years to be prepared and submitted annually. In addition, the contract between the School and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis.

The School did not follow budgetary procedures outlined in the contract between Rhea Academy and the Ohio Department of Education (ODE).

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

F. Fixed Assets

Fixed assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property or equipment is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets.

Depreciation of fixed assets is provided utilizing the straight-line method over the estimated useful lives of the assets as follows:

Equipment and furniture	7 years
Leasehold Improvements	3 years
Vehicles	5 years

It is the School's policy to expense items which cost less than \$1,000.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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.

The School also participates in various federal and state programs through the Ohio Department of Education.

H. Compensated Absences

The School does not record a liability for compensated absences because its policy is not to pay out accumulated leave balances upon termination of employment.

I. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2001, are reported as accrued liabilities in the accompanying financial statements.

J. Exchange and Non Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. 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.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

3. PRIOR PERIOD ADJUSTMENTS

A. Fixed Assets

During fiscal year 2000, the School had renovations completed on the school building. On the June 30, 2000 financial statements; however, only the amount of renovations which had been paid for were booked. Accordingly, the beginning fixed asset balance was restated for fiscal year 2001.

Fixed Assets, June 30, 2000	\$ 85,739
Plus: Additional Amount Completed	123,263
Less: Additional Depreciation	<u>(41,088)</u>
Fixed Assets, June 30, 2000, Restated	<u>\$ 167,914</u>

B. Cash

Several checks outstanding at June 30, 2000 were not posted to the School's books, and therefore were not included in the June 30, 2000 bank reconciliation. This resulted in cash being overstated on the School's June 30, 2000 statements.

Cash, June 30, 2000	\$ 32,870
Less: Disbursements Not Accounted For	<u>(3,758)</u>
Cash, June 30, 2000, Restated	<u>\$ 29,112</u>

C. Accumulated Deficit

Accumulated Deficit, June 30, 2000	(\$144,114)
Depreciation Adjustment	(41,088)
Cash Adjustment	<u>(3,758)</u>
Restated Accumulated Deficit, June 30, 2000	<u>(\$188,969)</u>

4. DEPOSITS

At June 30, 2001, the carrying amount of the School's deposits was (\$50,486) and the bank balance was (\$16,075). The carrying amount of deposits is reflected on the financial statements as a Cash Overdraft liability.

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2001, follows:

Equipment & Furniture	\$ 33,336
Vehicle	22,036
Leasehold Improvements	<u>211,402</u>
	266,774
Less: Accum. Deprec.	<u>(157,945)</u>
Net Fixed Assets	<u>\$ 108,829</u>

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

6. RISK MANAGEMENT

A. Property & Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2001, the School contracted with Burlington Insurance Company for property and general liability insurance. There is a \$500 deductible for property and a \$1,000 deductible for theft. The policy has various limits with a general aggregate limit of \$2,000,000

B. Workers' Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, and 2000 were \$13,698 and \$9,685, respectively; 23.77 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. \$10,442 represents the unpaid contribution as of fiscal year 2001 and is recorded as a liability. As of January 10, 2003 the School had paid 100 percent of contributions to STRS for fiscal year 2001 and owed \$1,587 of unpaid contributions for fiscal year 2002.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (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, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, and 2000 were \$1,676, and \$2,161, respectively; 93.58 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. \$107 representing the unpaid surcharge contribution for fiscal year 2001 is recorded as a liability. As of January 10, 2003 the School had no unpaid contributions to SERS for fiscal years 2001 or 2002.

8. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most 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 funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$6,489 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3,419 million. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2001, employer contributions to fund health care benefits were 9.80 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$3,912.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified 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 on a pay-as-you-go basis.

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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. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2001, employer contributions to fund health care benefits were 9.80 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. 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 2001, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$3,912.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

9. 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.

10. LEASES

The School leases real estate under a three-year operating lease, which expires on September 30, 2002. Aggregate future rental payments of \$42,000 are payable as follows: \$33,600 during fiscal year 2002 and \$8,400 during fiscal year 2003.

Rent expense for the real estate due for the year ended June 30, 2001 was \$33,600. Of this, \$5,600 was forgiven by the building owner.

11. LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2001:

During the fiscal year the School entered into an installment loan for a utility van with interest computed at 23.95%, payable in monthly installments of \$492 including principle and interest, maturing August 2006. The utility van is used as the collateral for the loan.

