RICHARD ALLEN ACADEMY
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

RICHARD ALLEN ACADEMY
MONTGOMERY COUNTY

TABLE OF CONTENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

Richard Allen Academy
Montgomery County
700 Heck Avenue
Dayton, Ohio 45408

To the Board of Governance:

We have audited the accompanying balance sheet of Richard Allen Academy, Montgomery County, (the Academy), as of June 30, 2000, 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 Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 Richard Allen Academy, Montgomery County, as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2001, on our consideration of the Academy'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

April 27, 2001

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RICHARD ALLEN ACADEMY
MONTGOMERY COUNTY

BALANCE SHEET
AS OF JUNE 30, 2000

Assets	
Current assets	
Cash and cash equivalents	$61,735
Intergovernmental Receivable	27,356
Prepaid expenses	327
Total current assets	89,418
Noncurrent assets	
Fixed assets (net of accumulated depreciation)	25,912
Total Assets	$115,330
Liabilities and fund equity	
Current liabilities	
Accounts payable	1,604
Accrued wages payable	43,725
Intergovernmental payable	18,074
Total liabilities	63,403
Fund equity	
Unreserved retained earnings	51,927
Total liabilities and fund equity	$115,330

See Accompanying Notes to the Financial Statements.

RICHARD ALLEN ACADEMY
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2000

Operating Revenues	
Foundation payments	$455,512
Disadvantaged pupil impact aid	117,638
Uniforms, supplies and lab fees	12,749
Total operating revenues	585,899
Operating Expenses	
Salaries	207,187
Fringe benefits	44,967
Management company fees	402,270
Other purchased services	64,220
Materials and supplies	69,775
Depreciation	2,382
Other	787
Total operating expenses	791,588
Operating Loss	(205,689)
Non-Operating Revenues	
State and Federal Grant Revenue	141,093
Local Grant Revenue	25,067
Gifts and Donations	87,100
Total nonoperating revenues	253,260
Net income	47,571
Retained earnings, beginning of year	4,356
Retained earnings, end of year	$51,927

See Accompanying Notes to the Financial Statements.

RICHARD ALLEN ACADEMY
MONTGOMERY COUNTY

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

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
Cash flows from operating activities	
Cash from State of Ohio	$573,150
Cash payments to suppliers for goods and services	(535,775)
Cash payments to employees for services and benefits	(190,355)
Other operating revenue	12,749
Net cash used for operating activities	(140,231)
Cash flows from noncapital financing activities	
Federal and State Subsidies	113,737
Contributions	112,167
Net cash provided by noncapital financing activities	225,904
Cash flows from capital and related financing activities	
Cash payments used for capital acquisitions	(28,294)
Net increase in cash and cash equivalents	57,379
Cash and cash equivalents, beginning of year	4,356
Cash and cash equivalents, end of year	$61,735
<u>Reconciliation of operating loss to net cash used for operating activities</u>	
Operating Loss	($205,689)
<u>Adjustments to reconcile operating loss to net cash used for operating activities</u>	
Changes in assets and liabilities	
Depreciation	2,382
Increase in prepaid expenses	(327)
Increase in accounts payable	1,604
Increase in accrued wages payable	43,725
Increase in intergovernmental payable	18,074
Net cash used for operating activities	($140,231)

See Accompanying Notes to the Financial Statements.

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

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Richard Allen Academy (the Academy) 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 Academy, which is part of the State's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy contracts with the Institute of Charter School Management and Resources, Inc. (ICSMR) for a variety of services including management consulting (See Note 10), Education Management Information System (EMIS) monitoring, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications.

The Academy was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1,1999 through June 30, 2000 after which, the Academy must apply for an additional contract with the Sponsor. The Academy operates under a self-appointing ten-member Board of Trustees (the Board). The Academy'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 Academy has one instructional/support facility staffed by one principal, eleven certified full-time teaching personnel and two non-certified support personnel who provide services to 113 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Richard Allen Academy 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 Academy 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 Academy'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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment 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. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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 the Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its sponsor. The contract between Richard Allen Academy and its sponsor, Ohio State Board of Education, 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 Academy'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 Academy Principal and Treasurer are responsible for ensuring that expenditures are 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 Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 values as of the dates received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess 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 an asset's life are not capitalized.

Depreciation of furniture and equipment and vehicles is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Leasehold improvements are depreciated over the life of the lease agreement of 5 years.

G. Intergovernmental Revenues

The Academy 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.

Richard Allen Academy also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, Richard Allen Academy was awarded $50,000 for the planning phase of the Academy and an additional $50,000 during the year ended June 30, 2000.

Amounts awarded under the above named programs for the 2000 school year totaled $739,310.

H. Compensated Absences

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. Additionally, as of June 30, 2000, no liability existed for vacation benefits.

