



**Auditor of State  
Betty Montgomery**



**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Balance Sheet – As of June 30, 2003.....	3
Statement of Revenues, Expenses, and Changes in Retained Earnings - For the Year Ended June 30, 2003.....	4
Statement of Cash Flows – For the Year Ended June 30, 2003 .....	5
Notes to the Financial Statements .....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	17
Schedule of Findings.....	19
Schedule of Prior Audit Findings.....	20

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Richard Allen Academy Community School  
Montgomery County  
700 Heck Avenue  
Dayton, Ohio 45408

To the Members of the Board:

We have audited the accompanying Balance Sheet of the Richard Allen Academy Community School, Montgomery County, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. 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 Richard Allen Academy Community School, Montgomery County, as of June 30, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 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 cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

October 3, 2003

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**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2003**

**ASSETS**

**Current Assets**

Cash	\$25,615
Receivables:	
Intergovernmental	26,542
Prepaid expenses	<u>9,280</u>

Total Current Assets 61,437

**Noncurrent Assets**

Fixed assets (net of accumulated depreciation)	<u>86,980</u>
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Total Assets 148,417

**LIABILITIES AND FUND EQUITY**

**Current Liabilities**

Accounts payable	25,272
Accrued wages & benefits payable	65,040
Intergovernmental payable	1,451
Compensated absences payable	6,071
Capital leases payable, current portion	<u>4,297</u>

Total Current Liabilities 102,131

**Noncurrent Liabilities**

Capital leases payable, less current portion	<u>15,445</u>
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Total Liabilities 117,576

**Fund Equity**

Contributed capital	6,000
Unreserved retained earnings	<u>24,841</u>

Total Fund Equity 30,841

Total Liabilities and Fund Equity \$148,417

*See accompanying notes to the financial statements.*

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2003**

<b>Operating Revenues</b>	
Foundation payments	\$1,083,145
Disadvantaged pupil impact aid	173,025
Miscellaneous revenue	1,610
	<hr/>
Total Operating Revenues	1,257,780
	<hr/>
<b>Operating Expenses</b>	
Salaries	606,972
Fringe benefits	136,890
Management company fees	460,902
Building rental	63,600
Other purchased services	211,149
Materials and supplies	90,191
Depreciation	21,429
Other	8,890
	<hr/>
Total Operating Expenses	1,600,023
	<hr/>
<b>Operating Loss</b>	(342,243)
	<hr/>
<b>Nonoperating Revenues/(Expenses)</b>	
State and federal grant revenue	131,877
Interest and fiscal charges	(1,114)
Gain on disposal of asset	4,891
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Net Nonoperating Revenues/(Expenses)	135,654
	<hr/>
<b>Net Loss</b>	(206,589)
	<hr/>
<b>Retained Earnings, Beginning of Year</b>	<b>231,430</b>
	<hr/>
<b>Retained Earnings, End of Year</b>	<b>\$24,841</b>
	<hr/> <hr/>

*See accompanying notes to the financial statements.*



**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003**

**INCREASE (DECREASE) IN CASH**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash from State of Ohio	\$1,256,170
Cash payments to suppliers for goods and services	(830,844)
Cash payments to employees for services and benefits	(732,519)
Other operating revenue	10,444
	(296,749)
Net cash used for operating activities	(296,749)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State and Federal grant revenue	117,874
Net cash provided by noncapital financing activities	117,874

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING SOURCES**

Capital acquisitions	(34,831)
Principal paid on capital lease	(3,509)
Interest paid on capital lease	(1,114)
	(39,454)
Net cash used by capital and related financing activities	(39,454)

NET DECREASE IN CASH	(218,329)
CASH, BEGINNING OF YEAR	243,944
CASH, END OF YEAR	\$25,615

**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	(342,243)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	21,429
Changes in assets and liabilities:	
Decrease in accounts receivable	8,834
(Increase) in prepaid expenses	(5,532)
Increase in accounts payable	2,720
Increase in accrued wages payable	27,285
(Decrease) in intergovernmental payable	(14,155)
Increase in compensated absences payable	4,913
	45,494
Total Adjustments	45,494
Net Cash Used for Operating Activities	(296,749)

**Non-Cash Item:**

Capital assets acquired under capital lease	\$22,500
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*See accompanying notes to the financial statements.*

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**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Richard Allen Academy (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any 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.

The School contracts with the Institute of Charter School Management and Resources, Inc. (ICSMR) for a variety of services including management consulting, Ohio Department of Education consulting, Education Management Information System (EMIS) monitoring and consulting, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications (see note 10).

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 1999 through June 30, 2004 after which, the School must apply for an additional contract with the Sponsor. The School operates under a self-appointing ten-member Board of Trustees (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by one principal, eighteen full-time and part-time certified teaching personnel and two non-certified support personnel who provide services to an enrollment of 232 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 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.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund 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 liabilities) is segregated into contributed capital and retained earnings. The operating statement presents 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 not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract, however the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

The School's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The School Principal and Treasurer are responsible for ensuring that purchases are made within these limits. However, any variances from the budgetary amounts are presented to the Board for subsequent approval.

