RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

Auditor of State
Betty Montgomery

RHEA COMMUNITY SCHOOL
MONTGOMERY COUNTY

TABLE OF CONTENTS

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governance:

We have audited the accompanying financial statements of the business-type activities of the Rhea Academy Community School, Montgomery County, (the School), as of and for the years ended June 30, 2005 and 2004, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

We were not able to obtain supporting documentation, nor were we able to satisfy ourselves as to those activities by other auditing procedures for the following financial statement line items:

- Intergovernmental Payable and Accrued Wages Payable totaling $146,767 and $242,662 which represent 65% and 74% of the total liabilities, respectively, for the years ended June 30, 2005 and 2004.
- Salaries and Fringe Benefits totaling $193,927 and $126,788 which represent 26% and 20% of the total operating expenses, respectively, for the years ended June 30, 2005 and 2004.
- Statement of Cash Flows, Cash Payments to Employees for Services and Benefits totaling $329,891 and $176,182 which represent 38% and 24% of the total expenditures in the cash flows from operating activities, respectively, for the years ended June 30, 2005 and 2004.

In our opinion, except for the effects of the matters discussed in the third paragraph, if any, as might have been determined to be necessary had the documentation been available, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the School, as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, 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*.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

As shown in the accompanying financial statements for the years ended June 30, 2005 and 2004, the School has incurred a working capital deficiency of $188,411 and $328,085, and accumulated deficit of $66,582 and $213,634, respectively. Management's plans regarding this deficit are included in Note 16. Further, as described in Note 15, on August 31, 2006 Rhea Academy Community School was closed due failure to obtain a sponsor.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

November 17, 2006

The discussion and analysis of the Rhea Academy Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005 and 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 2005 are as follows:

- Total net assets increased $147,052 during fiscal year 2005, which represents a 68.8% increase from fiscal year 2004.
- Total assets increased $43,180, which represents a 37.4% increase from the prior year. The increase is primarily due to the increase in capital acquisition of office equipment (new computers) during fiscal year 2005.
- The operating loss reported for fiscal year 2005 ($99,223) was $69,513 less than the operating income reported for fiscal year 2004.

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets increased $74,696 during fiscal year 2004, which represents a 25.9% increase from fiscal year 2003.
- Total assets increased $65,466, which represents a 131.1% increase from the prior year. The increase is primarily due to the increase in the capital acquisition of a building, leasehold improvements, and office equipment during fiscal year 2004.
- The operating loss reported for fiscal year 2004 of $29,710 was $280,234 more than the operating income reported for fiscal year 2003. This change represents a 111.8% increase of operating income over the prior year.

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 condition of the School building 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 2005 compared with fiscal year 2004 and fiscal year 2004 compared with fiscal year 2003.

Table 1
Net Assets

	2005	2004	2003
Assets:			
Current and other assets	$ 37,029	$ 0	$ 26,391
Capital Assets (net depreciation)	121,829	115,405	23,548
Total Assets	158,858	115,405	49,939
Liabilities:			
Overdraft Payable	59,182	45,107	0
Current liabilities	166,258	282,978	332,318
Non-Current liabilities	0	954	5,951
Total Liabilities	225,440	329,039	338,269
Net Assets:			
Invested In Capital Assets	121,829	109,454	0
Unrestricted	(188,411)	(323,088)	(288,330)
Total Net Assets	$ (66,582)	$ (213,634)	$ (288,330)

As noted in Table 1 above, total net assets and unrestricted net assets of the School for fiscal year 2005 increased by $147,052 or 68.8% from those reported at June 30, 2004 and total net assets and unrestricted net assets of the school for fiscal year 2004 increased by $74,696 or 25.9% from those reported at June 30, 2003.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2005 and 2004, as well as revenue and expense comparisons to fiscal years 2004 and 2003, respectively.

Table 2
Changes in Net Assets

	2005	2004	2003
Operating Revenues:			
Foundation payments	$560,949	$ 597,862	$ 429,857
Disadvantage Pupil Impact Aid	94,622	15,341	0
Non Operating Revenues:			
State and federal grants	246,191	104,399	5,000
Interest Earnings	84	7	397
Total Revenues	901,846	717,609	435,254
Operating Expenses:			
Salaries	172,001	100,548	129,015
Fringe benefits	21,926	26,240	19,827
Building rental	33,600	28,550	28,550
Purchased services	357,093	260,757	244,090
Materials and supplies	28,851	24,884	151,175
Depreciation	14,003	14,003	9,169
Other	127,320	187,931	98,555
Total Expenses	754,794	642,913	680,381
Increase (Decrease) in net assets	147,052	74,696	(245,127)
Net assets, beginning of year	(213,634)	(288,330)	(43,203)
Net assets, end of year	$ (66,582)	$(213,634)	$(288,330)

Overall payments received from the State Foundation decreased by $36,913 during fiscal year 2005 and increased by $168,005 during fiscal year 2004. Funding provided through State and federal grants during fiscal year 2005 and fiscal year 2004 increased by $141,792 and $99,399, respectively, as compared to prior year's amount received.

Total expenses of the School reported for fiscal year 2005 were $111,881 more than those reported for the previous fiscal year and total expenses reported for fiscal year 2004 were 37,468 less than those reported for the previous fiscal year.

Capital Assets

At June 30, 2005 capital assets of the School were $393,061, offset by ($271,232) in accumulated depreciation, which resulted in net capital assets of $121,829. At June 30, 2004 capital assets of the School were $372,634, offset by ($257,229) in accumulated depreciation, which resulted in net capital assets of $115,405.

