RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets - June 30, 2004	7
Statement of Revenues, Expenses and Changes in Net Assets - For the Year Ended June 30, 2004	8
Statement of Cash Flows – For the Year Ended June 30, 2004	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Compliance and on Internal Control Required by *Government Auditing Standards*	21
Schedule of Findings	23
Schedule of Prior Findings	27

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Richard Allen Academy II Community School
Montgomery County
368 S. Patterson Blvd.
Dayton, Ohio 45402

To the Members of the Board:

We have audited the accompanying basic financial statements of Richard Allen Academy II Community School, Montgomery County, (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Richard Allen Academy II Community School, Montgomery County, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2005, 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.

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Management's Discussion and Analysis is not a part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

February 9, 2005

The discussion and analysis of Richard Allen Academy II Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets increased $30,749 in fiscal year 2004, which represents 43.9 percent increase from fiscal year 2003, due to significantly less capital spending in fiscal year 2004 as compared with fiscal year 2003.

- Total assets increased $76,361 which represents a 16.5 percent increase from the prior year. The increase is primarily due to increases in cash held by the School and intergovernmental receivables recorded at the end of the fiscal year.

- The operating loss reported for fiscal year 2004 ($275,528) was $135,105 greater than the operating loss reported for fiscal year 2003, however it was somewhat offset by increased non-operating revenue.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the capital asset needs and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2004 compared with fiscal year 2003.

Table 1
Net Assets

	2004	2003
Assets:		
Current and other assets	$ 160,686	$ 54,149
Capital assets, net	301,944	332,120
Total Assets	462,630	386,269
Liabilities:		
Current liabilities	217,408	132,840
Non-current liabilities	144,430	183,386
Total Liabilities	361,838	316,226
Net Assets:		
Invested in capital assets	149,451	144,437
Restricted	46,334	33,978
Unrestricted	(94,993)	(108,372)
Total Net Assets	$ 100,792	$ 70,043

Total net assets of the School increased by $30,749 or 43.9 percent. The increase in total net assets from fiscal year 2003 is due to increased funding amounts from the State of Ohio, which is based on student enrollment, as well as management's efforts to control cost. As the prior year was the first year the School was in operation, a larger percentage of its resources went into the acquisition of capital assets which are reported as net assets invested in capital assets. Management's attention to the operating costs of the School has resulted in the deficit reported for unrestricted net asset being reduced by $13,379 or 12.4 percent less than the deficit unrestricted net assets reported at June 30, 2003. Restricted net assets reported at June 30, 2004 increased slightly from fiscal year 2003 amount due primarily to having additional funds on hand at year-end which are restricted to specific grant programs.

As noted in Table 1 above, total assets of the School increased by $76,361 at June 30, 2004. Increases in intergovernmental grants receivable and cash maintained on hand are the reasons for this increase. Early in fiscal year 2005, the Ohio Department of Education adjusted the amount of funding the School was to receive related to the Disadvantaged Pupil Impact Aid program for fiscal year 2004. Since the funds were for services provided in fiscal year 2004 but were not received until after year-end, a $65,118 intergovernmental receivable was recorded at June 30, 2004, along with $27,033 and $2,405 for Title I and Title VIB, respectively. The cash balance maintained by the School increased as more grant funds remained unspent at year-end, as well as having to spend less money on capital assets in fiscal year 2004 as compared with fiscal year 2003.

Total liabilities of the School increased slightly over those reported at June 30, 2003. Accruals related to higher wage and benefit costs are the primary factor for the increase in current liabilities, which was somewhat offset by the School making payments on the long-term obligations it had incurred previously.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as revenue and expense comparisons to fiscal year 2003.

