



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

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Balance Sheet	3
Statement of Revenues, Expenses and Changes in Retained Earnings	4
Statement of Cash Flows	5
Notes to the Financial Statements	7
Schedule of Federal Awards Receipts and Expenditures.....	19
Note to the Schedule of Federal Awards Receipts and Expenditures.....	21
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	23
Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with OMB Circular A-133.....	25
Schedule of Findings.....	27
Schedule of Prior Audit Findings.....	28

THIS PAGE INTENTIONALLY LEFT BLANK



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Franklin County
1850 Bostwick Road
Columbus, Ohio 43227

We have audited the accompanying Balance Sheet of the Ohio Achievement Charter Schools, Inc. (the School) as of June 30, 2002, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and 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 Ohio Achievement Charter Schools, Inc., Franklin County, Ohio, as of June 30, 2002, 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 October 15, 2002 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.

We performed our audit to form an opinion on the financial statements of the School, taken as a whole. The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

October 15, 2002

THIS PAGE INTENTIONALLY LEFT BLANK

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

Assets

Current Assets

Cash and Investments	\$ 550,341
Receivable - Accounts	14,316
Receivable - Federal	<u>23,857</u>
Total Current Assets	<u>588,514</u>

Non-Current Assets

Fixed assets (Net of Accumulated Depreciation)	<u>1,345,114</u>
Total Assets	<u><u>\$ 1,933,628</u></u>

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$ 31,678
Accrued Wages & Benefits	236,414
Compensated Absences	7,514
Payable to State Pension Systems	23,190
Capital Lease Payable	<u>260,149</u>
Total Current Liabilities	<u>558,945</u>

Long-Term Liabilities

Capital lease payable	<u>492,914</u>
Total Liabilities	<u>1,051,859</u>

Equity

Retained Earnings	<u>881,769</u>
Total Fund Equity	<u>881,769</u>
Total Liabilities & Fund Equity	<u><u>\$ 1,933,628</u></u>

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

**OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenues	
Sales	\$ 14,057
Foundation Payments	3,760,361
Other Operating Revenues	58,735
Total Operating Revenues	3,833,153
 Operating Expenses	
Salaries & Wages	1,684,034
Fringe Benefits	631,756
Purchased Services	1,092,268
Materials & Supplies	260,201
Depreciation	61,239
Miscellaneous	235,336
Total Operating Expenses	3,964,834
Operating Loss	(131,681)
 Non-Operating Revenues and (Expenses)	
Interest Earnings	11,264
State subsidies	16,675
Private Grant	136,647
Federal subsidies	441,179
Forgiveness of Management Contract	214,639
Interest Expense	(80,795)
Total Non-Operating Revenues	739,609
Net Income	607,928
Retained Earnings at July 1, 2001	273,841
Retained Earnings at June 30, 2002	\$ 881,769

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

**OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Cash Flows from Operating Activities

Cash received from Sales	\$ 14,057
Cash received from Foundation Payments	3,760,361
Cash received from Other Operating Revenues	57,640
Cash payments for Personal Services	(2,269,918)
Cash payments for Contract Services	(1,079,637)
Cash payments for Supplies and Materials	(258,319)
Cash payments for Miscellaneous	(234,998)
Net Cash Used for Operating Activities	<u>(10,814)</u>

Cash Flows from Noncapital Financing Activities

Federal Subsidies	497,987
State Subsidies	16,675
Private Grant	136,647
Net Cash Provided by Noncapital Financing Activities	<u>651,309</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	(319,984)
Payments for Interest on Capital Acquisitions	(80,795)
Net Cash Used for Capital and Related Financing Activities	<u>(400,779)</u>

Cash Flows from Investing Activities

Interest on cash and cash equivalents	12,567
Net Cash Provided by Investing Activities	<u>12,567</u>

Net increase in cash and cash equivalents	252,283
Cash and cash equivalents at beginning of year	298,058
Cash and cash equivalents at end of year	<u>\$ 550,341</u>

**Reconciliation of Operating Income to Net Cash
Provided By Operating Activities**

Operating Income	(131,681)
------------------	-----------

**Adjustments to Reconcile Operating Income to Net
Cash Used for Operating Activities**

Depreciation	61,239
Changes in Assets and Liabilities:	
Accounts Receivable	(1,095)
Accounts Payable	15,857
Accrued Wages and Benefits	57,633
Intergovernmental Payable	(13,064)
Compensated Absences	297
Total Adjustments	<u>120,867</u>

Net Cash Used for Operating Activities	<u>\$ (10,814)</u>
--	--------------------

NonCash Investing, Capital, and Financing Activities

During the year, the Ohio Achievement Charter Schools, Inc. entered into an agreement with Achievement Education Services, Inc. to waive \$214,639 in fees payable from prior years.