Table 3 shows the categories of capital assets maintained by the School, net of accumulated depreciation, at June 30, 2005, 2004 and 2003.

Table 3
Capital Assets, Net of Depreciation

	2005	2004	2003
Furniture & Equipment	$ 59,763	$ 39,336	$ 33,336
Vehicles	22,036	22,036	22,036
Leasehold Improvement	232,957	232,957	211,402
Building	78,305	78,305	0
Less: Accumulated Depreciation	(271,232)	(257,229)	(243,226)
Totals	$121,829	$115,405	$23,548

The increase in total net capital assets for fiscal year 2005 and 2004 in the amounts of $6,424 and $91,857, respectively, are due to current year capital acquisitions and depreciation expense.

See Note 2(f) and 3 of the notes to the basic financial statements for more detailed information on the School's capital assets.

Loan Payable

Loans totaling $19,491 were made by the Superintendent of the School during fiscal year 2005. These loans, which were interest-free, were used to supplement the School's cash flows during the twelve months ended June 30, 2005.

Contacting the School

This financial report is designed to provide a general overview of the finances of Rhea Academy 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: Rhea Academy, 113 East Third Street, Dayton, Ohio 45402.

RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
Current Assets		
Intergovernmental Receivables	$37,029	
Non-Current Assets		
Capital Assets (Net Accumulated Depreciation)	121,829	115,405
Total Assets	158,858	115,405
LIABILITIES		
Current Liabilities		
Overdraft Payable	59,182	45,107
Accounts Payable		35,319
Intergovernmental Payable	143,305	237,967
Accrued Wages Payable	3,462	4,695
Loan Payable -Current	19,491	4,997
Total Current Liabilities	225,440	328,085
Non-Current Liabilities		
Loans Payable -Long Term		954
Total Liabilities	225,440	329,039
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	121,829	109,454
Unrestricted	(188,411)	(323,088)
Total Net Assets (Accumulated Deficit)	($66,582)	($213,634)

See accompanying notes to the financial statements.

RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES		
Foundation payments	$560,949	$597,862
Disadvantage Pupil Impact Aid	94,622	15,341
Total Operating Revenues	655,571	613,203
OPERATING EXPENSES		
Salaries	172,001	100,548
Fringe Benefits	21,926	26,240
Building Rental	33,600	28,550
Purchased Services	357,093	260,757
Materials and Supplies	28,851	24,884
Depreciation	14,003	14,003
Other	127,320	187,931
Total Operating Expenses	754,794	642,913
Operating Loss	(99,223)	(29,710)
NON-OPERATING REVENUES		
State and Federal Grant Revenue	246,191	104,399
Interest and Fiscal Charges	84	7
Total Non-Operating Revenues	246,275	104,406
Change in Net Assets	147,052	74,696
Total Net Assets (Accumulated Deficit) - Beginning	(213,634)	(288,330)
Total Net Assets (Accumulated Deficit) - Ending	($66,582)	($213,634)

See accompanying notes to the financial statements.

RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
Cash Flows from Operating Activities		
Cash from State of Ohio	$655,571	$676,994
Cash Payments to Suppliers for Goods and Services	(549,318)	(565,973)
Cash Payments to Employees for Services and Benefits	(329,891)	(176,182)
Net Cash Used for Operating Activities	(223,638)	(65,161)
Cash Flows From Noncapital Financing Activities		
Cash Received From Federal and State Grants	215,970	104,399
Cash Received From Local Contributions	395	7
Cash Received From Interest Earnings	84	
Net Cash Provided By Noncapital Financing Activities	216,449	104,406
Cash Flows From Capital and Related Financing Activities		
Cash Payments Used for Capital Acquisitions	(20,426)	(105,861)
Officer Loan Proceeds	19,491	
AmeriCredit Loan Payments	(5,951)	(4,882)
Net Cash Used for Capital and Related Financing Activities	(6,886)	(110,743)
Net Decrease in Cash	(14,075)	(71,498)
Cash at Beginning of year	(45,107)	26,391
Cash at End of year	(59,182)	(45,107)
Reconciliation of Operating Loss to Net Cash Used for Operating Activities		
Operating Loss	(99,223)	(29,710)
Adjustments to Reconcile Operating Loss to net cash Used for operating activities		
Depreciation	14,003	14,003
Changes in Assets and Liabilities		
(Decrease) in Intergovernmental Payable	(94,662)	(58,860)
Increase (Decrease) in Accounts Payable	(35,319)	22,178
(Decrease) in Accrued Wages Payable and Tax Liabilities	(1,233)	(12,772)
(Increase) in Intergovernmental Receivable	(7,204)	
Total Adjustments	(124,415)	(35,451)
Net Cash Used for Operating Activities	($223,638)	($65,161)

See accompanying notes to the financial statements.

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1. DESCRIPTION OF THE SCHOOL

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

The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school. The School was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing on June 26, 1999. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. For fiscal years 2005 and 2004 the Ohio Department of Education (ODE) was the sponsor. On June 22, 2005, Buckeye Community Hope Foundation extended the existing ODE contract and became the sponsor through June 30, 2006.