Table 2
Changes in Net Assets

	2004	2003
Operating Revenues:		
Foundation payments	$ 1,636,554	$ 1,055,824
Disadvantage Pupil Impact Aid	289,192	219,687
Miscellaneous operating revenues	3,316	14,147
Non Operating Revenues:		
State and federal grants	310,610	210,824
Total Revenues	2,239,672	1,500,482
Operating Expenses:		
Salaries	4,079	535,353
Fringe benefits	171,702	127,340
Contractual employees	989,218	-
Management company fees	421,488	279,282
Building rental	101,015	88,000
Other purchased services	228,268	162,326
Materials and supplies	192,541	182,338
Depreciation	81,724	47,651
Other expenses	14,555	7,791
Non Operating Expenses		
Loss on Disposal of Asset	2,475	-
Interest and fiscal charges	1,858	7,096
Total Expenses	2,208,923	1,437,177
Change in net assets	30,749	63,305
Net assets, beginning of year	70,043	6,738
Net assets, end of year	$ 100,792	$ 70,043

The State foundation and disadvantaged pupil impact aid programs are based on a per-pupil formula, therefore, the increase in these funding sources noted for fiscal year 2004 are directly related to the increased number of students enrolled in the School. In fiscal year 2003 there were 222 students enrolled as compared with 315 for fiscal year 2004. The increase of 93 students, a 42 percent increase over the previous year as well as increases in the per pupil funding amount for fiscal year 2004 account for the significant increases in state funding. Funding provided through specific state and federal grants increased $99,786 over fiscal year 2003 funding levels. This increase is also attributed to the increased number of students serviced by these programs at the School.

Total expenses of the School reported the fiscal year were nearly 54 percent higher than those reported for the previous fiscal year. Significant increases in payroll and related benefits, as well as management fees charged, account for the majority of the increases in expenses. Payroll and related benefit costs increased by $502,306 over fiscal year 2003 expenses reported. Additional personnel, wage increases, increased cost of providing benefits, and the School operating for an entire calendar year are some of the reasons why the cost of personnel increased so dramatically in fiscal year 2004. Expense for management fees increased $142,206 in fiscal year 2004 as compared with fiscal year 2003. Components of this increase include higher State funding levels (which a portion of management fees are based on) and a higher level of support services provided to the school to address the needs of the increased student population.

Addition increases in expenses were noted for building rental, purchased services, materials and supplies, and depreciation. Building rental expense increased based on the lease payments contained within the original lease agreement. The remainder of the increase can be attributed to having to operate the School and its facilities for the entire calendar year and the increased number of students receiving services during fiscal year 2004.

Capital Assets

At June 30, 2004 the capital assets of the School consisted of $431,094 of equipment and leasehold improvements, offset by $129,150 in accumulated depreciation resulted in net capital assets of $301,944. The $30,176 decrease in total net capital assets from the prior year is due to current year depreciation of $81,724 combined with $54,023 of equipment acquired during fiscal year 2004 and a $2,475 loss on the disposal of capital assets. Significant capital acquisitions during the year included twenty lap-top computers, several other computer systems, as well as various other pieces of equipment.

See Note 8 of the notes to the basic financial statements for additional information on the School's capital assets.

Debt

At June 30, 2004, the debt obligations of the School consisted of promissory notes payable totaling $127,941 used to provide capital funding for the School in its start-up phase and $24,552 of capital lease obligations used to acquire office equipment. During fiscal year 2004, the School made principal payments on the notes payable and capital leases totaling $40,000 and $6,294, respectively. See Notes 6 and 7 to the basic financial statements for additional details.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Richard Allen Academy II Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Richard Allen Academy II Community School, 368 South Patterson Blvd, Dayton, OH 45402.

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

Statement of Net Assets

As of June 30, 2004

Assets	
Current assets:	
Cash	$ 50,749
Receivables:	
Intergovernmental	94,556
Notes	7,381
Total current assets	152,686
Noncurrent assets:	
Security Deposit	8,000
Capital assets (net of accumulated depreciation)	301,944
Total noncurrent assets	309,944
Total assets	462,630
Liabilities	
Current liabilities:	
Accounts payable	78,193
Accrued contract labor	92,020
Intergovernmental payable	36,935
Compensated absences payable	2,197
Capital leases payable	8,063
Total current liabilities	217,408
Noncurrent liabilities:	
Capital leases payable	16,489
Note payable	127,941
Total noncurrent liabilities	144,430
Total liabilities	361,838
Net Assets	
Invested in capital assets, net of related debt	149,451
Restricted for educational grants	46,334
Unrestricted	(94,993)
Total net assets	$ 100,792

