



**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Balance Sheet - As of June 30, 2001	3
Statement of Revenues, Expenses, and Changes in Retained Earnings – For the Year Ended June 30, 2001	4
Statement of Cash Flows – For the Year Ended June 30, 2001	5
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19

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REPORT OF INDEPENDENT ACCOUNTANTS

Richard Allen Preparatory Community School
Montgomery County
1034 Superior Avenue
Dayton, Ohio 45407

To the Board of Trustees:

We have audited the accompanying balance sheet of the Richard Allen Preparatory Community School, Montgomery County, (the School), as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Richard Allen Preparatory Community School, Montgomery County, as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2001, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

November 15, 2001

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**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

Assets	
Current Assets	
Cash and cash equivalents	\$32,918
Receivables:	
Intergovernmental	37,853
Accounts	<u>625</u>
Total current assets	71,396
Noncurrent Assets	
Fixed assets (net of accumulated depreciation)	<u>12,419</u>
Total Assets	<u><u>\$83,815</u></u>
Liabilities and Fund Equity	
Current Liabilities	
Accounts payable	\$10,883
Accrued wages payable	55,831
Intergovernmental payable	12,010
Compensated absences payable	<u>1,384</u>
Total Liabilities	<u>80,108</u>
Fund Equity	
Unreserved retained earnings	<u>3,707</u>
Total Fund Equity	<u>3,707</u>
Total Liabilities and Fund Equity	<u><u>\$83,815</u></u>

See accompanying notes to the financial statements.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

Operating Revenues	
Foundation payments	\$903,954
Disadvantaged pupil impact aid	115,783
Miscellaneous operating revenue	<u>9,484</u>
Total Operating Revenues	<u>1,029,221</u>
Operating Expenses	
Salaries	436,647
Fringe benefits	103,995
Management company fees	456,340
Building rental	64,271
Other purchased services	77,301
Materials and supplies	152,568
Depreciation	2,365
Other	<u>7,362</u>
Total Operating Expenses	<u>1,300,849</u>
Operating Loss	(271,628)
Nonoperating Revenues	
State and federal grant revenue	142,690
Local grant revenue	55,000
Gifts and donations	<u>77,645</u>
Total Nonoperating Revenues	<u>275,335</u>
Net Income	3,707
Retained Earnings, Beginning of Year	<u>-</u>
Retained Earnings, End of Year	<u><u>\$3,707</u></u>

See accompanying notes to the financial statements

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash from State of Ohio	\$1,019,737
Cash payments to suppliers for goods and services	(747,584)
Cash payments to employees for services and benefits	(471,417)
Other operating revenue	<u>9,484</u>

Net Cash Used for Operating Activities (189,780)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State and federal grant revenue	104,837
Local grant revenue	55,000
Gifts and donations	<u>77,645</u>

Net Cash Provided by Noncapital Financing Activities 237,482

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash payments for capital acquisitions	<u>(14,784)</u>
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Net Increase In Cash And Cash Equivalents 32,918

Cash And Cash Equivalents, Beginning Of Year 0

Cash And Cash Equivalents, End Of Year \$32,918

**RECONCILIATION OF OPERATING LOSS TO NET CASH USED
FOR OPERATING ACTIVITIES**

Operating loss (\$271,628)

**Adjustments to Reconcile Operating Loss
to Net Cash Used for Operating Activities:**

Depreciation	2,365
Changes in assets and liabilities:	
(Increase) in accounts receivable	(625)
Increase in accounts payable	10,883
Increase in accrued wages payable	55,831
Increase in intergovernmental payable	12,010
Increase in compensated absences payable	<u>1,384</u>

Total Adjustments 81,848

Net Cash Used for Operating Activities (\$189,780)

See accompanying notes to the financial statements

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**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Richard Allen Preparatory 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.

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, 2000 through June 30, 2005 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, fifteen certified full-time teaching personnel and two non-certified support personnel who provide services to an enrollment of 202 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total liabilities) consists of retained. The operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract, however the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

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

D. Cash and Cash Equivalents

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

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

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$50,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2001 school year totaled \$1,217,427.

H. Compensated Absences

The School's principal earns vacation leave each year. The Principal is allowed to carry over any unused vacation leave to subsequent school years. A liability of \$1,384 has been recognized for earned but unused vacation leave at June 30, 2001. No other employees accrue vacation benefits.

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

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2001, including:

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

Intergovernmental Payable – payment for the employer's share of the retirement contribution (\$10,764), workers' compensation (\$436) and Medicare (\$810) associated with services rendered during fiscal year 2001, but were not paid until the subsequent fiscal year.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Federal Tax Exemption Status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax exempt status.

3. DEPOSITS AND INVESTMENTS

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

Deposits: At June 30, 2001, the carrying amount of the School's deposits was \$32,918 and the bank balance was \$43,244. The entire bank balance was covered by federal depository insurance.

4. INTERGOVERNMENTAL RECEIVABLE

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the Preparatory at June 30, 2001 consisted of the Title I federal grant program in the amount of \$37,853.