The School operates under the direction of a five-member Board of Governance. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility. In fiscal year 2005 the facility was staffed by 4 non-certified and 4 certified full-time teaching personnel who provide services to 89 students. In 2004 the facility was staffed by 6 non-certified and 4 certified full-time teaching personnel who provide services to 92 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Enterprise Accounting uses a “flow of economic resources” measurement focus. Under this measurement focus, all assets and all liabilities are included on the statement of net assets. The operating statement presents increases (e.g., revenues) and decreases (e.g., 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 used for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

C. Budgetary Process

The School must adopt a spending plan as set forth in the Ohio Revised Code 5705.391, which requires annual appropriations and annual revenue estimates

Further, the contract between the School and its Sponsor requires monthly spending plans for subsequent fiscal years to be prepared and submitted annually. In addition, the contract between the School and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis.

The School did not follow budgetary procedures outlined in ORC 5705.391 or the contract between Rhea Academy and the Ohio Department of Education (ODE).

D. Cash

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash. Total cash for all funds are presented as “cash” on the accompanying Statement of Net Assets. For fiscal years 2005 and 2004 the School had an overdraft payable instead of cash.

E. Estimates

The preparation of financial statements are in conformity with generally accepted accounting principles (GAAP) requires management to make certain 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. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property or equipment is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Amounts awarded under the above-named programs for the 2005 and 2004 school years totaled $901,762 and $717,602, respectively.

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly 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. Compensated Absences

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

J. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2005 and 2004 are reported as accrued liabilities in the accompanying financial statements.

K. Exchange and Non Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non exchange transactions, in which the school receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

3. CAPITAL ASSETS

A summary of capital asset activity for fiscal year 2005 follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Equipment and Furniture	$39,336	$20,427	$0	$59,763
Vehicle	22,036		0	22,036
Leasehold & Improvements	232,957			232,957
Building	78,305		0	78,305
Totals	372,634	20,427	0	393,061
Accumulated Depreciation:	257,229	14,003	0	271,232
Capital Assets, Net	$115,405	$6,424	$0	$121,829

A summary of capital asset activity for fiscal year 2004 follows:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Equipment and Furniture	$33,336	$6,000	$0	$39,336
Vehicles	22,036	0	0	22,036
Leasehold & Improvement	211,402	21,555		232,957
Building	0	78,305	0	78,305
Totals	266,774	105,860	0	372,634
Accumulated Depreciation:	243,226	14,003	0	257,229
Capital Assets, Net	$23,548	$91,857	$0	$115,405

4. DEPOSITS

At June 30, 2005 and 2004, the carrying amount of the School deposits was ($59,182) and ($45,107), respectively. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 31, 2005 and 2004, the bank balance was $15,191 and $4,827, respectively. 100% Of the School’s bank balance was covered by Federal Deposit Insurance Corporation for both years.

Custodial credit risk is the risk that, in the event of bank failure, the School’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

5. RECEIVABLES

Receivables at June 30, 2005 primarily consisted of intergovernmental (e.g.: foundation and federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

	Amount
I/G Receivable Title I Fund #572	$ 6,607
I/G Receivable Title II Fund #590	16,000
I/G Receivable Title II-D Fund #599	3,936
I/G Receivable Title IV-A Fund #584	2,061
I/G Receivable Title V-A Fund #573	1,224
I/G Receivable STRS	7,201
Total	$ 37,029

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. The School maintained insurance coverage up until September 30, 2004 for rental/theft, general liability, and directors' and officers' liability in amounts which the Board felt adequate.

B. Workers' Compensation

The School failed to pay the State Workers' Compensation System a premium for employee injury coverage during fiscal year 2005 and 2004. The premium is calculated by multiplying the gross total payroll by a factor that is calculated by the State.

7. DEFINED BENEFIT PENSION PLANS

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, Ohio 43215-3371 or by calling (614) 227-4090.

7. DEFINED BENEFIT PENSION PLANS (Continued)

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, 2005, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% 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 to the DB Plan for the fiscal years ended June 30, 2005, 2004 and 2003 were $20,698, $19,107 and $14,881; 100% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003.

8. POST-EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. The system is funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled $207 for fiscal year 2005 and $191 for fiscal year 2004.

8. POST-EMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was $3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were $268,739,000 and STRS had 111,853 eligible benefit recipients.

9. OPERATING LEASES

The School leases real estate under a three-year operating lease of $2,800 per month, which expired on September 30, 2002. Future lease payments of $33,600 are payable for fiscal year 2005 and 2004. On December 15, 2003, the lease was extended for the same terms and conditions of the original lease, until December 31, 2006.

Rent expense for the real estate for the years ended June 30, 2005 and 2004 was $33,600 and $28,550, respectively.

10. LONG-TERM DEBT

The School entered into an installment loan agreement in fiscal year 2001, for a utility van, at an interest rate of 23.95%, payable in monthly installments of $492 including principle and interest, maturing August 2006. The utility van is used as the collateral for the loan.

The following is a summary of the long-term debt activity for the School at June 30, 2005:

	Balance 7/1/04	Decrease	Balance 6/30/05	Amount due In One Year
Notes Payable				
Van Note	$ 5,951	(5,951)	0	0
Total Notes Payable	$ 5,951	(5,951)	0	0

The following is a summary of the long-term debt activity for the School at June 30, 2004:

	Balance 7/1/03	Decrease	Balance 6/30/04	Amount due In One Year
Notes Payable				
Van Note	$ 10,833	(4,882)	5,951	4,997
Total Notes Payable	$ 10,833	(4,882)	5,951	4,997

Loans totaling $19,491 were made by the Superintendent to the School during fiscal year 2005. These loans, which were interest-free, were used to supplement the School's cash flows during the twelve months ended June 30, 2005.