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2004

Operating revenues:	
Foundation payments	$ 1,636,554
Disadvantaged pupil impact aid	289,192
Miscellaneous revenue	3,316
Total operating revenues	1,929,062
Operating expenses:	
Salaries	4,079
Fringe benefits	171,702
Contractual employees	989,218
Management company fees	421,488
Building rental	101,015
Other purchased services	228,268
Materials and supplies	192,541
Depreciation	81,724
Other	14,555
Total operating expenses	2,204,590
Operating loss	(275,528)
Nonoperating revenues/(expenses):	
State and federal grant revenue	310,610
Loss on Disposal of Asset	(2,475)
Interest and fiscal charges	(1,858)
Total nonoperating revenues	306,277
Change in net assets	30,749
Net assets at beginning of year	70,043
Net assets at end of year	$ 100,792

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

Statement of Cash Flows

For the Year Ended June 30, 2004

INCREASE (DECREASE) IN CASH		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from State of Ohio	$	1,894,047
Cash payments to suppliers for goods and services		(948,479)
Cash payments to employees for services and benefits		(1,127,239)
Other operating revenue		3,316
Net cash used by operating activities		(178,355)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal and state grant revenues		315,150
Principal paid on note payable		(40,000)
Interest paid on note payable		(4,046)
Net cash provided by noncapital financing activities		271,104
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital acquisitions		(44,988)
Principal paid on capital lease		(6,294)
Interest paid on capital lease		(1,848)
Net cash used by capital and related financing activities		(53,130)
NET INCREASE IN CASH		39,619
CASH, BEGINNING OF YEAR		11,130
CASH, END OF YEAR	$	50,749
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$	(275,528)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation		81,724
Loss on disposal of asset		(2,475)
Changes in assets and liabilities:		
Increase in grants receivable		(60,578)
Increase in notes receivable		(7,381)
Decrease in prepaid expenses		1,041
Increase in accounts payable		25,622
Increase in accrued contract labor payable		36,554
Increase in intergovernmental payable		23,023
Decrease in compensated absences payable		(357)
Total Adjustments		97,173
Net Cash Used by Operating Activities	$	(178,355)
Non-cash item:		
Capital assets acquired under capital lease	$	9,035

See accompanying notes to the basic financial statements

1. Description of the School and Reporting Entity:

Richard Allen Academy II Community School (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. In addition, during the current fiscal year, all employees of the School became ICSMR employee's and were subsequently contracted to the School. The School is responsible for reimbursing ICSMR for the payroll and benefits of the employees assigned to the School. (See note 12 for additional detail on the contractual relationship between ICSMR and the School).

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 1,2002 through June 30, 2007 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, twenty-eight full-time and part-time certified teaching personnel and seven non-certified support personnel who provide services to an enrollment of 315 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 School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of presentation

Enterprise accounting is used to account for operations that are financed and operated in manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment 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 statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets 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 Schools contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash

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

E. Estimates

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

F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of $500 for computers and $1,000 for all other items. 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 equipment is computed using the straight-line method over estimated useful lives of five to fifteen years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital 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. These programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and state 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 state and federal grant or entitlement programs for the 2004 school year totaled $2,236,356.

H. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include foundation payments and disadvantaged pupil impact aid received from the State of Ohio. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various state and federal grants and interest expense comprise the non-operating revenues and expenses of the School.

I. Accrued liabilities payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2004, including:

Accrued contract labor payable – salary reimbursements made to ICSMR made after year-end were for services employees rendered in fiscal year 2004. Teaching personnel are paid in 24 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, 2004 for all salary payments made to teaching personnel during the month of July 2004.

Intergovernmental payable – payment for the employer's share of the retirement contribution ($1,451), workers' compensation ($723) and Medicaid ($1,342) associated with services rendered during fiscal year 2004, but were not paid until the subsequent fiscal year. In addition, subsequent to year-end, the Ohio Department of Education determined the School was overpaid in fiscal year 2004 through the Foundation program. Therefore, a $33,419 liability was recognized as of June 30, 2004 representing this overpayment which will be deducted from the School's fiscal year 2005 payments under the Foundation program.

