



**Auditor of State
Betty Montgomery**

RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governance:

We have audited the accompanying balance sheet of the Rhea Academy Community School, Montgomery County, (the School), as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit and the Statement of Cash Flows for the year then ended, as listed in the table of contents. 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

We were not able to obtain documentation to support \$31,164 in operating expenses, nor were we able to satisfy ourselves as to those activities by other auditing procedures. Those financial activities represent 5 percent of the operating expenses and 11 percent of the accumulated deficit.

In our opinion, except for the effects of the matters discussed in the third paragraph, if any, as might have been determined to be necessary had the documentation been available, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2003, 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.

As shown in the accompanying financial statements for the year ended June 30, 2003, the School has incurred a working capital deficiency of \$305,927, and accumulated a deficit retained earnings of \$288,330. Management's plans regarding this deficit are included in Note #14.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2005 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2005 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 15, 2005

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

Assets	
Current Assets:	
Cash	\$26,391
Non-Current	
Fixed Assets (net, where applicable, of accumulated depreciation)	<u>23,548</u>
Total Assets	<u>49,939</u>
Liabilities and Accumulated Deficit	
Current Liabilities	
Accounts Payable	13,142
Intergovernmental Payable	17,756
Accrued Wages and Benefits Payable	17,467
Foundation Repayment	279,071
Current Portion of Loan Payable	<u>4,882</u>
Total Current Liabilities	332,318
Non-Current Liabilities	
Loan Payable	<u>5,951</u>
Total Liabilities	<u>338,269</u>
Accumulated Deficit	<u>(288,330)</u>
Total Liabilities and Accumulated Deficit	<u><u>\$49,939</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues	
Foundation Payments	<u>\$429,857</u>
Operating Expenses	
Salaries	129,015
Fringe Benefits	19,827
Purchased Services	272,640
Materials and Supplies	151,175
Depreciation	9,169
Other Expenses	<u>98,555</u>
Total Operating Expenses	<u>680,381</u>
Operating (Loss)	<u>(250,524)</u>
Non-Operating Revenues	
State Grants	5,000
Other Non Operating Revenue	<u>397</u>
Total Non-Operating Revenues	<u>5,397</u>
Net (Loss)	(245,127)
Accumulated Deficit at Beginning of Year	<u>(43,203)</u>
Accumulated Deficit at End of Year	<u><u>(\$288,330)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$852,378
Cash Payments for Employee Salaries	(115,422)
Cash Payments for Employee Benefits	(84,453)
Cash Payments for Purchased Services	(279,030)
Cash Payments for Materials and Supplies	(114,903)
Cash Payments for Other Operating Expenses	<u>(234,166)</u>

Net Cash Used For Operating Activities 24,404

Cash Flows from Capital and Related Financing Activities:

Principal Payments - Loan	<u>(3,410)</u>
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Cash Flows from Noncapital Financing Activities:

State Grants	5,000
Other Non Operating Revenue	<u>397</u>

Net Cash Provided By Noncapital Financing Activities 5,397

Net Decrease in Cash and Cash Equivalents 26,391

Cash and Cash Equivalents at Beginning of Year 0

Cash and Cash Equivalents at End of Year 26,391

**Reconciliation of Operating Income to Net Cash Used For
Operating Activities:**

Operating Loss (250,524)

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

Depreciation 9,169

Change in Assets and Liabilities:

Increase in Accounts Payable	13,142
(Decrease in Over Draft Payable)	(9,123)
Increase in Intergovernmental Payable	255,011
Decrease in Other Current Liabilities	(8,738)
Increase in Accrued Wages & Benefits Payable	<u>15,467</u>

Total Adjustments 265,759

Net Cash Used For Operating Activities \$24,404

The accompanying notes to the financial statements are an integral part of this statement.

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**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL

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

The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school. The School was approved for operation under a contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing on June 26, 1999. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. As of July 1, 2005 the School's sponsoring organization is the Buckeye Community Hope Foundation.

The School operates under the direction of a five-member Board of Governance. The Board is responsible for carrying out the provisions of the contract 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 one non-certified and eight certified full-time teaching personnel who provide services to 100 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
JUNE 30, 2003
(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 requires monthly spending plans for subsequent fiscal years to be prepared and submitted annually. In addition, the contract between the School and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis.

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

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
Vehicles	5 years

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

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

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

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

The School also participates in various federal and state programs through the Ohio Department of Education.

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, 2003, are reported as accrued liabilities in the accompanying financial statements.

