



**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying balance sheet of the Richard Allen Academy Community School, Montgomery County, (the School), as of June 30, 2001, 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, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2001, 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.

Jim Petro
Auditor of State

November 5, 2001

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**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

Assets

Current Assets

Cash and cash equivalents	\$69,729
Receivables:	
Intergovernmental	27,443
Prepaid expenses	<u>327</u>
 Total Current Assets	 97,499

Noncurrent Assets

Fixed assets (net of accumulated depreciation)	<u>25,853</u>
 Total Assets	 <u><u>\$123,352</u></u>

Liabilities and Fund Equity

Current Liabilities

Accounts payable	\$19,892
Accrued wages & benefits payable	44,792
Intergovernmental payable	12,627
Compensated absences payable	<u>2,000</u>
 Total Liabilities	 <u>79,311</u>

Fund Equity

Contributed capital	6,000
Unreserved retained earnings	<u>38,041</u>
 Total Fund Equity	 <u>44,041</u>
 Total Liabilities and Fund Equity	 <u><u>\$123,352</u></u>

See accompanying notes to the financial statements.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

Operating Revenues	
Foundation payments	\$593,964
Disadvantaged pupil impact aid	111,775
Miscellaneous revenue	<u>7,063</u>
Total Operating Revenues	<u>712,802</u>
 Operating Expenses	
Salaries	323,705
Fringe benefits	65,575
Management company fees	384,147
Building rental	73,839
Other purchased services	68,245
Materials and supplies	72,745
Depreciation	6,059
Other	<u>2,017</u>
Total Operating Expenses	<u>996,332</u>
Operating Loss	<u>(283,530)</u>
 Nonoperating Revenues	
State and federal grant revenue	117,278
Gifts and donations	<u>152,366</u>
Total Nonoperating Revenues	<u>269,644</u>
Net Loss	(13,886)
Retained Earnings, Beginning of Year	<u>51,927</u>
Retained Earnings, End of Year	38,041
Contributed Capital, Received During the Year	<u>6,000</u>
Total Fund Equity, End of Year	<u><u>\$ 44,041</u></u>

See accompanying notes to the financial statements.

**RICHARD ALLEN 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	\$705,739
Cash payments to suppliers for goods and services	(579,714)
Cash payments to employees for services and benefits	(394,651)
Other operating revenue	<u>7,063</u>

Net Cash Used for Operating Activities (261,563)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State and federal grant revenue	117,191
Gifts and donations	<u>152,366</u>

Net Cash Provided by Noncapital Financing Activities 269,557

Net Increase In Cash And Cash Equivalents 7,994

Cash And Cash Equivalents, Beginning Of Year 61,735

Cash And Cash Equivalents, End Of Year \$69,729

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

Operating loss (\$283,530)

**Adjustments to Reconcile Operating Income
to Net Cash Provided by Operating Activities:**

Depreciation 6,059

Changes in assets and liabilities:

Increase in accounts payable 18,288

Increase in accrued wages payable 964

Decrease in intergovernmental payable (5,344)

Increase in compensated absences payable 2,000

Total Adjustments 21,967

Net Cash Used for Operating Activities (\$261,563)

Non-Cash Item

Donated capital asset received \$6,000

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, 2001**

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 9).

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, eleven certified full-time teaching personnel and two non-certified support personnel who provide services to an enrollment of 137 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001
(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 present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's 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 and Cash Equivalents

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.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

Amounts awarded under the above named programs for the 2001 school year totaled \$823,017.

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 \$2,000 has been recognized for earned but unused vacation leave at June 30, 2001. 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.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2001, including:

Wages Payable – salary payments made after year-end that were for services rendered in fiscal year 2001. Teaching personnel are paid year around, however, payments during the summer months were earned as of June 30. Therefore, a liability has been recognized at June 30, 2001 for all salary payments made to teaching personnel during the summer of 2001.

Intergovernmental Payable – payment for the employer's share of the retirement contribution (\$8,637), workers' compensation (\$350), Medicare (\$649), computer services (\$306), and payroll withholding taxes (\$2,685) associated with services rendered during fiscal year 2001, 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 as 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 have occurred that might adversely affect the School's tax exempt status.

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, 2001, the carrying amount of the School's deposits was \$69,729 and the bank balance was \$87,160. The entire bank balance was covered by federal depository insurance.

4. INTERGOVERNMENTAL RECEIVABLE

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, 2001 consisted of the Title I federal grant program in the amount of \$27,443.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

5. FIXED ASSETS

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

Leasehold Improvements	\$23,658
Vehicles/Equipment	<u>10,636</u>
Subtotal	34,294
Less: Accumulated Depreciation	<u>(8,441)</u>
Net Fixed Assets	<u>\$25,853</u>

6. 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 2001, the School contracted with Cincinnati Insurance Company for business personal property and general liability insurance. Business personal property coverage carries a \$250 deductible and has a \$50,000 limit. 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.

B. Employee Insurance Benefits

As part of the management agreement with the Institute of Charter School Management and Resources, Inc. (see note 9), insurance benefits for School employees are paid by the Institute through the monthly management fee established in the agreement.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement System Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Authority to establish and amend benefits is provided by chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information- for SERS. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3684 or by calling (614) 222-5853.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 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 is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the year ended June 30, 2001, 4.2 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 statutory maximum amounts, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001 and 2000 were \$1,046 and \$577, respectively; 93 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000.