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 have occurred that might adversely affect the School's tax exempt status.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Change in Accounting Principles:

For fiscal year 2004, the School has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB 34 creates new basic financial statements for reporting on the School financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user's ability to interpret the information within the statements

4. 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, 2004, the carrying amount of the School's deposits was $50,749 and the bank balance was $60,914, the entire balance of which was covered by federal depository insurance.

5. Receivables:

A. Intergovernmental

All intergovernmental 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 School at June 30, 2004 consisted of the following state and federal grants in which all grant requirements had been satisfied, Title I ($27,033), Title VI-B ($2,405), and DPIA ($65,118).

B. Note

During the fiscal year, the School advanced monies to ICSMR on management fees and payroll obligations. As these obligations were not due as of the end of the year, ICSMR issued the School a demand promissory note in the amount of $7,381. The note provides that no interest will accrue if it is settled in full by June 30, 2005. In addition, the School may demand all or any portion of the outstanding principal amount of the Note at any time, except that principal payment shall not be demanded in any event prior to June 30, 2005.

6. Capital Leases Payable:

The School entered into a lease for copier equipment in a prior fiscal year and a lease for telephone system and equipment during the current fiscal year. The terms of the agreements provides an option to purchase the equipment. 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. Capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments of $22,500 and $11,104 for the copier and computer equipment respectively. At the time of acquisition, a corresponding liability was recorded. Principal payments in fiscal year 2004 associated with the copier lease totaled $4,297, and $1,997 for the telephone system and equipment.

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, 2004.

	Fiscal Year	Lease Payment
	2005	$ 9,651
	2006	9,651
	2007	6,640
	2008	1,284
Total Minimum Lease Payments		27,226
Less: Amount Representing Interest		(2,674)
Present Value of Minimum Lease Payments		$ 24,552

7. Note Payable:

The following is a summary of the note activity for the School at June 30, 2004:

	Balance 7/1/03	Increase	Decrease	Balance 6/30/04
Demand Promissory Note APR: LIBOR plus 2.75%	$ 167,941	$ 0	$ 40,000	$ 127,941

The demand promissory note was issued by the Institute of Charter School Management and Resources, Inc. in the prior fiscal year to provide the School with funding during the start-up phase of the School. A portion of the note, or the entire note, may be called at any time, upon written notice to the School, however not prior to June 30, 2005.

8. Capital Assets:

A summary of the School's capital assets at June 30, 2004, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Leasehold improvements	$ 289,570	$ 5,000	$ -	$ 294,570
Equipment	90,201	49,023	(2,700)	136,524
Total	379,771	54,023	(2,700)	431,094
Less: accumulated depreciation on:				
Leasehold improvements	(38,105)	(57,997)	-	(96,102)
Equipment	(9,546)	(23,727)	225	(33,048)
Total	(47,651)	(81,724)	225	(129,150)
Net capital assets	$ 332,120	$ (27,701)	$ (2,475)	$ 301,944

9. Risk Management:

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 2004, the School contracted with the Cincinnati Insurance Company for business personal property, director and officer liability and general liability insurance. Building coverage has a $3.6 million dollar limit and business personal property coverage carries $100,000 limit, both have a $500 deductible and 80 percent coinsurance clause. Director and officer liability coverage is set at $1,000,000 per loss with a $5,000 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.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

Employee insurance benefits – As part of the management agreement with the Institute of Charter School Management and Resources, Inc. (see note 12), insurance benefits for School employees are paid by the Institute through the monthly management fee established in the agreement.

10. 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 Statue 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 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate, the current 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; at June 30, 2004, 9.09 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 year ended June 30, 2004 was $11,959; with 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.

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, 2004, plan members were required to contribute the statutory maximum of 10.0 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, 2004 and 2003 $103,151 and $67,184, respectively; 100 percent has been contributed for fiscal year 2004 and fiscal year 2003.