Total Loan Payable at June 30, 2001	\$ 15,814
Less – Current Portion of Loan Payable	<u>(2,809)</u>
Net Non-Current Loan Payable	<u>\$ 13,005</u>

Future maturities of long-term debt are as follows:

Years Ending <u>June 30,</u>	<u>Amount</u>
2002	\$ 2,809
2003	3,111
2004	3,943
2005	4,997
2006	<u>954</u>
	<u>\$15,814</u>

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

12. PURCHASED SERVICES

A summary of the School's purchased services for the fiscal year ended June 30, 2001:

Professional and Technical Services	\$91,581
Instruction Services	18,758
Health Service	8,284
Repairs and Maintenance	2,372
Travel	2,354
Printing Services	468
Contracted Food Service	21,097
Other	<u>1,470</u>
	<u>\$146,384</u>

13. STATE GRANTS

During fiscal year June 30, 2001 the School received the following grants:

Fordham Foundation	\$ 60,000
School Net	2,000
Teacher Training	530
Proficiency Test Subsidy	3,000
Federal Curriculum Implementation	<u>40,000</u>
Total Grants	<u>\$105,530</u>

14. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. 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, 2001.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. During the fiscal year ended June 30, 2001, the School billed the state of Ohio in excess of the amounts due to them based on an estimated number of pupils the School expected the first year. The amount outstanding at June 30, 2001 was \$134,381 and is reported as an intergovernmental payable. The School is to repay the state of Ohio with monthly deductions from fiscal year 2002 foundation payments scheduled to start with the February 2002 foundation payments.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

14. CONTINGENCIES (Continued)

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

D. State Contract

The School received approximately 100 percent of its operating income from the State of Ohio. Accordingly, the risk exists that the ability to continue the contract with the state of Ohio could affect the financial status of the School.

15. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School accumulated a deficit of \$239,524 for the year ended June 30, 2001. The deficit is due in large part to State Foundation monies paid to the School based upon a projected student enrollment which was higher than the actual enrollment for both fiscal years 2000 and 2001. This resulted in the State disbursing overpayments for foundation distributions. During fiscal year ending June 30, 2002, \$134,381 of the intergovernmental payable will be repaid to the State through monthly deductions from the School's Foundation payments.

Management plans to eliminate the deficit by continuing the financial policies that it implemented during the prior fiscal year. In addition, the School will finish repaying the abovementioned overpayments to the State, and will begin receiving State Foundation monies again. The School also applied for a \$150,000 grant from the Federal government, which will be used to pay Bilbrey Construction, Inc. (See notes 16A and 16D).

16. SUBSEQUENT EVENTS

A. Construction Lawsuit

On June 15, 2001 a judgment was rendered in favor of Bilbrey Construction, Inc. against the School for \$76,000, with interest at 12% per annum from July 13, 2001 and costs. Bilbrey Construction, Inc. was hired by the School to complete renovations on their school building during fiscal year 2000. Subsequent to the balance sheet date, various payments were made to satisfy this liability. Previously, \$11,776 was garnished to assist in fulfilling this judgment. On October 11, 2001, \$12,004 was garnished from a Provident Bank account, by the Montgomery County Clerk of Courts. On December 27, 2001, the School's \$17,837 of net monthly foundation was garnished through the Ohio Department of Education. On January 14, 2002, \$36,000 of the School's charter school grant was garnished through the Ohio Department of Education. On January 22, 2002, \$2,070 was refunded to Rhea Academy from the Montgomery County Clerk of Courts. In addition, \$453 in miscellaneous fees and court cost payments were made on the account, with Montgomery County Clerk of Courts. A mechanics lien was filed on February 28, 2000 on Monica Rhea's leasehold interest in the building, and was released on February 13, 2002. The \$76,000 was included as an account payable on the financial statements. As of January 10, 2003 the School had paid the amount due in full.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

16. SUBSEQUENT EVENTS (Continued)

B. Food Service Lawsuit

On March 15, 2002 a judgment was granted in favor of Dayton Board of Education against the School for \$17,756, plus judgment interest and court costs. Rhea Academy, Inc. had contracted with Dayton Board of Education to provide food service. This liability is included as an intergovernmental payable on the financial statements.

C. Personal Note Repayment

On October 30, 2001 the Board approved paying Ms. Monica Rhea, Superintendent, and Board Member, \$7,700 due to personal funds Ms. Rhea previously loaned to the School to cover payroll expenses. In addition, on December 19, 2001, the Board again approved paying Ms. Rhea \$11,000 due to personal funds Ms. Rhea previously loaned to the school to cover payroll expenses. Sufficient documentation of such loans to the School was not available, and therefore these transactions were not booked as a payable on the June 30, 2001 financial statements.

D. Federal Grant Received

On October 30, 2001 the School applied for a \$150,000 federal grant for charter school programs and improvements. The grant was awarded on November 30, 2001. On January 4, 2002 the School received a \$150,000 grant from the Federal government for school programs and improvements. This transaction is not recognized on the financial statements.