11. PURCHASED SERVICES

A summary of the School's purchased services for the fiscal years ended June 30, 2005 and 2004 are as follows:

	2005	2004
Professional and Technical Services	$ 110,748	$ 97,282
Instruction Services	142,555	108,875
Audit Services	0	23,050
Insurance	34,795	21,155
Staff Services	7,974	3,498
Other	61,021	6,897
Total Purchased Services	$ 357,093	$260,757

12. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005 and 2004.

B. Litigation

On March 15, 2002, a judgment was granted in favor of Dayton Board of Education against the School for $17,756, plus judgment interest and court costs. Rhea Academy, Inc. had contracted with Dayton Board of Education to provide food service. This liability is included as an intergovernmental payable on the financial statements. The balance of this liability at the end of the fiscal year end 2005 was $8,132.

C. State Contract

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

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. For fiscal year 2005 the adjustment was $13,880 additional foundation owed to the School. This amount is not reflected in the financial statements due to the availability of this information as of the date of this report. For fiscal year 2004 the adjustment was a $63,788 overpayment of foundation to the school, which resulted in an amount due to ODE. This amount is reflected in the financial statements as an intergovernmental payable.

13. CHANGE IN ACCOUNTING PRINCIPLES

A. 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.

B. For the fiscal year 2005, The School implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, which became effective for fiscal years beginning after June 30, 2004.

Statement No. 40 establishes and modifies disclosure requirements related to investment risk: credit risk, interest rate risk and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risk: custodial credit risk and foreign currency risk.

14. RELATED PARTY

Loans totaling $19,491 were made by the Superintendent, Monica Rhea, to the School during fiscal year 2005. These loans, which were interest-free, were used to supplement the School’s cash flows during the twelve months ended June 30, 2005.

15. SUBSEQUENT EVENT

Effective August 31, 2006 Rhea Academy was closed due to the lack of obtaining a sponsor.

16. MANAGEMENT’S PLAN REGARDING ACCUMULATED DEFICIT

The management of Rhea Academy is aware of the accumulated deficit of $66,582 for fiscal year 2005 and $213,634 for 2004. Of the deficit for fiscal year 2004, approximately $213,437, was the result of the School billing the Ohio Department of Education in excess of the amount due, based on an estimated number of pupils the school expected during fiscal year.

17. ACCOUNTABILITY

The School failed to comply with various requirements regarding public purpose of expenses, disposition of public records, remittance of employee and employer Federal, State, and local tax payroll withholdings, remittance of State Teachers Retirement withholdings, renew liability insurance, issue IRS form 1099 for contractors, payments to the Ohio Bureau of Workers Compensation, providing appropriate leave to employees, issuing contracts to employees, licensing and continuing education of the fiscal officer, submission of an annual report, preparation and submission of an annual GAAP report, design and implementation of an internal control process, preparation of spending plans, 5 year forecast, and monthly review of a budget, and having a Governing Board member serving as an officer of the School.

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Governance:

We have audited the financial statements of the business-type activities of the Rhea Academy Community School, Montgomery County, (the School), as of and for the years ended June 30, 2005 and 2004, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 17, 2006, wherein we noted that we were not able to obtain supporting documentation, for the years ended June 30, 2005 and 2004, for intergovernmental Payable and Accrued Wages Payable totaling $146,767 and $242,662; Salaries and Fringe Benefits totaling $193,927 and $126,788; and Statement of Cash Flows, Cash Payments to Employees for Services and Benefits $329,891 and $176,182, respectively. Additionally, 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.* Further, for the years ended June 30, 2005 and 2004, the School has incurred an accumulated deficit of $66,582 and $213,634 respectively. Additionally, on August 31, 2006 Rhea Academy Community School was closed due failure to obtain a sponsor. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine 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 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-020 through 2005-024.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable conditions 2005-021 and 2005-22 listed above to be material weaknesses.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

MATERIAL NONCOMPLIANCE

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-0019.

We intend this report solely for the information and use of the management and the Governing Board. It is not intended for anyone other than these specific parties.

Betty Montgomery

Betty Montgomery
Auditor of State

November 17, 2006

SCHEDULE OF FINDINGS
JUNE 30, 2005 AND 2004

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

FINDING NUMBER 2005-001

The court case, *State ex rel. McClure v. Hagerman, 155 Ohio St. 320(1951)*, provides that expenditures made by a governmental unit should serve a public purpose. Typically, the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary and unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

Under Ohio law, any public official who either authorized an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Co., 120 Ohio St. 47 (1929); 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985).

The School had $2,250 during fiscal year 2005 and $10,235 during fiscal year 2004 in expenditures that either lacked supporting documentation, or the documentation that was provided was inadequate; i.e., determination could not be made that the expenditures served a public purpose. Subsequent to audit fieldwork, management of the School provided adequate documentation to support the determination that these expenditures served a public purpose.

The Academy should develop policies and procedures to provide that all expenditures are accurately posted to the ledgers and include adequate documentation to support that the expenditures served a proper public purpose.

FINDING NUMBER 2005-002

Ohio Rev. Code Sections 3314.10 and 3307.26 state that each teacher or teachers’ aid shall contribute 10% of his or her compensation to the State Teachers Retirement System (STRS). The contribution for all teachers shall be deducted by the employer on each payroll in an amount equal to the applicable percent of the teachers’ paid compensation for such payroll period or other period as the Governing Authority may approve.