I. Accrued Liabilities

The Academy has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2000, including:

Wages payable - salary payments made after year-end that were for services rendered for the year ended June 30, 2000. 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, 2000 for all salary payments made to teaching personnel during the summer of 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intergovernmental payable - payment for the employer's share of the retirement contribution ($16,432), workers' compensation ($1,008) and Medicaid ($634) associated with services rendered during the year ended June 30, 2000, but were not paid until the subsequent fiscal year.

J. Federal tax exemption status

The Academy 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, 2000, the carrying amount of the Academy's deposits was $61,735 and the bank balance was $61,735. The entire bank balance was covered by federal depository insurance.

4. INTERGOVERNMENTAL RECEIVABLES

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 Academy at June 30, 2000 consisted of the Title I federal grant program in the amount of $27,356.

5. FIXED ASSETS

A summary of the Academy's fixed assets as of June 30, 2000 follows:

Leasehold Improvements	$23,658
Equipment	4,636
Subtotal	28,294
Less: Accumulated Depreciation	(2,382)
Net Fixed Assets	$25,912

6. RISK MANAGEMENT

A. Property and Liability

The Academy 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. During the year ended June 30, 2000, the Academy 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.

6. RISK MANAGEMENT (Continued)

B. Workers' Compensation

The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying annual gross payroll by a factor calculated by the State.

C. Employee Medical, Dental, and Vision Benefits

As part of the management agreement with the Institute of Charter School Management and Resources, Inc. (see Note 10), insurance premiums for Academy 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 Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth St., Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the year ended June 30, 2000, 5.5 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the year ended June 30, 2000 was $577, none of which was contributed at June 30, 2000 and therefore is recorded as part of the intergovernmental payable.

B. State Teachers Retirement System

The Academy 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 East Broad Street, Columbus, Ohio 43215-3371.

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended June 30, 2000, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was 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 Academy's required contributions for pension obligations to STRS for the year ended June 30, 2000 was $11,093, of which 42.19% was contributed at June 30, 2000. The $6,413, of unpaid contributions to STRS is recorded as part of the intergovernmental payable.

8. POST EMPLOYMENT BENEFITS

The Academy 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 Academy, this amount equaled $14,791 for the year ended June 30, 2000, of which 42.19% was contributed at June 30, 2000. The $8,551 of unpaid contributions to STRS is recorded as part of the intergovernmental payable.

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 for the year ended June 30, 1999. 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 year ended June 30, 2000, the minimum pay was established at $12,400. For the Academy, the amount contributed to fund health care benefits during the year ended June 30, 2000, equaled $891, none of which was contributed at June 30, 2000 and therefore is recorded as part of the intergovernmental payable.

8. POST EMPLOYMENT 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.

9. 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 Academy. During the year ended June 30, 2000 the Academy received $455,512 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 at least until June 15, 2001.

As of the date of these financial statements, the Academy 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.

10. AGREEMENTS WITH INSTITUTE OF CHARTER SCHOOL MANAGEMENT AND RESOURCES, INC.

The Academy entered into a five-year Management Agreement, commencing as of July 1, 1999, 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 Academy's charter agreement and provides that ICSMR will perform functions reasonably required to manage the operation of the Academy; ensure students receive services which are in accordance with applicable educational standards; make every effort to ensure the Academy complies with the requirements of any applicable statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquire all necessary licenses and permits; maintain all student and financial records required by federal, state and local laws and regulations, as well as, protecting the confidentiality of those records; act as the Academy's agent in making deposits and disbursements promptly; provide for all expenses of operating the Academy, including lease payments for the Academy building, equipment and operating supplies needed in the operation of the Academy, from its management fee; be responsible for hiring qualified teachers and other employees of the Academy, as well as, dismissal of such employees. However, the Academy will be responsible for the compensation of the employees.

ICSMR is compensated monthly at a rate of 80% of total operating revenues of the Academy; operating revenues subject to the 80% determination includes only State Foundation and DPIA funds. These fees are inclusive of the expenses and management fees noted above. For the year ended June 30, 2000, based on State Foundation and DPIA funds received, the total management fee due to ICSMR was $458,106. The Academy paid $402,270 to ICSMR during the year ended June 30, 2000. The remaining balance of $55,836 was forgiven by ICSMR. The School did not owe ICSMR any management fees as of June 30, 2000.

In October 2000, the Academy and the Institute of Charter School Management and Resources, Inc. agreed to an addendum to their management agreement. Beginning July 1, 2000 through June 30, 2005, ICSMR will receive a monthly management fee of 10% of the total operating revenues of the Academy from all sources excluding extraordinary items. In addition, ICSMR will no longer be required to provide for the operating expenses of the Academy. ICSMR will now charge back to the Academy expenses it incurs on behalf of the Academy in order to provide school wide services. These expenses may include, but are not limited to, school wide management services provided by ICSMR employees in the area of instruction, transportation, financial and general business management and development, as well as school wide purchases of textbooks and supplies.