B. State Teachers Retirement System

The School 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 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's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001 and 2000, were \$34,395 and \$11,093, respectively; 85 percent has been contributed for fiscal year 2001 and 100 percent for fiscal year 2000. \$8,380 represents the unpaid contribution for fiscal year 2001 and is recorded as an intergovernmental payable.

8. POSTEMPLOYMENT 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.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

8. POSTEMPLOYMENT BENEFITS (Continued)

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, 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 \$16,293 during the 2001 fiscal year.

The balance in the Health Care Reserve Fund was \$3.419 billion on June 30, 2000, (the latest information available). For the year ended June 30, 2000, net health care costs paid by STRS Ohio were \$283,137,000. There were 99,011 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.

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, the allocation rate is 9.8 percent, an increase of 1.3 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 2001, the minimum pay has been established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, was \$2,442 for fiscal year 2001.

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, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, the Retirement System's net assets available for payment of health care benefits of \$252.3 million. The number of participants currently receiving health care benefits is approximately 50,000.

9. AGREEMENT WITH INSTITUTE OF CHARTER SCHOOL MANAGEMENT AND RESOURCES, INC.

The School entered into a five-year Management Agreement on July 1, 1999, with the Institute of Charter School Management and Resources, Inc. (ICSMR), which is an education consulting and management company. This agreement was amended on June 21, 2000.

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; 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.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

9. AGREEMENT WITH INSTITUTE OF CHARTER SCHOOL MANAGEMENT AND RESOURCES, INC.
(Continued)

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 services. These expenses may include but are not limited to management services provided by ICSMR employees in the area of instruction, transportation, financial, and general business management and development, as well as, the purchase of textbooks and supplies. During fiscal year 2001, the School paid ICSMR a total of \$384,147 for professional, accounting and legal, management and other services.

10. 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 full time equivalency (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 results of this review could result in state funding being adjusted. The School does not anticipate any adjustments to state funding for fiscal year 2001 as a result of such a review.

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.

11. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- a. A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- b. Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

11. STATE SCHOOL FUNDING DECISION (Continued)

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 5, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

12. OPERATING LEASE

The School leases its facilities from St. Mary Development Corporation under a five-year lease agreement beginning August 25, 1999 through August 24, 2005. Rent for fiscal year 2001 totaled \$73,839. The terms of the lease are not expected to change during fiscal year 2002. The lease will automatically renew for another five years unless either party gives written notice no later than sixty days prior to the end of the lease period.

13. RELATED PARTIES

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

14. OTHER PURCHASED SERVICES

During the year ended June 30, 2001, other purchased service expenses for services rendered by various vendors were as follows:

Pupil Transportation	\$40,110
Property Services	8,959
Communications	8,340
Other	10,836
Total	<u><u>\$68,245</u></u>

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

15. CONTRIBUTED CAPITAL

The School received a bus valued at \$6,000 from the Institute of Charter School Management and Resources, Inc. during the year ended June 30, 2001, which has been presented as contributed capital.



STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS 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 Board of Trustees:

We have audited the financial statements of Richard Allen Academy Community School, Montgomery County, (the School), as of and for the year ended June 30, 2001, and have issued our report thereon dated November 5, 2001. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 2001-10357-001 and 2001-10357-002.

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, we believe that the reportable conditions described above are material weaknesses.

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

Jim Petro
Auditor of State

November 5, 2001

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

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

Finding Number 2001-10357-001

In 42% of the transactions selected for review, vendor payments were disbursed and a purchase order was not issued by the School. The absence of a purchase order is contrary to Section 2(c) of the Academy's Purchasing of Goods and Services policy. The failure to follow the purchasing policy could result in the failure to detect the improper expenditure of funds by the School during the normal course of operations.

The School should enforce Section 2(c) of their Purchasing of Goods and Services policy and require the issuance of purchase orders for all expenditure commitments. Adherence to this policy will help establish proper accountability over monies disbursed by the School.

Finding Number 2001-10357-002

During testing we noted that 22% of the expenditure transactions examined were not supported by a detailed vendor invoice. There were 13 instances where the School made a payment to its management company, the Institute of Charter School Management and Resources (ICSMR) without obtaining a detailed invoice from ICSMR for services provided. In addition, there was another expenditure for student transportation that was not supported by a vendor invoice. We were subsequently able to substantiate these expenditures by review of vendor statements and other information provided by the vendors involved. However, the failure to obtain a detailed invoice from vendors prior to payment could prevent the School from allocating disbursements to the appropriate expenditure line items and also increases the possibility that improper expenditures would not be detected promptly by the School.

The Academy should require all vendors to submit detailed invoices before making payment. Payments to vendors should be supported by invoices and maintained along with the purchase order authorizing the expenditure. These procedures will help establish proper accountability over monies disbursed to vendors by the School.

**RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10357-001	Failure to issue purchase orders for payments to vendors.	No	Situation still exists and finding was repeated as Finding Number 2001-10357-001.
2000-10357-002	Failure to obtain detailed invoices from vendors.	No	Situation still exists and finding was repeated as Finding Number 2001-10357-002.
2000-10357-003	Failure to reconcile payroll disbursements presented in financial statements to supporting documentation (i.e. quarterly 941 payroll reports).	Yes	Finding will not be repeated.
2000-10357-004	Failure to identify federal funds received and expended in underlying accounting records.	Yes	Finding will not be repeated.



STATE OF OHIO
OFFICE OF THE AUDITOR

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RICHARD ALLEN ACADEMY

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
JANUARY 3, 2002**