J. Exchange and Non Exchange Transactions

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

3. DEPOSITS

At June 30, 2003, the carrying amount of the School's deposits was \$26,391 and the bank balance was \$44,854.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

4. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003, follows:

Equipment & Furniture	\$33,336
Vehicle	22,036
Leasehold Improvements	<u>211,402</u>
Total Fixed Assets	266,774
Less: Accumulated Depreciation	<u>(243,226)</u>
Net Fixed Assets	<u>\$23,548</u>

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 2003, 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

State Teachers Retirement System of Ohio (STRS Ohio)

The School participates in the School Teachers Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may obtain a copy by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers a n annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows member to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions

7. 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, the State Teacher Retirement Board (the Board) has discretionary authority over how much, if any, of the health care cost 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 Ohio Revised Code 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's 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 the fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose social security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, the amount of \$278 social security deductions was deducted from employees' wages.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

8. 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 is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

9. LEASES

The School leases real estate from H. Marvin Freeman under a three-year operating lease which began on October 1, 1999 for \$2,800 per month. The lease was extended through December 31, 2006 for the same monthly fee.

Rent expense for the real estate was \$28,550 for the year ended June 30, 2003.

10. LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2003:

During the fiscal year 2001, the School (under the name of Monica Rhea) entered into an installment loan for \$17,103, with interest computed at 23.95%, payable in monthly installments of \$492 including principle and interest, maturing August 2006. The loan was from Moorman Pontiac-Isuzu, inc. and the original principal amount was \$17,103. The utility van is used as the collateral for the loan.

Total Loan Payable at June 30, 2003	\$ 10,833
Less – Current Portion of Loan Payable	<u>(4,882)</u>
Net Non-Current Loan Payable	<u>\$ 5,951</u>

Future maturities of long-term debt are as follows:

Years Ending	Amount
<u>June 30,</u>	
2004	\$ 4,882
2005	4,997
2006	<u>954</u>
Total	<u>\$10,833</u>

11. PURCHASED SERVICES

A summary of the School's purchased services for the fiscal year ended June 30, 2003:

Professional and Technical Services	\$ 99,506
Instruction Services	133,963
Audit Services	10,823
Insurance	13,313
Staff Services	15,022
Other	<u>13</u>
	<u>\$272,640</u>

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

12. STATE GRANTS

During fiscal year June 30, 2003 the School received Management Information System grants for \$5,000.

13. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2003.

B. State Funding

During the fiscal years ended June 30, 2003, the School billed the State of Ohio in excess of amounts due to them based on an estimated number of pupils the School expected during the years. The School has been, and is to complete repaying the state of Ohio during the next fiscal year. The amount of repayment outstanding at June 30, 2003 was \$279,071 and is reported as an intergovernmental payable. The School is to repay the State of Ohio with monthly deductions from fiscal year 2004 foundation payments.

C. Litigation

The suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on Rhea Academy Community School is not presently determinable.

D. State Contract

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

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)**

14. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT

The management of Rhea Academy is aware of the accumulated deficit of \$288,330. Of this amount, approximately \$279,071, was the result of the School billing the Ohio Department of Education in excess of the amount due based on an estimated number of pupils the school expected during fiscal year 2003. The School agreed to withhold from each monthly Foundation allocation, \$12,673 beginning during fiscal year 2004. During fiscal year 2004, the school paid approximately \$149,649 and the balance of approximately \$129,422 was paid during fiscal year 2005. As of June 30, 2005, the total amount was repaid.

Management will resolve the balance of approximately \$9,259 accumulated deficit by the following:

- Increasing student enrollment by advertising through various media outlets (i.e. radio, and print);
- Reviewing operation costs to determine appropriate cost reductions; and
- Increase fundraising activities

15. NONCOMPLIANCE

The School failed to comply with various requirements regarding public purpose of expenses, issuing contracts to employees, not obtaining Board authorization for contracts, attendance of meetings, establishment of bond and surety for the fiscal officer, licensing and continuing education of the fiscal officer, submission of an annual report, preparation and submission of a GAAP annual report, design and implementation of an internal control process, preparation of spending plans and monthly review of a budget, providing leave to employees, and a Governing Board member serving as the Treasurer.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Governance:

We have audited the financial statements of the Rhea Academy Community School (the School), as of and for the year ended June 30, 2003, and have issued our report thereon dated July 15, 2005, wherein we noted that the we were not able to obtain documentation supporting \$31,164 in operating expenses and the School has deficit retained earnings. Except for the matter referred to in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-013 through 2003-015.