11. OPERATING LEASE

The Academy leases its facilities from St. Mary Development Corporation under a five-year lease agreement beginning August 25, 1999 through August 24, 2005. Rent for the first lease year totaled $63,600. Per the management agreement, ICSMR made the lease payments, which are included in the management fees paid during the year ended June 30, 2000. Under the October 2000 addendum discussed in Note 10 above, the Academy will be responsible for the payments for the year ended June 30, 2001. With the exception of this change, neither the monthly payment amount nor any other terms of the lease changed for the period ending June 30, 2001.

12. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2000.

B. Litigation

The Academy is not involved in any litigation proceedings.

13. PURCHASED SERVICES

For the period July 1, 1999 through June 30, 2000, purchased services expenses were payments for services rendered by various vendors as follows:

Management Company Fees	$402,270
Instructional Supplies & Textbooks	16,555
Advertising and Promotion	6,090
Insurance	943
Other	40,632
	$466,490

14. Related Party Transactions

Two members of the Board of Directors of the School were under contract to provide services to the School for the year ended June 30, 2000. The services provided included evaluating, scheduling and conducting Individual Education Plan (IEP) meetings with selected students. One Board member was paid $18,750 and the other Board member was paid $990 for the year ended June 30, 2000.

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

Richard Allen Academy
Montgomery County
700 Heck Avenue
Dayton, Ohio 45408

To the Board of Governance:

We have audited the financial statements of Richard Allen Academy, Montgomery County, (the Academy), as of and for the year ended June 30, 2000, and have issued our report thereon dated April 27, 2001. We conducted our audit in accordance with generally accepted auditing standards 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 Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the Academy in a separate letter dated April 27, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy'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 Academy'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 2000-10357-001 through 2000-10357-004.

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 believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal controls over financial reporting, that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated April 27, 2001.

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

Jim Petro
Auditor of State

April 27, 2001

RICHARD ALLEN ACADEMY
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2000

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

FINDING NUMBER 2000-10357-001

During testing, 15 out of 60 instances were noted in which vendor payments and consulting fees were disbursed but the Academy did not properly maintain adequate source documentation for the expenditures. Failure to properly maintain source documentation for disbursements could result in funds being misappropriated and not detected by the Academy during the normal course of operations.

The Academy should create and implement a cash management policy, to include the use of purchase orders, requisitions, and consulting contracts to document disbursements to be paid. The Academy should also require all source documentation supporting monies disbursed be maintained and made available for inspection by the Treasurer. These procedures will help establish proper accountability over monies disbursed by the Academy. According to management, procedures have been implemented to address cash management issues for the year ended June 30, 2001.

FINDING NUMBER 2000-10357-002

During testing, 17 instances were noted where the Academy made a payment to its management company, the Institute of Charter School Management and Resources (ICSMR) within the terms of the contract but without obtaining a detailed invoice from ICSMR for services provided. Failure to obtain a detailed invoice from the management company prevents the Academy from allocating disbursements to the appropriate expenditure line items and increases the possibility that funds could be misappropriated and not be detected by the Academy.

The Academy should require ICSMR to submit detailed invoices before making payment. Payments to ICSMR should also be disbursed by purchase order with all invoices used to support monies disbursed being maintained and made available for inspection by the Treasurer. These procedures will help establish proper accountability over monies disbursed to the management company by the Academy. According to management, procedures have been implemented to address this issue for the year ended June 30, 2001.

FINDING NUMBER 2000-10357-003

The Academy did not reconcile payroll disbursements presented in the financial statements to supporting documentation. The Academy did not reconcile quarterly 941 payroll reports to the amounts presented in the payroll disbursement subsidiary ledgers. Failure to reconcile payroll disbursements to supporting documentation prevents the Academy from allocating payroll transactions to the appropriate expenditure line items and increases the possibility that funds could be misappropriated and not be detected by the Academy.

The Academy should reconcile payroll disbursements to the appropriate supporting documentation, to include the quarterly 941 payroll reports. All documents used to support the reconciliation should be maintained and made available for inspection by the Treasurer. These procedures will help establish proper accountability over the Academy's payroll disbursements. According to management, procedures have been implemented to address payroll reconciliation issues for the year ended June 30, 2001.

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

FINDING NUMBER 2000-10357-004

To facilitate proper management and reporting of federal monies, local governments receiving federal financial assistance should identify, in their accounting records, all federal funds received and expended by federal program and program year. The Academy did not record federal activity during the year ending June 30, 2000 so that federal receipts and expenditures could be easily identified back to the corresponding programs. Although the Academy was not subject to a Single Audit for the year ending June 30, 2000, failure to maintain adequate records could result in a suspension of federal funding.

To identify these transactions in a more timely and complete fashion, the Academy should assign each federal grant a separate fund and each federal grant project year a separate special cost center. This will specifically identify federal receipts and expenditures that can be reconciled to the programs under which they were received. According to management, procedures have been implemented to address management and reporting of federal monies for the year ended June 30, 2001.

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

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

RICHARD ALLEN ACADEMY

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
JUNE 12, 2001