Based on confirmation with School Employees Retirement System SERS, Rhea Academy had no SERS activity for fiscal years 2005 and 2004, and SERS indicated that no employees were subject to SERS withholding. However, based on the School’s payroll journal, it was noted that the School deducted from two employees’ payroll, SERS withholdings. The amount deducted from the employees’ payroll was $557 plus the $866 employer share for fiscal year 2005 and $887 employee share and $986 employer share for fiscal year 2004. These amounts were not remitted to SERS and additionally, according to the employee’s title, teachers’ aid, they should been remitted to STRS not SERS.

The School should remit all STRS withholdings, both employee and employer share. This will help reduce the possibility of additional expenditures to the School for fines imposed for late pension filings. This matter has been referred to STRS for further investigation.

FINDING NUMBER 2005-003

26 USC 3402(a) states that, in general, except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary of Treasury.

During the period tested, the Academy withheld from employees but did not remit to the United States Treasury, $21,909 of federal income taxes withheld for FY 2004 and $30,322 for FY 2005.

The School should remit all federal income taxes withheld. This will help reduce the possibility of additional expenditures to the School for fines imposed for late tax filings. This matter has been referred to the Internal Revenue Service for further investigation.

FINDING NUMBER 2005-004

Ohio Rev. Code Section 149.43 states in part that "all public records shall be promptly prepared and made available for inspection to any member of the general public at all reasonable times during regular business hours." "Record" for purposes of the public records law, means any document, device, or item, regardless of physical form or characteristic, created, received by, or coming under the jurisdiction of any public office which serves to document the organization, functions, policies, decisions, procedures, operations, or other activities of the public office. In addition, **Ohio Rev. Code Section 3314.03(A)(8)** requires all community schools to maintain financial records in the same manner as all public school districts in the State of Ohio. Further, **Ohio Rev. Code 149.351** states that "all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under **Ohio Rev. Code Sections 149.38 to 149.42.**

During the period tested the School had the following deficiencies in maintain adequate public records:

- Unable to agree the amount paid with invoice or supporting documentation and determine if the expenditures were for proper public purpose for $25,108 or 34% out of $77,800 tested for fiscal year 2005 and $44,775 or 25% out of $177,350 tested for fiscal year 2004 due to lack of invoice or supporting documentation;
- Timesheets for Contract Services could not be located for 5 of the 30, or 17%, of the transactions tested;
- 1099's could not be located for five consultants;
- Invoices could not be located for 2 of the 12, or 17%, of Leasehold Improvement additions in FY 2004;
- Proper supporting documentation could not be located for the purchase of Dell computers in fiscal year 2005;
- 43% or $40,869 of the payroll transactions for fiscal year 2005 and 60% or $67,532 fiscal year 2004 did not have time sheets or any other supporting documentation which indicates how many days or hours employee worked to support the payroll journals;
- 41%, or $39,928, of the payroll expenditures posted to the expenditure ledger for fiscal year 2005 and 28%, or $31,98, for fiscal year 2004 did not have supporting documentation (no time sheets, no check stubs, or any other records) except posting to the payroll ledger and clearing the bank; and
- December 2003, Citizens National Bank Statement could not be located.

Failure to retain public records could result in the School's inability to detect errors or irregularities in the normal course of business.

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FINDING NUMBER 2005-004
(Continued)

The School should maintain all accounting records and supporting documents until they have been subjected to auditing procedures and only dispose of records in accordance with their record retention policies

FINDING NUMBER 2005-005

Ohio Rev. Code Section 5747.06 states that except as provided in division (E)(3) of the same statute, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer, shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in his adjusted gross income during the calendar year. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee. The method of determining the amount to be withheld shall be prescribed by rule of the tax commissioner.

State taxes were withheld from employees payroll for the fiscal years ended June 30, 2005 and 2004, however, the School did not remit to the State of Ohio, $7,092 and $4,965, respectively.

The School should remit all state income taxes withheld. This will help reduce the possibility of additional expenditures to the school for fines imposed for late tax filings. This matter has been referred to the Ohio Department of Taxation for further investigation.

FINDING NUMBER 2005-006

Pursuant to Section 36.104 (A) of the City of Dayton Income Tax Ordinance, every employer shall at the time of payment of any salary, wage, commission, or other compensation deduct the tax imposed by this chapter from the gross salaries, wages, commissions, or other compensation due by the employer to their employees who are subject to the tax.

During fiscal years 2005 and 2004, Rhea Academy withheld City of Dayton income taxes from employees' payroll in the amount of $3,898 and $2,778, respectively. However, the School did not remit these taxes to the City of Dayton.

The School should remit all City income taxes withheld. This will help reduce the possibility of additional expenditures to the School for fines imposed for late tax filings. This matter has been referred to the City of Dayton for further investigation.

FINDING NUMBER 2005-007

26 USC 3102(a) states that the tax imposed by section 3101 shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages as and when paid. **26 USC 3111 (a)** states that in addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the percentages of the wages (as defined in section 3121(a)) paid by him with respect to employment.

During fiscal years 2005 and 2004, Rhea Academy failed to withhold and remit to the United States Treasury, Medicare taxes totaling $5,024 for employees and employer share for 2005 and $4,566 for 2004.