11. Postemployment Benefits

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B 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. All 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, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio 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, 2004, 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 $3.1 billion on June 30, 2004. For the School, this amount equaled $7,430 during the 2004 fiscal year.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were $268,739,000. There were 111,853 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, 2004, the allocation rate is 4.91 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 2004, the minimum pay has been established at $24,500. For the School, the amount to fund health care benefits, including the surcharge, was $4,980 for fiscal year 2004.

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, 2004, were $223,443,805 and the target level was $335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of $300.8 million. The number of benefit recipients currently receiving heath care benefits is approximately 62,000.

12. Agreements with Institute of Charter School Management and Resources, Inc.:

The School is a party to a 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. Beginning in August 2003, ICSMR became responsible for hiring qualified teachers and all other employees which are subsequently contracted to operate the School. The School reimburses ICSMR every two weeks for the gross payroll expense of the contract employees working at the School, for fiscal year 2004 employee payroll reimbursement totaled $989,218.

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 2004, the School paid ICSMR a total of $421,488 for professional, accounting and legal, management and other services.

13. Restricted Net Assets:

At June 30, 2004 the School reported restricted net assets totaling $46,334. The nature of the net asset restrictions are as follows:

State specific educational program grants	$ 7,680
State specific capital grants	2,740
Federal specific educational program grants	35,914
Total	$ 46,334

14. 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.

15. 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 results of this review could result in state funding being adjusted. As a result of such a review, the School received notification that a deduction will be made in its fiscal year 2005 state funding for overpayments made by the State in fiscal year 2004.

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. 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 was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public education system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the School is not presently determinable.

16. Operating Leases:

The School leases its facilities from St. Joseph Catholic Church under a three-year lease agreement beginning July 1, 2002 through June 30, 2005. The monthly lease payments during fiscal year 2004 were $8,500. Total rental payments for the school for fiscal year 2004 were $101,015. According to the terms of the Lease agreement, rental payments are schedule to increase to $11,042 per month for fiscal year 2005.

17. Related Parties:

The Board, Chief Executive Officer, and Chief Fiscal Officer of Richard Allen II Community School serve in the same capacity for Richard Allen Academy Community School, Richard Allen Academy Preparatory Community School, 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.

During fiscal year 2004, the School provided advances on management fees and payroll obligations to ICSMR for which ICSMR issued a demand note to the School (see Note 5). In addition, during the fiscal year, the School repaid ICSMR $40,000 on a demand note issued in the prior fiscal year (see Note7) and the remainder owed ICSMR ($127,941) is shown as a note payable.

18. Other Purchased Services:

During the fiscal year ended June 30, 2004, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	$	86,993
Computer and network services		16,197
Property services		48,041
Meetings and travel		985
Communications		11,006
Public relations, advertising and postage		3,959
Utilities		46,307
Pupil transportation		3,411
Property and liability insurance		11,369
	$	228,268

19. Subsequent Event:

On September 30, 2004 the School entered into a five-year lease-purchase agreement with the Blue Bird Bus Company to acquire a school bus. The fair market value of the school bus received was $54,600.

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

Richard Allen Academy II Community School
Montgomery County
368 S. Patterson Blvd.
Dayton, Ohio 45402

To the Members of the Board:

We have audited the financial statements of Richard Allen Academy II Community School, Montgomery County, (the School), as of and for the year ended June 30, 2004, wherein we noted the School adopted Government Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* and have issued our report thereon dated February 9, 2005. 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-004.

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. The reportable conditions are described in the accompanying schedule of findings as items 2004-005 through 2004-007.

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Internal Control Over Financial Reporting
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 2004-005 and 2004-006 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated February 9, 2005.

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.

Betty Montgomery

Betty Montgomery
Auditor of State

February 9, 2005

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

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

FINDING 2004-001

Finding for Recovery Repaid Under Audit:

The Management Agreement between Richard Allen Academy II Community School and the Institute of Charter School Management Resources (ICSMR) Sections 2.5 thru 2.9, dated May 18, 2000, and amended July 1, 2003, requires ICSMR to maintain School records, deposit and disburse funds, and pay the expenses required for the operation of the School. ICSMR hired Derek Cluse by agreement on July 13, 2000, as Treasurer to manage the financial records of ICSMR and other companies ICSMR will manage, including Richard Allen Academy II Community School.