**D. Cash**

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the Academy 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 and Depreciation**

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$500. The School does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Depreciation of vehicles, furniture and fixtures, and equipment is computed using the straight-line method over estimated useful lives of five to ten years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Leasehold improvements are depreciated over the life of the lease agreement of five years.

**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 they are earned, essentially the same as the fiscal year. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Amounts awarded under the above named programs for the 2003 school year totaled \$1,388,047.

**H. Compensated Absences**

The School's Principal earns vacation leave each year. The Principal is allowed to carry over any unused vacation leave to subsequent school years. A liability of \$6,071 has been recognized for earned but unused vacation leave at June 30, 2003. No other employees accrue vacation benefits.

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

**I. Accrued liabilities payable**

The School has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2003, including:

1. **Wages payable** – salary payments made after year-end that were for services rendered in fiscal year 2003. Teaching personnel are paid in 25 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2003, for all salary payments made to teaching personnel during the months of July and August 2003.
2. **Intergovernmental payable** – payments for Workers' Compensation (\$508) and Medicaid (\$943) associated with services rendered during fiscal year 2003, but were not paid until the subsequent fiscal year.

**J. Federal Tax Exemption Status**

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes a tax-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 has occurred that might adversely affect the school's tax-exempt status.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Contributed Capital**

Contributed Capital represents equity obtained from other governments and private sources provided to the School that is not subject to repayment. This asset is recorded at its fair market value on the date contributed. Depreciation on this asset is expensed.

**3. DEPOSITS AND INVESTMENTS**

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

**Deposits:** At June 30, 2003, the carrying amount of the School's deposits was \$25,615 and the bank balance was \$54,209, the entire balance of which was covered by federal depository insurance.

**4. INTERGOVERNMENTAL RECEIVABLES**

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Academy at June 30, 2003 consisted of the federal Title I (\$25,946) and Title V (\$596).

**5. CAPITAL LEASES PAYABLE**

On November 1, 2002, the School entered into a lease for a new copier. The terms of this agreement provides an option to purchase the copier. The lease meets the criteria of capital leases as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one, which transfers benefits and risks of ownership to the lessee. Fixed assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments of \$22,500. At the time of acquisition, a corresponding liability was recorded. The new copier replaced other copiers, which were previously acquired through another capital lease arrangement. When the new capital lease agreement was recorded, the value of the previous copiers, which was \$37,500, and the remaining liability associated with the previous capital lease were removed. Principal payments in fiscal year 2003 associated with both leases totaled \$3,509.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**5. CAPITAL LEASES PAYABLE (Continued)**

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

	<b>Fiscal Year</b>	<b>Lease Payment</b>
	2004	\$ 5,134
	2005	5,134
	2006	5,134
	2007	5,135
	2008	1,284
Total Minimum Lease Payments		21,821
Less: Amount Representing Interest		(2,079)
Present Value of Minimum Lease Payments		\$19,742

**6. FIXED ASSETS**

A summary of the School's fixed assets at June 30, 2003, follows:

Leasehold Improvements	\$ 28,087
Vehicles/Equipment	94,400
Subtotal	122,487
Less: Accumulated Depreciation	(35,507)
Net Fixed Assets	\$ 86,980

**7. RISK MANAGEMENT**

**A. Property And Liability**

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. During fiscal year 2003, the School contracted with Cincinnati Insurance Company for business personal property, director and officer liability, and general liability insurance. Business personal property coverage carries a \$250 deductible and has a \$50,000 limit. Director and officer liability coverage is set at \$1,000,000 per loss with a \$1,000 deductible. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate. Business auto coverage is provided by the National Liability & Fire Insurance Company. Settlements did not exceed coverage in any of the past three years.

**B. Employee Insurance Benefits**

As part of the management agreement with the Institute of Charter School Management and Resources, Inc. (see note 10), insurance benefits for School employees are paid by the Institute through the monthly management fee established in the agreement.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute 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 9 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 2003, 8.17 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, 2003, 2002 and 2001 were \$3,065, \$2,292 and \$1,046 respectively; 100 percent has been contributed for each of the fiscal years.

**B. State Teachers Retirement System**

The School participates in 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 or by calling (614) 227-4090.

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% 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.



**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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 for the fiscal years ended June 30, 2003, 2002, and 2001 were \$83,212, \$51,447, and \$34,395 respectively; 106 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. During fiscal year 2003, the School had excess contributions of \$5,104 to STRS which is recorded as a prepaid as of June 30, 2003.