FINDING NUMBER 2005-007
(Continued)

The School should remit all Medicare taxes withheld. This will help reduce the possibility of additional expenditures to the School for fines imposed for late tax filings. This matter has been referred to the Internal Revenue Service for further investigation.

FINDING NUMBER 2005-008

Ohio Rev. Code Section 4123.38 provides that every employer mentioned in Revised Code Section 4123.01(B)(1), school districts, shall contribute to the public insurance fund the amount of money determined by the administrator of workers' compensation, and the manner of determining contributions and the classifications of employers is as provided in R.C. Sections 4123.39 to 4123.41 and 4123.48.

The Rhea Academy failed to remit premiums to the Ohio Bureau of Workers' Compensation (BWC) during fiscal year 2005 and 2004.

To reduce the possibility of additional expenditures to the School for fines imposed for late premium filings. The Schools should remit premiums to the Ohio Bureau of Workers' Compensation. This matter has been referred to BWC for further investigation.

FINDING NUMBER 2005-009

Internal Revenue Service (Publication 15; Circular E, Employers Tax Guide) states that Federal Unemployment Tax (FUTA), with state unemployment systems, provides for payments of unemployment compensation to workers who have lost their jobs. Most employers pay both a federal and a state unemployment tax. Only the employer pays FUTA tax; it is not deducted from the employees' wages.

Based on the criteria detailed in Publication 15, the Rhea Academy Community School was required to pay FUTA. As of June 30, 2005, the Academy failed to remit to the United States Treasury, Federal Unemployment Taxes.

The School should remit the FUTA tax to the United State Treasury. This will help reduce the possibility of additional expenditures to the School for fines imposed for late tax filings. This matter has been referred to the Internal Revenue Service for further investigation.

FINDING NUMBER 2005-010

Exhibit 3 of the Academy's contract with Ohio Department of Education requires that all staff members be given one year contract or pay rate should be approved by the board.

The Academy had three individuals during FY2004 who did not have their rate of pay authorized by a contract or approved by the Board. The total payroll disbursed for these individuals amounted to $1,613.

To provide that employees are being compensated at the appropriate rate, all newly hired employees should have their wages or contracts approved by the board. Additionally, any changes made to salaries should be approved the Governing Board and an amended contract should be signed.

FINDING NUMBER 2005-011

Exhibit 3 of the School's contract with the Ohio Department of Education, (page 14) required the Academy to provide sick leave and two personal days per year for eligible staff members.

Evidence was not provided that either sick leave or personal days were being provided or utilized. Furthermore, we were unable to substantiate who was eligible for leave because the Academy did not provide personnel records for review.

The School should implement procedures to provide that employees are given the required leave benefits, and that records are maintained of the accrual and usage of these benefits.

FINDING NUMBER 2005-012

Ohio Administrative Code Section 117-2-02(D) states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors.

The school failed to maintain the following accounting records:

- Employee W-4's;
- Employee withholding records;
- Employee leave balance and usage reports; and
- Updated Fixed Asset listing.

Failure to retain adequate accounting records could result in the Schools inability to detect errors or irregularities in the normal course of business.

To comply with the abovementioned section of the Ohio Administrative Code the school should properly maintain all accounting records that reflect the nature of the operations of the school.

FINDING NUMBER 2005-013

Ohio Administrative Code Section 117-2-03(B) states all counties, cities, and school districts, including educational service centers and community schools, shall file, annual financial reports which are prepared using generally accepted accounting principles (GAAP). Pursuant to Ohio Rev. Code Section 117.38 the annual financial report is required to be filed with the Auditor of State within 150 days after the close of the fiscal year.

The School failed to file an annual financial report within the time line prescribe by the above section for fiscal years 2005 and 2004. Additionally, the client's reports were not available for audit purposes which resulted in the issuance of a subpoena for the school's records, and delayed the audit process. The School filed the annual report subsequent to the date required by Revised Code.

The Governing Board should establish, adopt, and implement policies and procedures to ascertain that the annual financial report is filed on a timely manner as described by the above cited section of Revised Code.

FINDING NUMBER 2005-014

Ohio Rev. Code Section 3314.03(11)(b) states that the governing authority of each community school must purchase liability insurance, or otherwise provide for the potential liability of the school.

The school failed to renew the liability insurance for the period October 1, 2004 through June 30, 2005, therefore exposing the school to the possibility of various loss contingencies.

The school should obtain general liability insurance coverage and procedures should be developed and implemented in order to maintain the required general liability insurance coverage.

FINDING NUMBER 2005-015

The Ohio Ethics Commission has found that all members of the governing board of a community school are subject the Ohio Ethics Law and related statutes, as set forth in **Ohio Rev. Code Chapter 102 and Sections 2921.41 and 2921.43, except as set forth in Division (A)(11)(e) of Section 3314.03 of the Revised Code.** (See Ohio Ethics Commission Opinion No. 2003-01)

Monica Rhea held positions as both a member of the Governing Board and as the Superintendent for the School. The Governing Board should review this situation, consult with the Ohio Ethics Commission and the School's legal counsel and make changes as necessary to resolve this possible conflict.