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

THIS PAGE INTENTIONALLY LEFT BLANK

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Ohio Achievement Charter Schools, Inc. (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 fourth grade. 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 necessary services necessary for the operation of the school.

The School was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 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 an eight 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 population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees control the School's instructional/support facility staffed by 38 non-certified and 41 certificated full time teaching personnel who provide services to 675 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 track and report the School's financial activities. Enterprise accounting is used to account for operations that are financed in a manner similar to private business enterprises where the intent is that the cost (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.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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. Operating statements present increases and decreases 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 used for reporting purposes. Revenues are recognized when 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 the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

D. Cash and Investments

All monies received by the School are pooled and deposited in a central bank account. All monies of the School are maintained in this account or temporarily used to purchase short term investments.

During fiscal year 2002, investments were limited to STAR Ohio and repurchase agreements. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002. Repurchase agreements are valued at fair value.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful life of the related fixed assets.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fixed Assets and Depreciation (Continued)

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Vehicles	10
Furniture and Equipment	10
Computer equipment	5

F. Intergovernmental Revenues (Nonexchange Transactions)

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are 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 use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$150,000 to offset start-up costs of the School. During FY 2002, the school received \$150,000 in award monies. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

Amounts awarded under the above named programs for 2002 school year totaled \$441,179.

G. Private Grant

The School also participated in a private grant funded through the Walton Family Foundation. Under this program, the School was awarded \$136,647 for the purpose of purchasing library books, additional technology equipment, science and social studies curriculum, and additional staff computers.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all employees.

The School does not have a liability for sick benefits upon termination, therefore no liability is recognized.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

3. DEPOSITS AND INVESTMENTS

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

Deposits: The carrying value of the School's deposits totaled (\$49,628), and the bank balance totaled \$24,251, all of which was covered by federal depository insurance.

Investments: The School's investments are categorized to give an indication of the level of risk assumed by the school at the fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the school or its agent in the school's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterpartys trust department or agent in the schools name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the school's name.

Investments of the school as of June 30, 2002 were as follows:

<u>Investments</u>	<u>Category 3</u>	<u>Fair Value</u>
Repurchase Agreement	\$128,148	\$128,148
Star Ohio		<u>471,817</u>
Total Investments		\$599,965

The school invests in STAR Ohio which is not evidenced by securities that exist in physical or book-entry form and is not categorized by credit risk. The repurchase agreement is specifically pledged by a single security.

4. RECEIVABLES

Receivables at June 30, 2002, consisted of accounts of \$14,316 and intergovernmental receivables (federal grants) totaling \$23,857. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2002, follows:

Building and Building Improvements	\$ 1,196,242
Furniture and Equipment	149,812
Computer Equipment	<u>107,611</u>
Subtotal	1,453,665
Less: Accumulated Depreciation	<u>(108,551)</u>
Net Fixed Assets	<u>1,345,114</u>

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

6. RISK MANAGEMENT

A. Property and 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 fiscal year 2002, the School contracted with Nationwide Insurance Company for property and general liability insurance. There is a \$ 500 deductible with a 100%, all risk policy.

Professional liability is protected by Nationwide Insurance Company with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate with no deductible.

B. Worker's Compensation

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

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 defined 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 per Chapter 3309 of the Ohio Revised Code. The School Employee Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to School Employees Retirement System, 300 E Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 9% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% 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 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund the 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 contribution for pension obligations to SERS for the years ending June 30, 2002, 2001 and 2000 were \$117,268, \$105,161 and \$68,252 respectively. The School has contributed \$103,590 for fiscal year 2002, and the remainder has been recorded as a payable to State Pension Systems.

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 administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available 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.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal years ending June 30, 2002, 2001 and 2000 were \$171,622, \$142,416 and \$95,161 respectively. The School has contributed \$165,155 and the remainder has been recorded as a payable to State Pension Systems.