5. FIXED ASSETS

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

Equipment	\$14,784
Less: Accumulated Depreciation	<u>(2,365)</u>
Net Fixed Assets	<u>\$12,419</u>

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School contracted with Cincinnati Insurance Company for business personal property and general liability insurance. Business personal property coverage carries a \$250 deductible and has a \$50,000 limit. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

6. RISK MANAGEMENT (Continued)

B. Employee Insurance Benefits

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2001, was \$1,072, of which \$240 remains to be contributed and has been recorded as a liability.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for certified teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency wholly controlled, managed and supported in whole, or in part, by the state or any political subdivision thereof. Any member who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age may retire. The maximum annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest years' salaries. The annual allowance is calculated by using a base percentage of 2.1% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

Legislation passed in April 2000 with a July 1999 effective date provided an adjustment for retirees whose benefits have not kept pace with the rate of inflation. The legislation also changed the formula for calculating the formula benefit. The formula benefit increased to 2.2% from 2.1% per year for all years up to 30 years. For members with 35 or more years of earned Ohio service, the first 30 years will be calculated at 2.5% instead of 2.2%. For earned Ohio service over 30 years, the formula will remain as current law, which provides an escalating formula of 2.5% for the 31st year, 2.6% for the 32nd, 2.7% for the 33rd year, etc., until 100% of final average salary is reached.

Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

A retiree of STRS Ohio or other Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Retirement benefits are annually increased by the greater of the amount of the change on the Consumer Price Index (CPI) or the cumulative CPI increases since retirement, less previous cost-of-living increases, up to a maximum of 3% of the original base benefit. The plan offers comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, drugs and partial reimbursement of monthly Medicare premiums.

A member with five or more years' credited service who becomes disabled is entitled to a disability benefit. Survivor benefits are available to eligible spouses and dependents of active members who die before retirement. A death benefit of \$1000 is payable to the beneficiary of each deceased retired member. Additional death benefit coverage of \$1000 or \$2000 can be purchased. Various other benefits are available to members' beneficiaries.

Benefits are established by Chapter 3307, Revised Code.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions 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.

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2001 was \$43,321, of which \$10,524 was recorded as a liability.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2000 *Comprehensive Annual Financial Report* will be available after January 1, 2001, and can be requested by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

8. POSTEMPLOYMENT BENEFITS

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

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. The Health Care Reserve Fund allocation for the year ended June 30, 2001, and after, will be 4.5 percent of covered payroll. For the School, this amount equaled \$20,520 during the 2001 fiscal year.

For the year ended June 30, 2000, net health care costs paid by STRS Ohio were \$283,137,000. There were 99,011 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, the allocation rate is 9.8 percent, an increase of 1.3 percent. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including the surcharge, was \$2,502 for fiscal year 2001.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2000, were \$140,696,340 and the target level was \$211.0 million. At June 30, 2000, the Retirement System's net assets available for payment of health care benefits of \$252.3 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

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

The School entered into a five-year Management Agreement on July 1, 2000, 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; be responsible for hiring qualified teachers and other employees of the School, as well as, dismissal of such employees. However, the School will be responsible for the compensation of the employees.

ICSMR receives a monthly management fee of 10% of the total operating revenues of the School from all sources excluding extraordinary items. ICSMR charges the School for any expenses it incurs on behalf of the School in order to provide services. These expenses may include but are not limited to management services provided by ICSMR employees in the area of instruction, transportation, financial, and general business management and development, as well as, the purchase of textbooks and supplies. During fiscal year 2001, the School paid ICSMR a total of \$456,340 for professional, accounting and legal, management and other services.

10. CONTINGENCIES

A. Grants

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

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. The School does not anticipate any adjustments to state funding, for fiscal year 2001 as a result of such a review.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

11. STATE SCHOOL FUNDING DECISION

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

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

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

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 15, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

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

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

12. OPERATING LEASE

The School leases its facilities from St. Mary Development Corporation under a five-year lease agreement beginning July 1, 2000 through June 30, 2005. Rent for fiscal year 2001 totaled \$64,271. The terms of the lease are not expected to change during fiscal year 2002. The lease will automatically renew for another five years unless either party gives written notice no later than sixty days prior to the end of the lease period.

13. RELATED PARTIES

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

A member of the Board of Directors and a teacher on staff at the School were under contract to provide teacher training services during the year ended June 30, 2001. The Board member was paid \$4,000 and the teacher was paid \$3,200 for those services during the year ended June 30, 2001.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

14. OTHER PURCHASED SERVICES

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

Pupil Transportation	\$60,016
Communications	9,671
Other	<u>7,614</u>
Total	<u><u>\$77,301</u></u>



**STATE OF OHIO
OFFICE OF THE AUDITOR**

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

Richard Allen Preparatory Community School
Montgomery County
1034 Superior Avenue
Dayton, Ohio 45407

To the Board of Trustees:

We have audited the financial statements of Richard Allen Preparatory Community School, Montgomery County, (the School), as of and for the year ended June 30, 2001, and have issued our report thereon dated November 15, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-10357-001 and 2001-10357-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

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

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

Jim Petro
Auditor of State

November 15, 2001

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

Finding Number 2001-10357-001

In 47% of the transactions selected for review, vendor payments were disbursed and a purchase order was not issued by the School. The absence of a purchase order is contrary to Section 2(c) of the School's Purchasing of Goods and Services policy. The failure to follow the purchasing policy could result in the failure to detect the improper expenditure of funds by the School during the normal course of operations.

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

Finding Number 2001-10357-002

In 55% of the expenditures examined a supporting vendor invoice was not maintained by the School. 20% of the instances noted were School payments to its management company, the Institute of Charter School Management and Resources (ICSMR) without obtaining a detailed invoice from ICSMR for services provided. The remaining expenditures noted were for supplies, textbooks, pupil transportation services, and janitor services. We were able to substantiate these disbursements through statements and other information provided by the vendors involved. However, the failure to obtain a detailed invoice from vendors could prevent the School from allocating disbursements to the appropriate expenditure line items and also increases the possibility that improper expenditures would not be detected promptly by the School.

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



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RICHARD ALLEN PREPARATORY 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
JANUARY 3, 2002**