17. ACCOUNTABILITY

The School is required to disclose all instances of violations of finance related legal provisions. During the audit period the School was found to be in violation of the following provisions:

The provisions of **Ohio Rev. Code Section 3314.10** subject community schools to the provisions of Ohio Rev. Code Chapter 3307. **Ohio Rev. Code Sections 3307.26 and 3307.28** require that school districts withhold from employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined by the State Teachers Retirement System (STRS) and to subsequently remit to STRS the amounts withheld, along with an appropriate percentage of employer matching contributions. At June 30, 2001, the School owed STRS required contributions of \$15,389.

Ohio Rev. Code Section 3314.08(J) states a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payment to be received by the school pursuant to division (D) of this section. The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which the money is borrowed. The proceeds of the notes shall be used only for the purposes for which the anticipated receipts may be lawfully expended by the school. The School entered into a five year loan during August 2000, which matures in September 2005, for the purpose of purchasing a van.

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Rhea Academy Community School
Montgomery County
113 East Third Street
Dayton, Ohio 45402

To the Board of Governance:

We have audited the financial statements of Rhea Academy Community School (the School), as of and for the year ended June 30, 2001, and have issued our report thereon dated January 10, 2003, wherein we noted the School has suffered losses from operations and has a net accumulated deficit that raises substantial doubt about its ability to continue as a going concern. 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.

Compliance

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 grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10357-001 through 2001-10357-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated January 10, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-10357-005 through 2001-10357-007.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2001-10357-006 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated January 10, 2003.

This report is intended for the information and use of management, and the Board of Governance, and is not intended to be and should not be used by anyone other than these specified parties.



Jim Petro
Auditor of State

January 10, 2003

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-10357-001

The School did not follow budgetary procedures outlined in the contract between Rhea Academy and the Ohio Department of Education (ODE). To ensure compliance with the provisions of the contract with ODE and completeness, accuracy, and consistency over the budgetary activities, the School should address the following conditions:

- The Governing Board failed to adopt an annual budget. The School's contract with the Ohio Department of Education, Exhibit 3, and the School's Code of Regulations, Article II, states that the Governing Board's responsibilities will be to adopt an annual budget. To comply with the abovementioned sections of the School's contract and Code of Regulations, the Governing Board should adopt a budget on an annual basis.
- The Governing Board failed to approve monthly spending plans for the next fiscal year. The contract between the Ohio Department of Education and Rhea Academy, Exhibit, states monthly spending plans for the subsequent fiscal years will be prepared and submitted annually. To comply with the abovementioned section of the Schools contract with the Ohio Department of Education, the Governing Board should approve monthly spending plans at the end of each fiscal year for the subsequent fiscal year, and state such in their minutes.
- The Governing Board failed to approve monthly budget reviews and amendments. The contract between the Ohio Department of Education and the Rhea Academy, Exhibit 2, states the budget will be reviewed monthly. To ensure compliance with the abovementioned section of the School's contract with the Ohio Department of Education, the fiscal officer should prepare, and the Governing Board should approve, monthly budget verses actual reports, and amend such budget if deemed necessary.

Implementing these procedures will assist the School in more accurately and effectively budgeting the School's funds.

FINDING NUMBER 2001-10357-002

The provisions of **Ohio Rev. Code Section 3314.10** subject community schools to the provisions of Ohio Rev. Code Chapter 3307. **Ohio Rev. Code Sections 3307.26 and 3307.28** require that school districts withhold from employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined by the State Teachers Retirement System (STRS) and to subsequently remit to STRS the amounts withheld, along with an appropriate percentage of employer matching contributions. At June 30, 2001, the School owed STRS required contributions of \$15,389. To comply with the abovementioned sections of code and to reduce the risk of incurring late payment penalties, the School should remit to STRS the amounts withheld, along with an appropriate percentage of employer matching contributions, and adhere to the monthly payment schedule established for payment of STRS contributions.

FINDING NUMBER 2001-10357-003

Ohio Rev. Code Section 3314.08(J) states a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payment to be received by the school pursuant to division (D) of this section. The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which the money is borrowed. The proceeds of the notes shall be used only for the purposes for which the anticipated receipts may be lawfully expended by the school. The School entered into a five year loan during August 2000, which matures in September 2005, for the purpose of purchasing a van. To comply with the above mentioned section of code, the Governing Board should determine a method to effectively eliminate this loan.

FINDING NUMBER 2001-10357-004

Ohio Admin. Code Section 117-2-03 (B) states all community schools are required to prepare an annual financial report in accordance with generally accepted accounting principles (GAAP). The annual financial report is required to be filed with the Auditor of State within one hundred fifty days after the close of the fiscal year. In addition, this bulletin states that persons charged with preparing the annual financial report should be aware that this Office considers all community schools to be governmental not-for-profit organizations. The School failed to file an annual GAAP report within the time line prescribe by the above section of revised code. The School, after being declared unauditible by the State of Ohio, Office of the Auditor, filed an annual GAAP report subsequent to the prescribed deadline, and in private not-for-profit (rather than governmental not-for-profit) format. To comply with the abovementioned section of code, the School should file GAAP statements with the Auditor of State by the abovementioned deadline and in the proper format.