8. POSTEMPLOYMENT BENEFITS

The School 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 partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board has discretionary 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 monthly premiums. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of the 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, 2001, the board allocated employer contribution equal to 4.5% of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001. For the School, this amount equaled \$81,177 during fiscal year 2001. For the year ended June 30, 2001, net health care costs paid by STRS Ohio were \$307,772,000. There were 102,132 eligible benefit recipients (the latest information available).

For SERS, coverage is made available to service retirees with ten or more fiscal 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% of the premium. The Board currently allocates employer contributions equal to 8.54% of covered payroll to fund health care benefits. For the School, this amount equaled \$63,096 during fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care is reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits was \$315.7 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000 (the latest information available).

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 20 days of vacation per year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who are not on a twelve- month contract do not earn vacation time. All employees earn sick leave at the rate of one and one fourth days per month.

Sick leave may be accumulated up to 15 days. Upon retirement, no payment is made for accumulated unused sick leave.

B. Insurance Benefits

The School has contracted with a private carrier to provide employee health insurance. The School paid 100% of the monthly premium for fiscal year 2002, the total monthly premium was \$688 per employee for family coverage and \$222 for single coverage.

10. CAPITALIZED LEASES

During fiscal years ending 2002, 2001 and 2000, the School entered into capitalized leases for office equipment, buildings, food service equipment, telephone system and a tractor. The leases meet the criteria of a capital lease 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. The capital leases have been recorded at the present value of future minimum lease payments as of the inception dates. The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of June 30, 2002.

Fiscal Year Ending June 30,	
2003	328,099
2004	322,651
2005	202,484
2006	19,506
2007	<u>1,253</u>
Total minimum lease payments	873,993
Less: interest	<u>120,930</u>
Present Value of minimum lease payments	<u>\$ 753,063</u>

11. OTHER LEASES

During fiscal year 2000, the School entered into a lease agreement with the Obermiller, LLC for the building and approximately six acres of land located at the School. The term of the lease commenced May 1, 2000 through May 1, 2005 . Thereafter, the lease is on a month-to-month basis. The monthly rent for both land and building is \$8,500 payable on or before the first day of each month. During the year, the School paid \$68,000. (See Note 16.)

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

12. 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 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.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

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

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 coat support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

13. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the fund presentation or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2002.

B. 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.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

14. MANAGEMENT CONSULTING CONTRACT

The School entered into a five-year contract on July 1, 1999 with Achievement Education Services, Inc. for management consulting services. Under the contract, Achievement Education Services is required to provide the following services:

- . Superintendent Services
- . Staff Development and Recruiting
- . Program Development
- . Budgeting, Financial Reporting and Audit Preparation
- . Building and Grounds Planning and Maintenance
- . Curriculum Research and Development
- . Marketing and Publicity
- . Testing Program and Analysis
- . Grant Preparation and Management
- . Board Recruitment and Management
- . Personnel Services

For the services listed above, the School is required to pay a fee to Achievement Education Services, Inc. The fee is equal to 10% of the total per pupil allowance received from the State of Ohio. In the event that the year end reconciliation results in a difference between the total amount paid and the agreed fee, with a balance owed, the Achievement Education Services has the right to suspend collection until such time as the School determines that cash flow permits such payment. The total expense paid under this contract for fiscal year 2002 totaled \$376,036. During the year, the Ohio Achievement Charter Schools, Inc. waived \$214,639 in fees payable from prior years.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

15. PURCHASED SERVICES EXPENSES

For the year ended June 30, 2002, purchased service expenses were payments for services rendered by various vendors as follows:

Professional and Technical Services		
Achievement Education Services	\$376,036	
PSI & Associates	14,250	
Consulting	34,594	
Professional & Legal Services:		
Brooks & Wilburn	19,748	
Ohio Community School Center	20,000	
BusinessMap	23,348	
Leone Batte	12,040	
ManFred Haertel	24,300	
Cayman Technologies	41,974	
Other	19,063	
Other Professional and Technical Services	28,802	
Total Professional and Technical Services		\$421,589
Property Services		
Obermiller, LLC	76,012	
Paving and Building Repair:		
Sheedy Paving	31,055	
Modular Design	31,733	
Factory Direct Windows	22,123	
Others	33,016	
Other Property Services	56,625	
Total Property Services		250,564
Travel Mileage/Meeting Expense		9,836
Communications		22,806
Utilities		41,324
Contracted Craft or Trade Services		
Food Service		144,037
Other Purchased Services		9,546
Total Purchased Services		<u>\$1,092,268</u>