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, of the reportable conditions described above, we consider items 2003-013 and 2003-014 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-012.

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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 15, 2005

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

SCHEDULE OF FINDINGS

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

FINDING NUMBER 2003-001

Finding for Recovery – School Monies Illegally Expended

The court case, *State ex rel. McClure v. Hagerman, 155 Ohio St. 320(1951)*, provides that expenditures made by a governmental unit should serve a public purpose. The School made various expenditures without proper supporting documentation or not serving a proper public purpose, as follows:

1. Based on payroll records available for inspection, we identified five payroll disbursements where the Board authorized rate of pay did not agree to the actual rate paid. These variances resulted in \$3,100 in over-payments, including Nellie Moreland in the amount of \$500, Jacqueline Wilson in the amount of \$700, and Rhonda Rhea-Byrd in the amount of \$1,900.
2. Based on payroll records available for inspection, there were 24 variances between what was reported on time cards and what was actually paid. These variances resulted in a net overpayment of \$3,120. The most significant overpayment was to Jacqueline Wilson for \$1,200. Other overpayments included Martha Coleman for \$750, Martha Grinner for \$450, Robert Gullette for \$400, Virginia Townsend for \$600, Tamara Gaddis for \$54, and an underpayment to Linda Smith of \$334.
3. Based on payroll records available for inspection, instances were noted where an adjustment was made that lacked documentation to support the adjustment or evidence of Board authorization. These disbursements totaled \$4,836 paid to Linda Smith.
4. The School had \$18,936 in expenditures that either lacked supporting documentation, or the documentation that was provided was inadequate; i.e., we couldn't determine that expenditures served a public purpose. Some of the more significant items are detailed as follows:
 - a. A total of \$7,188 in disbursements did not have an invoice or any other supporting documentation including; \$1,000 paid to Office Depot, \$190 paid to Moonlight Security, \$115 to Les Yarbrough, and \$925 paid to Oxford Education. Additionally, based on the School's ledger, \$4,958 was expended on premiums for insurance coverage without supporting documentation or evidence of Board approval.
 - b. The School also had unsupported debit card expenditures totaling \$11,748. Of these disbursements \$9,152 were related to travel. The School did not provide documentation that these expenses were for school business and a proper public purpose, instead of personal benefit. Some of the more significant travel related expenditures include; a trip to California during July of 2002 for \$3,591 and a trip to Great Britain during March of 2003 for \$765.

In addition to these travel related expenditures, the debit card was also used for other miscellaneous expenditures totaling \$2,596. Documentation supporting that these expenses were for school business purposes was not provided.
5. The School's administration stated that there were no employees subject to School Employees Retirement System (SERS). However, test of payroll noted that the School deducted \$1,172 from employees' wages for School Employees Retirement System (SERS) purposes as follows: Linda Smith, \$838, Tamara Gaddis, \$245, and Erin Wright, \$89. This amount was not remitted to SERS.

**FINDING NUMBER 2003-001
 (Continued)**

- A.** In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public monies being illegally expended is hereby issued against Monica Rhea and her bonding company, the American Contractors Indemnity Company, and Jackie Slater, Katherine George, Betty Greene, and Stella Haddix as Members of the Board of Governance of Rhea Academy Community School, in the amount of \$11,056, and the following employees jointly and severally, as follows (se items #1, #2 and #3):

Nellie Moreland	\$500
Jacqueline Wilson	1,900
Rhonda Rhea-Byrd	1,900
Marylin Coleman	750
Martha Grinner	450
Robert Gullette	400
Virginia Townsend	600
Linda Smith	4,502*
Tamara Gaddiss	<u>54</u>
Total	<u>\$11,056</u>

* This amount is the net of the facts identified in items #2 and #3 previously discussed (\$4,835 - \$334 = \$4,502).

- B.** In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for public monies being illegally expended is hereby issued against Monica Rhea and her bonding company, the American Contractors Indemnity Company, and Jackie Slater, Katherine George, Betty Greene, and Stella Haddix as Members of the Board of Governance of Rhea Academy Community School, jointly and severally, in the amount of \$18,936 in favor of Rhea Academy Community School (See item # 4).
- C.** In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a Finding for Recovery for monies improperly withheld from employees is hereby issued against the Rhea Academy Community School in the amount of \$1,172 in favor of Linda Smith for \$838, Tamara Gaddis for \$245 and Erin Wright for \$89 (See item #5).

