



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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STATE OF OHIO
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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, 2002, 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, 2002, 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 11, 2002, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Jim Petro
Auditor of State

November 11, 2002, except Note 11, as to which the date is December 11, 2002

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**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

Assets

Current assets

Cash	\$ 101,705
Receivables:	
Grants	29,233
Gifts and Donations	4,417
Prepaid expenses	<u>1,929</u>

Total current assets 137,284

Noncurrent assets

Fixed assets (net of accumulated depreciation) 33,903

Total assets \$ 171,187

Liabilities and fund equity

Current liabilities

Accounts payable	\$ 21,141
Accrued wages payable	44,685
Intergovernmental payable	22,854
Compensated absences payable	<u>692</u>

Total liabilities 89,372

Fund equity

Unreserved retained earnings 81,815

Total fund equity 81,815

Total liabilities and fund equity \$ 171,187

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, 2002**

Operating revenues	
Foundation payments	\$ 1,019,797
Disadvantaged pupil impact aid	165,213
Miscellaneous operating revenue	<u>2,056</u>
 Total operating revenues	 <u>1,187,066</u>
 Operating expenses	
Salaries	549,770
Fringe benefits	125,530
Management company fees	460,360
Building rental	63,441
Other purchased services	98,447
Materials and supplies	98,017
Depreciation	3,887
Other	<u>4,174</u>
 Total operating expenses	 <u>1,403,626</u>
 Operating Loss	 (216,560)
 Non-operating revenues	
State and federal grant revenue	227,551
Local grant revenue	2,200
Gifts and donations	<u>64,917</u>
 Total non-operating revenues	 <u>294,668</u>
 Net Income	 78,108
 Retained earnings, beginning of year	 <u>3,707</u>
 Retained earnings, end of year	 \$ <u>81,815</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, 2002**

INCREASE (DECREASE) IN CASH

Cash flows from operating activities

Cash from State of Ohio	\$ 1,185,010
Cash payments to suppliers for goods and services	(707,747)
Cash payments to employees for services and benefits	(684,643)
Other operating revenue	<u>2,056</u>
Net cash used for operating activities	<u>(205,324)</u>

Cash flows from noncapital financing activities

Federal and state grants	236,782
Local grant	2,200
Donations	<u>60,500</u>
Net cash provided by noncapital financing activities	<u>299,482</u>

Cash flows from capital and related financing activities

Cash payments for capital acquisitions	<u>(25,371)</u>
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NET INCREASE IN CASH	68,787
CASH, BEGINNING OF YEAR	<u>32,918</u>
CASH, END OF YEAR	\$ <u>101,705</u>

**Reconciliation of operating loss to net cash used for
for operating activities**

Operating loss	\$ (216,560)
Adjustments to Reconcile Operating Income to Net Cash used for Operating Activities	
Depreciation	3,887
Changes in assets and liabilities:	
Decrease in accounts receivable	625
Increase in prepaid expenses	(1,929)
Increase in accounts payable	9,647
Decrease in accrued wages payable	(11,146)
Increase in intergovernmental payable	10,844
Decrease in compensated absences payable	<u>(692)</u>
Total Adjustments	<u>11,236</u>
Net Cash used for operating activities	\$ <u>(205,324)</u>

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, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Richard Allen Preparatory (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. (See Note 9.)

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, fourteen full-time and seven part-time certified teaching personnel and one non-certified support personnel who provide services to an enrollment of 211 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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 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 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, 2002
(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) is segregated into contributed capital and retained earnings. In accordance with GASB Statement No. 33, after fiscal year 2000, capital contributions from other governments and private sources are recorded as non-operating revenues and reported as retained earnings. 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 Schools 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 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

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.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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 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.

Depreciation of furniture and fixtures 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. Leasehold improvements are depreciated over the life of the lease agreement of 5 years.

G. Intergovernmental revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Amounts awarded under the above named programs for the 2002 school year totaled \$1,412,561.

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 \$692 has been recognized for earned but unused vacation leave at June 30, 2002. 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, 2002, including:

Wages payable – salary payments made after year-end that were for services rendered in fiscal year 2002. Teaching personnel are paid in 24 equal installments, ending with the last payroll in July, for services rendered during the school year. All payments made during the month of July were earned as of June 30. Therefore, a liability has been recognized at June 30, 2002 for all salary payments made to teaching personnel during the month of July 2002.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intergovernmental payable – payment for the employer’s share of the retirement contribution (\$13,508), workers’ compensation (\$349) and Medicaid (\$648) associated with services rendered during fiscal year 2002, were not paid until the subsequent fiscal year. In addition, the School owed their computer consortium \$8,349 at June 30, 2002 which was classified as an intergovernmental payable.

