



**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Governance:

We have audited the accompanying balance sheet of the Rhea Academy Community School, Montgomery County, (the School), as of June 30, 2000, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings Accumulated Deficit 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 Rhea Academy Community School, Montgomery County, as of June 30, 2000, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. The School has suffered losses from operations and has a net accumulated deficit that raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to this matter is described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 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

August 14, 2001

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2000**

Assets

Current Assets

Cash and Cash Equivalents \$32,870

Noncurrent Assets

Fixed Assets (net of
accumulated depreciation) 85,739

Total Assets \$118,609

Liabilities and Accumulated Deficit

Current Liabilities

Accounts Payable \$15,899

Accrued Wages and Benefits 15,272

Intergovernmental Payable 231,552

Total Liabilities 262,723

Accumulated Deficit (144,114)

Total Liabilities and Accumulated Deficit \$118,609

See Accompanying Notes to the Financial Statements.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2000**

Operating Revenues	
Foundation Payments/DPIA Revenues	\$316,451
Operating Expenses	
Salaries	182,753
Fringe Benefits	41,737
Purchased Services	182,041
Materials and Supplies	58,896
Depreciation	32,603
Other Operating Expenses	<u>66,687</u>
Total Operating Expenses	<u>564,717</u>
Operating Loss	(248,266)
Non-Operating Revenues	
Federal and State Subsidies	103,000
Other Contributions	<u>335</u>
Total Non-Operating Revenues	<u>103,335</u>
Net Loss	(144,931)
Retained Earnings at Beginning of Year	<u>817</u>
Accumulated Deficit at End of Year	<u><u>(\$144,114)</u></u>

See Accompanying Notes to the Financial Statements.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2000**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$532,442
Cash Payments to Employees for Services	(196,373)
Cash Payments to Suppliers for Goods and Services	(222,322)
Other Operating Expenses	<u>(66,687)</u>

Net Cash Provided By Operating Activities 47,060

Cash Flows from Noncapital Financing Activities

Federal and State Subsidies	103,000
Contributions	<u>335</u>

Net Cash Provided by Noncapital Financing Activities 103,335

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(118,342)</u>
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Net Cash Used for Capital and Related Financing Activities (118,342)

Net Increase in Cash and Cash Equivalents 32,053

Cash and Cash Equivalents at Beginning of Year 817

Cash and Cash Equivalents at End of Year \$32,870

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

Operating Loss (\$248,266)

**Adjustments To Reconcile Operating Loss to
Net Cash Provided By Operating Activities**

Changes in Assets and Liabilities

Depreciation	32,603
Increase in Accounts Payable	15,899
Increase in Accrued Wages	15,272
Increase in Intergovernmental Payable	<u>231,552</u>

Total Adjustments 295,326

Net Cash Provided By Operating Activities \$47,060

See Accompanying Notes to the Financial Statements.

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**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000**

1. DESCRIPTION OF THE SCHOOL

Rhea Academy, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in kindergarten through the fifth grade. The School has requested to be a tax-exempt organization under Section 501(c)(3) and is awaiting approval from the Internal Revenue Service. The School fully expects to receive this exemption. 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.

The School operates under the direction of a three-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 2 noncertified and 6 certified full time teaching personnel who provide services to 78 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.

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 balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

D. Cash and 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

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

Equipment and furniture	7 years
Leasehold Improvements	3 years

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

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program (through the State Foundation Program). Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for the planning phase of the school and an additional \$50,000 during the year ended June 30, 2000, which were used for startup phase activities.

H. 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.

I. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2000, are reported as accrued liabilities in the accompanying financial statements.

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, 2000, the carrying amount of the School's deposits was \$32,870 and the bank balance was \$34,790. The bank balance was covered by federal depository insurance.

4. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2000, follows:

Leasehold Improvements	\$88,139
Equipment & Furniture	30,203
Less: Accumulated depreciation	<u>(32,603)</u>
Net Fixed Assets	<u>\$85,739</u>

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

5. RISK MANAGEMENT

A. Property & Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2000, the School contracted with Burlington Insurance Company for property and general liability insurance. There is a \$500 deductible for property and a \$1,000 deductible for theft. The policy has various limits with a general aggregate limit of \$2,000,000.

B. Workers' Compensation

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

6. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2000, plan members are required to contribute 9.3 percent of their annual covered salaries and the School is required to contribute 14 percent; 6 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 contribution for pension obligations to STRS for the fiscal year ended June 30, 2000 was \$9,685 and 56 percent has been contributed for fiscal year 2000. \$8,862 represents the unpaid employee and employer contributions for the fiscal year 2000, and is recorded as a liability.

B. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit plan, for all full-time employees except teachers. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent for fiscal year 2000. 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 2000, 5.5 percent of the annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2000 was \$2,161; 100 percent has been contributed for fiscal year 2000.

7. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored 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. Most benefit recipients pay a portion of the 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 percent of covered payroll. For the year ended June 30, 2000 the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$12,913 for fiscal year 2000. \$5,650 represents the amount of required employer contributions outstanding at year end and is reported as a liability.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1999, (the latest information available) the balance in the Fund was \$2,783 million. For the year ended June 30, 1999 net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to 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 year ended June 30, 2000 employer contributions to fund health care benefits were 8.50 percent of covered payroll, an increase from 6.3 percent from the prior year. 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, prorated for partial service credit. For the School, the amount to fund health care benefits, including a surcharge, equaled \$3,339 during the 2000 fiscal year.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

7. POSTEMPLOYMENT BENEFITS (Continued)

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 the annual health care expenses. Expenses for health care for the year ended June 30, 1999 (the latest information available), were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 41,000 participants currently receiving health care benefits.

8. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program," which provides significant amounts of monetary support to the School. During the year ended June 30, 2000 the School received \$532,811 of school foundation support.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly..." including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case.

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

9. LEASES

The School leases real estate under a three year operating lease, which expires on September 30, 2002. Aggregate future rental payments of \$75,600 are payable as follows: \$33,600 in 2001, \$33,600 in 2002, \$8,400 in 2003.

Rent expense for the real estate was \$25,200 for the year ended June 30, 2000. Of this, \$11,200 remains outstanding as of June 30, 2000 and is reported as a liability.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

10. PURCHASED SERVICES

A summary of the School's purchased services for the fiscal year ended June 30, 2000:

Contracted Services	\$76,359
Utilities	25,557
Instruction Services	29,976
Property Services	17,540
Advertising	8,406
Health Services	10,657
Communications	6,373
Printing & Binding	3,924
Other	<u>3,249</u>
	<u>\$182,041</u>

11. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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, 2000.

B. State Funding

During the fiscal year ended June 30, 2000, the School billed the state of Ohio in excess of amounts due to them based on an estimated number of pupils the School expected the first year. The School is to repay the state of Ohio during the next fiscal year. The amount of repayment outstanding at June 30, 2000 was \$215,991 and is reported as an intergovernmental payable.

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.

12. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School accumulated a deficit of \$144,114 for the year ended June 30, 2000. The deficit is due in large part to State Foundation Monies paid to the School based upon a projected student enrollment which was higher than the actual enrollment. This resulted in the State disbursing \$215,991 in overpayments for foundation distributions. During fiscal year ending June 30, 2001, the intergovernmental payable of \$215,991 will be repaid to the State through monthly deductions from the School's Foundation payments.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

12. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT (Continued)

The School feels that such losses can also be corrected during their second year of operations by greatly reducing their expenditures for fixed assets, as the most necessary school equipment was purchased during the initial year of operations.

The School's staffing levels have been reduced throughout the year to accommodate a smaller than anticipated first year student enrollment. The School has also internalized the operations of their lunch room as a potential source of additional revenue as of September 1, 2000.



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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 Rhea Academy Community School, Montgomery County, (the School), as of and for the year ended June 30, 2000, and have issued our report thereon dated August 14, 2001, wherein we noted the School has suffered losses from operations and has a net accumulated deficit that raises substantial doubt about its ability to continue as a going concern. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2000-10357-001.

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 a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2000-10357-002.

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 do not believe the reportable condition described above is a material weakness.

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

Jim Petro
Auditor of State

August 14, 2001

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2000-10357-001

Ohio Rev. Code Section 3307.26 and 3307.28 requires that school districts withhold from employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined by the State Teachers Retirement System (STRS) and to subsequently remit to STRS the amounts withheld, along with an appropriate percentage of employer matching contributions. At June 30, 2000, the School owed STRS required contributions of \$14,512. This unpaid balance represented four months of arrearage that was due to STRS by July 15, 2000.

To comply with the abovementioned section of code and to reduce the risk of incurring late payment penalties, the School should remit to STRS the amounts withheld, along with an appropriate percentage of employer matching contributions, and adhere to the monthly payment schedule established for payment of STRS contributions. The School remitted the outstanding balance for the year ended June 30, 2000 to STRS on August 17, 2000.

FINDING NUMBER 2000-10357-002

For the year ended June 30, 2000, the general ledger being utilized by the school did not easily reconcile to the year ending bank balances. Multiple errors and omissions in the general ledger resulted in an inaccurate ending cash balance being reported.

The School's financial statements for the year ended June 30, 2000 as presented to the Auditor of State were not supported by adequate documentation. As a result, numerous adjustments were necessary and additional time was spent locating and examining accounting records. The lack of procedures to properly maintain documentation to support financial statements does not allow for the preparation or presentation of accurate financial statements in conformity with generally accepted accounting principles and does not facilitate timely reporting of financial data to the Board of Governance for use in decision-making.

The school should develop procedures to reconcile the general ledger with the check ledger and the monthly bank statements, thus reduce the possibility of being charged for overdraft fees, and maintain adequate supporting documentation for their financial statements as presented in accordance with generally accepted accounting principles.



STATE OF OHIO
OFFICE OF THE AUDITOR

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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
SEPTEMBER 18, 2001**