The Board of Governance should establish and implement policies and procedures to require that all expenditures of the School be paid by checks used in sequential order, be supported by invoices, and reviewed and approved by the Board. Invoices should be signed and dated by the Members of the Board of Governance as an indication of approval. Additionally, the Governing Board should establish and implement policies and procedures to require that all payroll expenditures of the School be documented properly and accurately including the use of time sheets, Board approved contracts, Board approved rates of pay, and a complete payroll register. Payroll should be recorded and calculated at gross. Finally, the Governing Board should establish, adopt, and implement policies and procedures to require all payroll deductions, along with any appropriate employer matching contributions due to other agencies be paid promptly. These procedures would improve internal controls and provide that public monies are expended appropriately and well documented.

FINDING NUMBER 2003-002

The **School's Contract with the Ohio Department of Education, Exhibit III, page 9**, states, in part that "all staff members will be given one year contracts". The minutes of Board meetings did not indicate the approval of any employee contracts and no documentation of contracts was provided by the School. Employee contracts should be prepared, reviewed, and if correct, formally adopted by the Board and include pay rates, employee duties, and all other required information to cover the yearly employment of all staff members. This would provide a basic understanding between the employee and the School and reduce the possibility of inaccurate pay and other related errors.

FINDING NUMBER 2003-003

Ohio Rev. Code Section 3313.33 (B) states that "no contract shall be binding upon any board unless it is made or authorized at a regular or special meeting of such Board". One Board member signed four resolutions to change employee pay rates, including one after the new pay rate was effective. These resolutions were not addressed or approved as part a Board meeting, however the employees were inappropriately paid the increased rate. The School should develop and implement procedures to require that all changes to contracts are reviewed and, if acceptable, approved formally by the Board at a public meeting to prevent the unauthorized expenditure of funds or other obligation of the School.

FINDING NUMBER 2003-004

Ohio Rev. Code Section 121.22 requires that a member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present.

There was no documentation made as to who among the board members were present or in attendance at the monthly meetings. Proper disclosure or documentation regarding the official actions through roll call of the members was not contained in the minutes. All adopted motions were approved by stating "board approved" only. Minutes from the previous meetings were not approved and signed by the president and attested to by another member of the board as required. Additionally, the School did not provide a list of current Board members and related information as requested during the audit process.

The School should record the individual board members' names in the minutes for approving motions. This will determine if quorum was present, and also, who voted nays and yeas. The School should also notify the public and media of its scheduled meetings to comply with Rev. Code Section 121.22 and related statutes. Additionally, the board should develop procedures for documentation of: voting actions taken by the board members; attendance at meetings; approval of financial reports; and approval and attestation of the previous meetings.

FINDING NUMBER 2003-005

Ohio Rev. Code Section 3314.011 and Ohio Admin. Code 117-6-07 provide that the Auditor of State may require that the fiscal officer of any community school, before entering upon duties as the fiscal officer of the school, execute a bond in an amount and with the surety to be approved by the governing authority of the school, payable to the state, conditioned for the faithful performance of all the official duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the school, and a copy thereof, certified by the governing authority, shall be filed with the county auditor. In addition, Ohio Admin. Code Section 117-6-07 requires the fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer. The bond amount and surety is to be established by a resolution of the governing authority.

**FINDING NUMBER 2003-005
(Continued)**

The governing board failed to establish by a resolution the bond amount and surety. To comply with the abovementioned Sections of Code, the School should annually review and obtain the fiscal officer's bond, pass a resolution indicating such, file with the County Auditor, and retain a copy of the bond at the school.

FINDING NUMBER 2003-006

Ohio Rev. Code Section 3314.011 states that prior to assuming the duties of fiscal officer, the fiscal officer must be licensed under Ohio Rev. Code Section 3301.074 or must complete not less than sixteen hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the community school.

Any fiscal officer who is not licensed under Ohio Rev. Code Section 3301.074 must complete an additional twenty-four hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the school within one year after assuming the duties of fiscal officer. Any hours in excess of sixteen hours completed by the fiscal officer prior to assuming their duties will count toward the additional twenty-four hours of continuing education required under this Section.

In each subsequent year, any fiscal officer not licensed under Ohio Rev. Code Section 3301.074 must complete eight hours of continuing education classes, courses or workshops in school accounting as approved by the sponsor of the school.