FINDING NUMBER 2005-016

Ohio Rev. Code Section 3314.011 states that prior to assuming the duties of fiscal officer, the fiscal officer must be licensed under **Ohio Rev. Code Section 3301.074** or must complete not less than sixteen hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the community school. Any fiscal officer not licensed under Ohio Rev. Code Section 3314.074 must complete an additional twenty-four hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the school within one year after assuming the duties of fiscal officer. Any hours in excess of sixteen hours completed by the fiscal officer prior to assuming their duties will count toward the additional twenty-four hours of continuing education required under this section. In each subsequent year, any fiscal officer not licensed under Ohio Rev. Code Section 3314.074 must complete eight hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the school.

The fiscal officer did not have a license and had not completed continuing education certification documenting that the fiscal officer obtained eight hours of continuing education in school accounting as approved by the sponsor of the community school. The fiscal officer must attend continuing education in school accounting approved by the sponsor of the community school.

The school should develop and implement procedures to routinely monitor compliance with this requirement and provide for the required fiscal officer continuing education.

FINDING NUMBER 2005-017

26CFR section 1.6041-1 states that every person engaged in a trade or business shall make an information return for each year with respect to payments it makes during the calendar year for the purpose of salaries, wages, commissions, fees and other forms of compensation for services rendered aggregating $600 or more.

The School did not complete IRS Form 1099 for 5 independent contractors in fiscal year 2005.

FINDING NUMBER 2005-017
(Continued)

The school should report all payments made to those individuals engaged in a trade or business, on IRS Form 1099, for the applicable calendar year. This will help to provide compliance with applicable federal laws and help reduce the possibility of additional expenditures to the school for fines imposed. This matter has been referred to the Internal Revenue Service for further investigation.

FINDING NUMBER 2005-018

Ohio Administrative Code 3301-92-04 states, school districts including community schools must adopt as part of its annual appropriation measure a "spending plan" which should indicate expenses and expenditures of all appropriated funds for the fiscal year. In addition school districts including community schools must prepare five year projections of revenues and expenditures as part of the spending plans. Further, OAC 3301-92-04 and ORC 5705.391 states that school districts including community schools must submit to the Ohio Department of Education an approved written spending plan with a five year projection plan to eliminate any current deficits and avoid the projected future deficits. A school district including community schools shall also update its five-year projection between April 1st and May 31st of each fiscal year and submit it to the department of education.

The Board failed to adopt a spending plan and five year projection for fiscal year 2004. Preparation of these documents will provide a guide for the financial operations of the School and allow routine comparison to actual activity for monitoring purposes.

Implementing these procedures will assist the School in more accurate and effective budgeting of the School's funds and monitoring of actual results in addition to eliminating deficit balances and providing for informed financial decision making.

FINDING NUMBER 2005-019

Ohio Rev. Code Section 3314.03 and Auditor of State Bulletin 2000-005 provide that the management of each community school is responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of its assets, the efficiency and effectiveness of its operation, and its compliance with applicable laws, regulations, and contracts. In designing its internal control process, management should consider policies and procedures that provide for the following:

- Appropriate authorization and approval of transactions;
- Adequate design of records to facilitate classification and summarization of transactions;
- Security of assets and records;
- Periodic reconciliations of account balances; and
- Periodic verification of assets.

The School did not implement internal controls over cash reconciliations, maintenance of records, input to ledgers, and support for cash disbursements.

To comply with the abovementioned section of Revised Code and the Auditor of State Bulletin and to provide accurate and timely financial information for decision making purposes, the School should design and implement the required control procedures including detailed timely reviews of these cycles. These reviews should be documented and reported to the Board as part its regular meetings.

FINDING NUMBER 2005-020

Rhea Academy Community School contracts with individuals to provide various educational services to the School. The amount of compensation is stated in the contract and is approved by the board. During testing, it was determined that three individuals were not compensated according to their contract.

During fiscal year 2004, Robert Gullette was underpaid by $250, and during fiscal year 2005, Cassandra Westery was underpaid by $275 and Glyndon Wilson was underpaid by $112. Additionally, during expenditure testing, we noted that the School over paid Duvall &Associates $539 during fiscal year 2004 and underpaid Dr. Mary Ann Jones $875 during fiscal year 2005.

The School should properly compensate all individuals according to their approved service contract and all payments should be reviewed and agreed with the invoices. Also, the School should make payment to those individuals that were underpaid as stated above.

FINDING NUMBER 2005-021

During fiscal years 2005 and 2004, the School disbursed $94,587 and $113,319 in payroll expenditures, respectively. Both years the entire amount of payroll disbursements was posted to the general ledger at net payroll taxes and withholdings instead of gross. Further, due to a lack of complete records, we were unable to determine the actual gross payroll for fiscal year 2005. However, based on the payroll journal the gross payroll for fiscal year 2004 was $157,470, which was understated by $44,151.The understatement is due to taxes is being withheld from the employees but not posting to the general ledgers.

The Academy should develop policies and procedures to provide that payroll disbursements and all associated withholdings are accurately posted to the ledgers and withholdings are remitted to the appropriate governments so that the financial activity of the academy is correctly reported.

FINDING NUMBER 2005-022

As of June 30, 2005 and 2004, the School had a negative cash book balance of ($59,182) and ($45,107), respectively. A negative book balance is caused by improper monitoring of revenues and expenditures and indicates that the School expended money that was not available. Monitoring controls assist in the cash management function and should include:

- Regular review of budget and actual figures;
- Regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports);
- Review of revenues and expenditures with independently accumulated information (budgets, past performance, etc.); and
- Review of monthly bank reconciliations.