Our audit of Richard Allen Academy II Community School for the year ending June 30, 2004, noted a $600 expenditure for partial payment of an $1,800 invoice for advertising Richard Allen Academy III had been equally allocated amongst the three other Richard Allen Community Schools. Since the advertising benefited only Richard Allen Academy III, Richard Allen Academy II has no legal obligation to pay for the advertising expenses and such payment constitutes an illegal expenditure of funds.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Richard Allen Academy III Community School and Derek Cluse, Treasurer of the Institute of Charter School management Resources, and the Ohio Casualty Insurance Company his bonding company, jointly and severally in the amount of $600.

The finding for recovery was repaid while under audit by Richard Allen Academy III on February 22, 2005.

FINDING 2004-002

Finding for Recovery Repaid Under Audit:

The Management Agreement between Richard Allen Academy II Community School and the Institute of Charter School Management Resources (ICSMR) Sections 2.5 thru 2.9, dated May 18, 2000, and amended July 1, 2003, requires ICSMR to maintain School records, deposit and disburse funds, and pay the expenses required for the operation of the School. ICSMR hired Derek Cluse by agreement on July 13, 2000, as Treasurer to manage the financial records of ICSMR and other companies ICSMR will manage, including Richard Allen Academy II Community School.

Our audit of Richard Allen Academy II Community School for the year ending June 30, 2004, noted a $1,860 expenditure for tuition reimbursement for the School's Principal. Per the Principal's contract tuition will be reimbursed at 80%. The tuition was reimbursed at 100%, instead of the contractually agreed upon 80%. The difference is $372. Richard Allen Academy II has no legal obligation to pay for the expense and such payment constitutes an illegal expenditure of funds.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Michelle Ferrell, Principal of Richard Allen Academy II Community School and Derek Cluse, Treasurer of the Institute of Charter School Management Resources, and the Ohio Casualty Insurance Company his bonding company, jointly and severally in the amount of $372.

The finding for recovery was repaid while under audit by Michelle Ferrell on February 23, 2005.

FINDING 2004-003

Finding For Recovery Repaid Under Audit:

The Management Agreement between Richard Allen Academy II Community School and the Institute of Charter School Management Resources (ICSMR) Sections 2.5 thru 2.9, dated July 1, 2000, and amended July 1, 2003, requires ICSMR to maintain School records, deposit and disburse funds, and pay the expenses required for the operation of the School. ICSMR hired Derek Cluse by agreement on July 13, 2000, as Treasurer to manage the financial records of ICSMR and other companies ICSMR will manage, including Richard Allen Academy II Community School.

The Institute for Charter School Management and Resources, Inc (ICSMR) billed Richard Allen Academy II School for 2,160 hours in fiscal year 2004. Since there are 2,080 work hours in a fiscal year and the agreements in place and the invoices involved make no mention of billing for overtime, this constitutes an over-billing of 80 hours or $8,573.

We also noted errors in the amounts calculated in support of certain ICSMR invoices. There were two instances in July where the School was under-billed and five instances in September through December period where they were overcharged for a net overcharge of $2,829.

Item	Amount
Management Services	$8,573
Calculation Errors in ICSMR invoices	2,829
Total	$11,402

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Derek Cluse, Treasurer and the Institute of Charter School Management Resources, and the Ohio Casualty Insurance Company his bonding company, jointly and severally in the amount of $11,402.

The finding for recovery was repaid while under audit by ICSMR on February 22, 2005.

FINDING 2004-004

Finding For Recovery Repaid Under Audit:

The Management Agreement between Richard Allen Academy II Community School and the Institute of Charter School Management Resources (ICSMR) Sections 2.5 thru 2.9, dated July 1, 2000, and amended July 1, 2003, requires ICSMR to maintain School records, deposit and disburse funds, and pay the expenses required for the operation of the School. ICSMR hired Derek Cluse by agreement on July 13, 2000, as Treasurer to manage the financial records of ICSMR and other companies ICSMR will manage, including Richard Allen Academy II Community School.