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

The fiscal officer must attend continuing education in school accounting approved by the sponsor of the community school. The School should develop and implement procedures to routinely monitor compliance with this requirement and provide for the required continuing education.

FINDING NUMBER 2003-007

Ohio Rev. Code Section 3314.03(A)(11)(g) and the School's Charter with the Ohio Department of Education, Article III (D), require the School's governing authority to submit an annual report of its activities and progress in meeting the goals and standards of Ohio Rev. Code § 3314.03, divisions (A)(3) and (4) (academic goals method to determine progress and performance standards to evaluate a school's success) and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight by the 30th of October each year. The School failed to prepare and distribute such report. To comply with the abovementioned Section of the School's Charter, the School should prepare, and distribute to the required parties, an annual report of activities by September 30th each year.

FINDING NUMBER 2003-008

Ohio Admin. Code Section 117-2-03(B) states all community schools are required to prepare an annual financial report in accordance with generally accepted accounting principles (GAAP). The annual financial report is required to be filed with the Auditor of State within 150 days after the close of the fiscal year. The School failed to file an annual financial report within the time line prescribe by the above Section. Additionally, the client's report was not available for audit purposes which resulted in the issuance of an unauditible letter and a subpoena for the School's records, and delayed the audit process.

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

FINDING NUMBER 2003-009

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

- Appropriate authorization and approval of transactions.
- Adequately design records to facilitate classification and summarization of transactions.
- Security of assets and records.
- Segregation of incompatible duties.
- Periodic reconciliations of account balances.
- Periodic verification of assets.

The School had weak controls over cash reconciliations, maintenance of records, input to ledgers, and support for cash disbursements. To comply with the abovementioned Code Section and Auditor of State Bulletin and to provide accurate and timely financial information for decision making purposes, the School should design and implement the required control procedures including detailed timely reviews of these cycles. These reviews should be documented and reported to the Board as part its regular meetings.

FINDING NUMBER 2003-010

The contract between the **Ohio Department of Education and Rhea Academy, Exhibit 2 (page 1)**, states “monthly spending plans for the subsequent fiscal years will be prepared and submitted annually”. Monthly spending plans were not prepared or submitted. The spending plans should be routinely prepared based upon the most reliable information available, reviewed by the Board and submitted in a timely manner. Preparation of these plans will provide a guide for the financial operations of the School and allow routine comparison to actual activity for monitoring purposes.

Additionally, the contract between the **Ohio Department of Education and Rhea Academy, Exhibit 2** states “the budget will be reviewed monthly.” The Board failed to document any review or approval of the budget reviews / amendments. The School should implement procedures to provide that the budget is reviewed monthly including the comparison of monthly budget verses actual reports, and amend such budget if deemed necessary. This review should be documented by the Board including any questions/suggestions as a result of the review.

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

FINDING NUMBER 2003-011

Exhibit 3 of the School’s contract with the Ohio Department of Education, (page 14) required the Academy to provide sick leave and two personal days per year for eligible staff members. Evidence was not provided that either sick leave or personal days were being provided or utilized. Furthermore, we were unable to substantiate who was eligible for leave because the Academy did not provide personnel records for review. The School should implement procedures to provide that employees are given the required leave benefits, and that records are maintained of the accrual and usage of these benefits.

FINDING NUMBER 2003-012

Ohio Ethics Commission Opinion

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

Monica Rhea held positions as both a member of the Governing Board and as the Fiscal Officer for the School. The Governing Board should review this situation, consult with the Ohio Ethics Commission and/or legal counsel and make changes as necessary to resolve this conflict. Additionally, the Auditor of State will refer this issue to the Ohio Ethics Commission for determination of the propriety of holding both positions simultaneously.

FINDING NUMBER 2003-013

The bank reconciliations prepared by the School contained various errors including not agreeing to the ledger and inaccurate footing of outstanding checks. The July 31, 2002 bank statement reflected eight returned check/overdraft charges resulting in \$206 of bank charges to the School's account, however only \$182 was posted to the ledger. Various other transactions were incorrectly or not posted to the ledger as follows:

- a. Check number 1085 was posted twice in the ledger;
- b. Check number 1151 was issued twice, one for \$4,179.05 (not in ledger) and the other for \$528;
- c. Check #1298 was posted to the ledger during May, 2003, but cleared the bank during April, 2003;
- d. There was a deposit of \$25,000 per the Citizens National Bank statement on March 17, 2003 which was posted as a "funds transfer" on the ledger with a corresponding "funds transfer" from the Liberty Savings Bank account per the ledgers; however the transfer did not post to the Liberty account. We did note a withdrawal of \$25,015 from the Liberty Savings Bank on March 31, 2003.
- e. Checks #1276 through #1299, and #4128 which cleared the bank in April were not posted to the ledger.
- f. Insurance premiums were deducted automatically from the bank account however the same deductions were not recorded in the ledger from April to June 2003.