The School should develop and implement a monitoring control system over cash management to ensure that material misstatements do no occur and that liabilities will not be incurred that the school cannot meet. Additionally, the Governing Board should request to review bank reconciliations at each monthly meeting.

FINDING NUMBER 2005-023

The School does not have formal policies for the following:

- Cash Collection and Deposit procedures
- Usage of Cell Phones
- School Credit Card and Purchase Cards
- School – Owned Vehicles and Equipments
- Allowable and unallowable expenses on amount of reimbursement for travel reimbursement by employees:
- Use of “frequent flyer” mileage earned on official travel for personal use.

The School should have formal policies and procedures over the various cash collection points. These procedures should include, but are not limited to, safeguarding cash received; providing receipts (where applicable) to the payee; and proper segregation of duties for the receipting, depositing, recording, and reporting of cash. In addition, cash is to be deposited in an eligible financial institution or with the chief fiscal officer of the School within a timely manner.

The use cell phones, credit cards, purchase cards, School-owned vehicles, and equipment should be specified in a policy established by the School’s legislative body. These policies should, at a minimum, identify authorized users; guidelines for allowable use and purchases; method of reimbursement (if personal use is allowed); specific unallowable uses; reporting; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by the Board.

The School should have a policy governing travel reimbursements established by the Board. These policies should, at a minimum, identify the types of travel authorized; guidelines for allowable and unallowable expenses; limitations on amount of reimbursement; types of supporting documentation required for reimbursement requests; reporting; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by the Board.

The School should have a policy that is in accordance with Ohio Ethics Commission Advisory Opinion No. 91-010. This opinion states that a state official or employee or a state officer or employee cannot accept, solicit, or use the authority or influence of his or her position to secure, for personal travel, a discounted or free “frequent flyer” airline ticket or other benefit from an airline if he or she has obtained the ticket or other benefit from the purchase of airline tickets, for use in official travel, by the department, division, agency, institution, or other entity with which he or she serves, or by which he or she is employed or connected.

The School should establish and implement formal policies that are regularly communicated throughout the School.

FINDING NUMBER 2005-024

While reviewing the June 30, 2005 and 2004 outstanding check lists, it was noted that both outstanding check lists contained numerous checks that have been outstanding from four months to three years.

Effective bank reconciliation control procedures require that the outstanding check lists be reviewed monthly to determine the appropriateness of items appearing on the outstanding check list. The continued practice of carrying these outstanding checks appear to have resulted from the client not establishing a policy which outlines the steps for identifying, investigating, and disposing of outstanding checks.

To ensure that the monthly outstanding check list reflects only those checks that are expected to be presented to the bank for payment, the School should adopt an outstanding check policy. The “policy” should include, but not limited to, the following:

- Stop order payment procedures for outstanding checks;
- Outstanding check adjustment procedures, after receiving stop order payment confirmations from the bank; and
- Adjustment entries for the re-receipting of the outstanding checks to an “unclaimed moneys fund”.

Implementation of these procedures will provide the School with accurate and timely financial information needed for decision making purposes and security over bank funds.

Official’ Response: We did not receive a response from Officials to these findings.

RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005 AND 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; **Explain:**
2003-001	ORC Sec. 117.28 - Findings for recovery were issued for expenditures without proper supporting documentation	No	Partially corrected. Repeated as finding 2005-001
2003-002	Employee contracts were not approved by the board or there was no documentation of contracts provided for audit by the school.	No	Repeated as finding 2005-010
2003-003	ORC Sec. 3313.33(B) - Failed to approve contract increases and rates at the public board meeting.	Yes	Fully corrected.
2003-004	ORC Sec. 121.22 – Failed to document attendance of the schools' board meetings.	Yes	Fully corrected.
2003-005	ORC Sec. 3314.011 and OAC Sec. 117-6-07 – Failed to establish Fiscal Officer's bond.	Yes	Fully corrected.
2003-006	ORC Sec. 3314.011 – Failed to have fiscal officer's license or not completing continuing education.	No	Repeated as finding 2005-016
2003-007	ORC Sec. 3314.03(A) (11) (g) and the School's Charter with Ohio Department of Education, Article III (D) – Failed to submit annual report of activities and progress report.	Yes	Fully corrected.
2003-008	OAC Sec. 117-2-03(B) – Failed to file annual report with the Auditor of State.	No	Not corrected. Repeated as finding 2005-013
2003-009	ORC Sec. 3314.03 and AOS Bulletin 2000-005 - Failed to implement effective internal control procedures.	No	Not corrected. Repeated as finding 2005-019
2003-010	Exhibit 2 of the contract between the School and the Ohio Department of Education - Failed to submit an annual spending plan and monitor budget	No	Partially Corrected; See finding 2005-018
2003-011	Exhibit 3 of the School's contract with the Ohio Department of Education, page 14 – Failed to provide sick leave and two personal days per year for eligible staff members.	No	Not corrected. Finding Repeated as finding 2005-011
2003-012	All members of the governing board of a community school are subject the Ohio Ethics Law - The Schools' Superintendent served as a governing board and a Superintendent. – Violation of the above mentioned law.	No	Not corrected. Repeated as finding. 2005-015
2003-013	Bank reconciliations not performed on regular basis.	No	Not corrected. Repeated as finding 2005-022
2003-014	Audit Committee should be established.	No	Not repeated
2003-015	Failure to maintain proper title for Capital Asset purchased with the school fund.	Yes	Fully corrected

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

RHEA ACADEMY COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 21, 2006