**9. POST-EMPLOYMENT BENEFITS**

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002. For the School, this amount equaled \$6,373 during the 2003 fiscal year.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**9. POST-EMPLOYMENT BENEFITS (Continued)**

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, 2003, the allocation rate is 5.83 percent. 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 2003, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including the surcharge, was \$1,870 for fiscal year 2003.

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 annual health care expenses. Expenses for health care at June 30, 2002, were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits of \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

**10. AGREEMENTS WITH INSTITUTE OF CHARTER SCHOOL MANAGEMENT AND RESOURCES, INC.**

The School entered into a five-year Management Agreement with the Institute of Charter School Management and Resources, Inc. (ICSMR), which is an education consulting and management company.

The Management Agreement's term coincides with the school's charter agreement and provides that ICSMR will perform functions reasonably required to manage the operation of the School; ensure students receive services which are in accordance with applicable educational standards; make every effort to ensure the School complies with the requirements of any applicable statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquire all necessary licenses and permits; maintain all student and financial records required by federal, state and local laws and regulations, as well as, protecting the confidentiality of those records; act as the School's agent in making deposits and disbursements promptly; provide for all expenses of operating the School, including lease payments for the school building, equipment and operating supplies needed in the operation of the School, from its management fee; be responsible for hiring qualified teachers and other employees of the School, as well as, dismissal of such employees. However, the School will be responsible for the compensation of the employees.

ICSMR receives a monthly management fee of 10% of the total operating revenues of the School from all sources excluding extraordinary items. ICSMR charges the School for any expenses it incurs on behalf of the School in order to provide District wide services. These expenses may include but are not limited to District wide management services provided by ICSMR employees in the area of instruction, transportation, financial, and general business management and development, as well as, district wide purchase of textbooks and supplies. During fiscal year 2003, the School paid ICSMR a total of \$460,902 for professional, accounting and legal, management and other services.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**11. CONTINGENCIES**

**A. Grants**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

**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. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2004, as a result of such a review.

**C. Litigation**

A suit was filed in Franklin County common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18th, 2003.

**12. 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.

**13. OPERATING LEASE**

The School leases its facilities from J & A Educational Properties under a five-year lease agreement beginning August 25, 1999 through August 24, 2005. Rent for fiscal year 2003 totaled \$63,600. The terms of the lease are not expected to change during fiscal year 2004. The lease shall automatically renew for an additional five years unless either party gives written notice of termination no later than sixty days prior to the end of the lease.

**14. RELATED PARTIES**

The Board, Chief Executive Officer, and Chief Fiscal Officer of Richard Allen Academy Community School serve in the same capacity for Richard Allen Preparatory, Richard Allen Academy II Community Schools, and Richard Allen Academy III Community Schools. The Chief Executive Officer and Chief Fiscal Officer are also employees of the Institute of Charter School Management and Resources, the management company for the same.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**15. OTHER PURCHASED SERVICES**

During the year ended June 30, 2003, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 165,071
Communications	15,900
Pupil transportation	3,153
Public relations and advertising	4,939
Property services	19,082
Other	3,004
	<u>\$ 211,149</u>

**16. MATERIAL NON-COMPLIANCE**

**Budget Approval**

Richard Allen Academy's Community School Contract Exhibit 2 indicates that the Board will adopt a formal budget at the beginning of the school year, and that actual expenditures will not exceed budget amounts with the Treasurer and School Principal being responsible for ensuring that purchases are made within those limits. There is no documentation of the Board approving a budget for the 2003 fiscal year.



## **Auditor of State Betty Montgomery**

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

Richard Allen Academy Community School  
Montgomery County  
700 Heck Avenue  
Dayton, Ohio 45408

To the Members of the Board:

We have audited the financial statements of the Richard Allen Academy Community School, Montgomery County (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 3, 2003. We conducted our audit in accordance with auditing standards generally accepted by 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 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001.

#### **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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain 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 October 3, 2003.

Richard Allen Academy Community School  
Montgomery County  
Independent Accountants' Report on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

October 3, 2003

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2003**

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

**FINDING NUMBER 2003-001**

**Budget Approval**

Richard Allen Academy's Community School contract, Exhibit 2, states that the Board of Trustees will adopt a formal budget at the beginning of the school year, and that actual expenditures will not exceed budget amounts with the Treasurer and School Principal being responsible for ensuring that purchases are made within those limits.

The School was unable to provide documentation that the Board approved a budget for the 2003 fiscal year. The failure to approve a formal budget prevents the Board from making sound financial decisions and could result in unauthorized expenditures or expenditures exceeding the available resources.

The Board should establish policies to document the formal adoption of the annual budget as well as procedures to monitor budgetary activity throughout the year.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><i>Explain:</i></b>
2002-001	Payments were made for the lease of equipment not associated with the operation of Richard Allen Academy Community School.	Yes	





**Auditor of State  
Betty Montgomery**

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Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**RICHARD ALLEN 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  
DECEMBER 16, 2003**