To strengthen controls over cash, the School should perform the following:

1. The Board of Governance should establish, adopt, and implement policies and procedures that would include the following:
 - a. Preparation of monthly bank to book reconciliation that include accurate reconciling items as well as agreeing with the School's general ledger;
 - b. All bank's debits to be recorded/posted to the general ledger; and,
 - c. Review of the reconciliation by someone independent of the financial record keeping process, including sign-off by the reviewer regarding the accuracy of the reconciliation,
2. Proper budgeting/monitoring practices should be employed so all bills can be paid in a timely manner, without incurring overdraft/NSF charges. Routine overdraft/NSF charges are not consistent with prudent use of funding and reduce available resources for beneficial School operations.

FINDING NUMBER 2003-014

Audit Committee

The School should establish an audit committee. The National Commission on Fraudulent Financial Reporting (known as the Treadway Commission), has stated that audit committees can serve as “informed, vigilant, and effective overseers of the financial reporting process and internal controls.” An audit committee should perform the following functions:

- Review the annual unaudited financial report submitted to the Auditor of State;
- Periodically review the process used to prepare interim financial information submitted to the Board.
- Review audit results;
- Assure that audit recommendations are appropriately addressed;
- Serve as liaison between management and independent auditors.

Generally accepted auditing standards require that auditors communicate the following information to an audit committee:

- The auditors’ professional responsibility under generally accepted auditing standards;
- Selections of accounting policies;
- Sensitive accounting estimates;
- Significant audit adjustments;
- Disagreements with management;
- Difficulties encountered in performing the audit.

The audit committee can include members of the Governing Board. However, it may also include representation that is independent from elected officials or management. The committee could include professionals knowledgeable in the Board’s operations and in accounting, such as attorneys or bankers. The audit committee should meet regularly (perhaps quarterly) to monitor the Board’s financial reporting and control activities, and should meet with its independent auditors before and after each audit.

FINDING NUMBER 2003-015

Capital Assets

The School used a utility van that was purchased during 2001 via an installment loan in the name of Monica Rhea. The School made the payments on this debt obligation, but the asset was not in its name thereby potentially voiding the School’s claim to this asset. Additionally, the interest rate on the loan was 23.95%. The School’s building improvements had been fully depreciated although the building is still being used.

The School should implement procedures to provide that all assets for which it pays are legal property of the School and avoid the use of personal loans to acquire assets. Additionally, the School should look for a means of securing a more advantageous interest rate on this debt as a means of more effectively using funds. Finally, the School should re-evaluate the life of the building improvements and increase it accordingly to avoid understating its capital assets.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	ORC Sec. 117.28 - Findings for recovery were issued for expenditures without proper supporting documentation	Resolved	Resolved
2002-002	ORC Sec. 3314.08(J) – The School entered into an improper loan agreement.	Yes	Finding no longer valid per Ohio Rev. Code Section 3314.08(D).
2002-003	Exhibit 2 of the contract between the School and the Ohio Department of Education - Failed to submit an annual spending plan and monitor budget	No	Not corrected. Repeated as finding # 2003-010
2002-004	OAC Sec. 117-2-03(B) – Failed to file annual report with the Auditor of State.	No	Not corrected. Repeated as finding # 2003-008
2002-005	ORC SEC. 3307.26 & 3307.28 – Failure to submit employees' share of STRS	Yes	Fully corrected.
2002-006	AOS Bulletin 2000-005 - Failed to implement effective internal control procedures.	No	Not corrected. Repeated as finding # 2003-009
2002-007	Improperly withheld SERS deductions.	No	Not corrected. Repeated as finding # 2003-001.
2002-008	Failure to maintain proper documentation of public funds' expenditures.	No	Not corrected. Repeated as finding # 2003-001.
2002-009	Over-the-counter check written by Ms. Rhea to herself for \$4,000.	Yes	Fully corrected.
2002-010	Bank reconciliations not performed on regular basis.	No	Not corrected. Repeated as finding # 2003-012.



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Betty Montgomery**

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**RHEA ACADMEY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 8, 2005**