Our audit of Richard Allen Academy II Community School for the year ending June 30, 2004, noted an expenditure which benefited Richard Allen Academy, but was paid by Richard Allen Academy II. The expenditure was for the payment of Bureau of Workers Compensation premiums for Richard Allen Academy employees in the amount of $413 for the first and second quarter of 2003. Since the premium payments benefited only Richard Allen Academy, Richard Allen Academy II School has no legal obligation to pay for this expense and such payment constitutes an illegal expenditure of funds.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Richard Allen Academy Community School and Derek Cluse, Treasurer of the Institute of Charter School management Resources, and the Ohio Casualty Insurance Company his bonding company, jointly and severally in the amount of $413.

The finding for recovery was repaid while under audit by Richard Allen Academy on February 22, 2005.

FINDING 2004-005

Material Weakness:

Loan to Management Company

On June 30, 2004, The Institute of Charter School Management & Resources, Inc. (ICSMR) issued a Promissory Note to Richard Allen Academy II Community School in the amount of $7,381, as an advance of future contractual service fees to ICSMR. The note was signed by the Treasurer but the Board minutes for 2004 did not indicate the Board formally approved this transaction. Each community school is a separate legal entity funded by public funds and as such should not commit the resources of the School to a private entity.

The public funds received by the School are to be used solely for the educational needs of the children enrolled and only at the direction of the Board. The Board should carefully review all financial decisions and the commitment of School funds.

FINDING 2004-006

Material Weakness:

Contract between Management Company and Richard Allen Academy II Community School

Richard Allen Academy II and the Institute of Charter School Management and Resources (ICSMR) have entered into a contract with ICSMR to provide educational services and support; however, that contract is not specific as to the billing rates and the allocation of certain costs. At a minimum, the contract should be expanded to include the establishment of a specific billable rate, a policy for handling of compensated absences, a policy for the management company's billing for management services and fees and the period covered.

- There is no approved billable rate in the contract. However, ICSMR has established a billable rate per classification (i.e. Treasurer, Superintendent, Chief Executive, Human Resources, etc.) It was noted that the rate was increased at July 1, 2004, without approval of the Board. The failure to establish a Board approved rate could allow the management company to change the rate for administrative services at will.
- There is no policy covering compensated absences or addressing the payout of compensated absences upon retirement. The School itself does not have employees, as they are contracted through ICSMR, however the payout of compensated absences of these employees is to be paid by the School. There is no policy to govern how the payout would be handled for an employee who has worked at several of the management company's schools over the years.
- There is no formal policy as to how ICSMR invoices the schools for management services and contract labor benefits. The school was billed in different ways throughout the audit period by ICSMR. ICSMR manages 4 schools and there were several months where ICSMR billed three of the schools at 30 percent and one at 10 percent. Other months, three schools were billed for the management services based upon student population at each school and the fourth school was charged nothing.
- ICSMR bills the school monthly for management fees, contract labor benefits, and a management fees. The invoices for these services do not stipulate whether the billing is being done in advance or as the services are performed.

The establishment of formal procedures for the billing process would allow the school to monitor the billings and determine that they are correct and complete and consistent with the agreed upon terms of the contract. The School should review their current contract with the management company and expand it to be specific as to the billings from the management company for goods and services performed.

FINDING 2004-007

Reportable Condition:

Allocation of Inter-school Transportation Costs

Richard Allen Academy II Community School uses buses to transport students between schools for physical education and for fieldtrips. During fiscal 2004 the School paid $3,344 for vehicle insurance for two buses which were insured on a policy in the name of Richard Allen Academy Community School. We also noted that, during the year the School paid $1,646 for bus repair, $1,422 bus fuel, and $276 for a bus driver.

There is no contract between Richard Allen Academy II and Richard Allen Academy concerning transportation arrangements or sharing of costs for a bus. In addition, the School did not provide documentation supporting the allocation of the busing expenditures based upon their fair share of the expenditures.

Whenever costs are shared with another entity, the School should do so, only in accordance with a formal contract detailing how those costs will be allocated, and supporting documentation maintained to support the subsequent charges.

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	The Board did not approve an annual budget.	Yes	
2003-002	Failure to have a formal contract for building lease.	Yes	

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RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 22, 2005