J. Federal tax exemption status

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

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, 2002, the carrying amount of the School’s deposits was \$101,705 and the bank balance was \$104,758. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Although all state statutory requirements for the deposit of public monies had been followed, non-compliance with federal requirements could potentially subject the School to a successful claim by the Federal Deposit Insurance Corporation.

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 School at June 30, 2002 consisted of the federal Title I and Classroom size reduction grant programs in the amount of \$28,848 and \$385, respectively.

5. FIXED ASSETS

A summary of the School’s fixed assets at June 30, 2002, follows:

Vehicles/Equipment	\$40,155
Less: Accumulated Depreciation	<u>(6,252)</u>
Net Fixed Assets	<u>\$33,903</u>

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

6. RISK MANAGEMENT

Property and liability – The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School contracted with Cincinnati Insurance Company for business personal property, director and officer liability and general liability insurance. Business personal property coverage carries a \$250 deductible and has a \$50,000 limit. The director and officer liability coverage provides \$1,000,000 per loss with a \$1,000 deductible. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate.

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; 5.46 percent 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 years ended June 30, 2002 and 2001 were \$1,231 and \$1,072; 100 percent has been contributed for both fiscal years.

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), which is 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.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2002, 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 years ended June 30, 2002 and 2001 were \$50,947 and \$43,321; 82.01 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal year 2001. \$13,508 representing the unpaid contribution for fiscal year 2002 is recorded as an intergovernmental payable.

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. For fiscal year ended June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.256 billion on June 30, 2001 (the latest information available). For the School, this amount equaled \$24,133 during the 2002 fiscal year.

For the year ended June 30, 2001, net health care costs paid by STRS Ohio were \$300,772,000. There were 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, the allocation rate is 8.54 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 2002, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including the surcharge, was \$1,926 for fiscal year 2002.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

8. 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 annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits of \$315.7 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

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

The School entered into a five-year Management Agreement with the Institute of Charter School Management and Resources, Inc. (ICSMR), which is an education consulting and management company.

The Management Agreement's term coincides with the school's charter agreement and provides that ICSMR will perform functions reasonably required to manage the operation of the School; ensure students receive services which are in accordance with applicable educational standards; make every effort to ensure the School complies with the requirements of any applicable statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquire all necessary licenses and permits; maintain all student and financial records required by federal, state and local laws and regulations, as well as, protecting the confidentiality of those records; act as the School's agent in making deposits and disbursements promptly; provide for all expenses of operating the School, including lease payments for the school building, equipment and operating supplies needed in the operation of the School, from its management fee; 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 District wide services. These expenses may include but are not limited to District wide management services provided by ICSMR employees in the area of instruction, transportation, financial, and general business management and development, as well as, school wide purchase of textbooks and supplies. During fiscal year 2002, the School paid ICSMR a total of \$460,360 of which \$107,572 was for management fees.

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.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

10. CONTINGENCIES (Continued)

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2003, as a result of such 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 no presently determinable.

11. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

12. OPERATING LEASE

The School leases its facilities from St. Mary Development Corporation under a renewable five-year lease agreement beginning August 30, 2000 through August 30, 2005. Rent for fiscal year 2002 totaled \$63,441. The terms of the lease are not expected to change during fiscal year 2003.

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.

Also, during fiscal year 2002, the Institute of Charter School Management and Resources loaned the School \$2,000 for purposes of cash flow. Prior to the end of the fiscal year, the School repaid this loan.

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

14. OTHER PURCHASED SERVICES

During the year ended June 30, 2002, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 76,856
Communications	8,475
Copier lease	4,417
Public relations	2,201
Property services	3,579
Utilities	1,991
Pupil transportation	180
Other	748
	<u>\$ 98,447</u>

15. SUBSEQUENT EVENT

Subsequent to June 30, 2002, the School discovered that it should have been making monthly lease payments to Richard Allen Academy for the use of a copier. Therefore, a liability and offsetting expense was recorded in the amount of \$4,417, the amount of the lease payments for fiscal year 2002.

On October 28, 2002, the Institute of Charter School Management and Resources issued a check, on behalf of the School, to Richard Allen Academy in the amount of \$4,417 for the fiscal year 2002 lease payments. This transaction was recorded as a receivable and gifts and donations revenue on the fiscal year 2002 financial statements.

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**STATE OF OHIO
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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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, 2002, and have issued our report thereon dated November 11, 2002. 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated November 11, 2002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider 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 Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

November 11, 2002

**RICHARD ALLEN PREPARATORY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEAR ENDED JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10357-001	Failure to issue purchase orders for payments to vendors	No	Situation still exists in some cases and was repeated as management letter comment due to improvement in the issuance of purchase orders.
2001-10357-002	Failure to obtain detailed invoices from vendor.	Yes	



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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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 7, 2003**