16. RELATED PARTY TRANSACTIONS

A lease agreement of lease between Obermiller, LLC, an Ohio Limited Liability Company and the Ohio Achievement Charter Schools, Inc., an Ohio non-profit corporation was entered into on May 1, 2000. The individual who serves as the CEO of the Ohio Achievement Charter Schools, Inc. is the spouse of the owner of Obermiller, LLC. During fiscal year 2002, Obermiller, LLC waived four months of rent payments in lieu of repairs on land and building repairs. The School paid Obermiller LLC a total of \$76,012 during the year, \$68,000 was paid for rent and \$8,012 was for repairs on land and building.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

17. FULL-TIME EQUIVALENCY REVIEWS

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 data to the State, upon which foundation funding is calculated. The conclusions of this review could result in the 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 2002, as a result of such review.

18. TAX EXEMPT STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on December 7, 1999. 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.

19. SUBSEQUENT EVENT

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 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 on its financial operations.

THIS PAGE INTENTIONALLY LEFT BLANK

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Breakfast Program	05PU - 2002	10.553	445	445
National School Lunch Program	LLP1 - 2001	10.555	10,477	
	LLP4 - 2001	10.555	11,706	
	LLP4 - 2002	10.555	<u>98,045</u>	<u>120,228</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>120,673</u>	<u>120,673</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Grants to Local Educational Agencies (ESEA Title I)	C1S1-2001	84.010	54,661	101,677
	C1S1-2002	84.010	<u>119,981</u>	<u>119,510</u>
			174,642	207,991
Safe and Drug-Free Schools State Grants Title IV Part A, Subpart 1 of ESEA, aka Safe....	DRS1 - 2000		-	2,290
	DRS1 - 2001	84.186	2,292	-
	DRS1 - 2002	84.186	<u>2,818</u>	<u>-</u>
			5,110	2,290
Eisenhower Professional Development State Grant, Title II	MSS1 - 2001	84.281		3,212
	MSS1 - 2002	84.281	<u>5,501</u>	<u>5,501</u>
			5,501	8,713
Federal Start Up Grant	CHS1 - 2002	84.282	<u>150,000</u>	<u>150,000</u>
			150,000	150,000
Innovative Educational Program Strategies	C2S1 - 2000	84.298	-	2,146
	C2S1 - 2001	84.298	1,790	3,310
	C2S1 - 2002	84.298	<u>1,093</u>	<u>-</u>
			2,883	5,456

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
Class Size Reduction	CRSI - 2001	84.340	12,349	5,140
	CRSI - 2002	84.340	20,487	10,549
			32,836	15,689
Total U.S. Department of Education			370,972	390,139
Totals Federal Awards Receipts and Expenditures			491,645	510,812

The accompanying notes to this schedule are an integral part of this schedule.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School's federal award programs. The schedule has been prepared on the cash basis of accounting.

THIS PAGE INTENTIONALLY LEFT BLANK



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

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

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Franklin County
1850 Bostwick Road
Columbus, Ohio 43227

We have audited the financial statements of the Ohio Achievement Charter Schools, Inc. (the School) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 15, 2002. 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*. However, we noted a certain instance of non-compliance that we have reported to management of the School in a separate letter dated October 15, 2002.

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 weakness. 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 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 October 15, 2002.

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Franklin County
Report on Compliance and on Internal Control Required by
Government Auditing Standards
Page 2

This report is intended for the information and use of the management, Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

JIM PETRO
Auditor of State

October 15, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Ohio Achievement Charter Schools, Inc
DBA Millennium Community School
Franklin County
1850 Bostwick Road
Columbus, Ohio 43227

Compliance

We have audited the compliance of the Ohio Achievement Charter Schools, Inc. (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

The Ohio Achievement Charter Schools, Inc
DBA Millennium Community School
Franklin County
Report On Compliance With Requirements
Applicable To Major Federal Programs And Internal Control Over
Compliance In Accordance With OMB Circular A-133
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

JIM PETRO
Auditor of State

October 15, 2002

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title 1 Grants to Local Educational Agencies – CFDA 84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)
JUNE 30, 2002**

<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>
2001-10625-001	No Fixed Asset policy or procedures	Yes	Finding no longer valid due to Fixed Asset policy being adopted and inventory accountability maintained.



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

THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.

FRANKLIN 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 28, 2003**