FINDING NUMBER 2001-10357-005

Certain deficiencies were noted in the Schools payroll procedures. To ensure completeness, accuracy, and consistency in the Schools payroll, the School should address the following conditions:

- Several instances were noted where employees were paid at rates that were not in accordance with those approved by the Governing Board or employee contracts. To ensure employees are being compensated at the appropriate rate, any changes to employee salaries should be approved by the Governing Board and an amended contract should be signed.
- Time sheets were not maintained for one individual who left service during the year. In addition, the School was unable to provide detailed payroll records for the period July 2000 through mid September 2000. Payroll policies and procedures should be implemented to ensure appropriate documentation is being maintained at the School.
- School Employees Retirement System (SERS), State Teacher Retirement System (STRS), and Medicare were not always withheld at the proper percentages, based on the employee's salary. To ensure compliance with federal and state laws, all mandatory withholdings should be made for the proper amounts.

Implementing these procedures will assist the School in properly processing payroll.

FINDING NUMBER 2001-10357-006

Certain deficiencies were noted in the School's procedures for performing cash reconciliations and related transactions. These deficiencies resulted in the School accumulating a deficit fund cash balance (\$50,486) and a deficit bank balance (\$16,075) as of June 30, 2001. To ensure completeness, accuracy, and consistency in the Schools cash reconciliation and transaction process, the School should address the following conditions:

- The School hired an outside accountant to prepare monthly bank reconciliations, however often these reconciliations were either not provided or not reviewed by the School's officials. In addition, the School issued numerous checks that did not include a check number, which made it difficult to trace these transactions to the bank statements and School ledgers. For additional accountability of the School's cash assets, the Governing Board should obtain and review all monthly bank statements and reconciliations, and also assign a check number to all checks that are issued.

FINDING NUMBER 2001-10357-006
(Continued)

- A review of the bank reconciliations that were provided found that such reconciliations did not agree to the Schools ledgers, thus creating numerous discrepancies between the cash in the bank and the amounts posted to the ledgers. In addition, numerous errors were noted in the monthly listing of the outstanding checks. To ensure the School's cash balance is properly stated, the School should ensure their cash reconciliations agree to their ledgers, and ensure all applicable items are included in the cash reconciliations.
- Several checks had not cleared the bank account as of June 30, 2001, and the School did not have a policy in place regarding old outstanding checks. To ensure that stale dated outstanding checks are properly processed (marked void or issued a stop payment order), the Governing Board should approve a policy regarding controls over outstanding checks.
- A review of the bank transactions found that the School was assessed bank charges for several checks that were returned due to non-sufficient funds. To help assure that the School is not paying these unnecessary costs, the School officials should only issue checks for items which they have sufficient funds deposited with the bank.
- Several checks were noted clearing the bank, however these transactions had not been posted to the School's ledger. To provide additional controls over the completeness of the School's disbursements, officials should review all transactions to assure that they are correctly posted to the ledgers.
- In addition to the computer generated checks, the School also issued manual checks, many of which were incorrectly posted to the School's ledgers. To provide additional accountability over disbursements, a detailed review of these transactions should be performed during the monthly reconciliation process.
- Our review of the School's expenditures noted that many invoices were not being paid in a timely manner. Proper budgeting practices should be employed to allow all bills to be paid when due, and help prevent liabilities from occurring for which there is insufficient funds available to cover these commitments. Implementing these procedures will assist the School in ensuring their cash balance is accurately stated.

FINDING NUMBER 2001-10357-007

The School does not maintain a fixed asset accounting system that provides a total fixed asset listing by location, including tag identification numbers and other supplemental information. It was also noted that the School has not developed procedures to account for additions and deletions of fixed assets throughout the year, nor has the School performed periodic physical inventories of these items. Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and the misstatement of recorded assets on the School's financial statements.

To assist the School in maintaining adequate safeguards over their fixed assets and reduce the risk that the School's fixed assets will be materially misstated, the Governing Board should develop and implement appropriate fixed asset procedures. These procedures should include the development of addition and disposal forms to be completed when assets are acquired or disposed, and performance of periodic physical inventories. In addition, the School should maintain a fixed asset accounting system which accurately represents all fixed assets owned by the School.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-10357-001	Ohio Rev. Code Sections 3307.26 and 3307.28 – Delinquent STRS payments.	No	Not Corrected – See finding 2001-10357-002
2000-10357-002	Cash Reconciliation Procedures	No	Not Corrected – See finding 2001-10357-006



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

RHEA ACADEMY COMMUNITY SCHOOL

MONTGOMERY 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
MARCH 11, 2003**