



**Auditor of State
Betty Montgomery**

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Richard Allen Academy III Community School
Montgomery County
368 S. Patterson Blvd.
Dayton, Ohio 45402

To the Members of the Board:

We have audited the accompanying basic financial statements of Richard Allen Academy III Community School, Montgomery County, (the School), as of and for the year ended June 30, 2004, 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.

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 respective financial position of Richard Allen Academy III Community School, Montgomery County, as of June 30, 2004, and the changes in its financial position 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 February 8, 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.

Management's Discussion and Analysis is not a part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

February 8, 2005

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Management's Discussion and Analysis

For the Year Ended June 30, 2004

(Unaudited)

The discussion and analysis of Richard Allen Academy III Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets increased \$123,780 in fiscal year 2004. The 2003-2004 school year was the first year the school provided instructional services to students and therefore, fiscal year 2004 was the first year the School received revenues from the state foundation program as well as from various state and federal educational grants.
- The school invested \$226,446 in capital assets to provide an adequate environment to hold classes as well as provide support services to the students.
- The change in net assets reported for fiscal year 2004 was \$123,780 which indicates the School operated within resources available to fund its operations.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Management's Discussion and Analysis

For the Year Ended June 30, 2004

(Unaudited)

Table 1 provides a summary of the School's net assets for fiscal year 2004 compared with fiscal year 2003.

Table 1
Net Assets

	<u>2004</u>	<u>2003</u>
Assets:		
Current and other assets	\$ 140,464	\$ 9,491
Capital assets, net	<u>214,407</u>	<u>-</u>
Total Assets	<u>354,871</u>	<u>9,491</u>
Liabilities:		
Current liabilities	100,571	-
Non-current liabilities	<u>121,029</u>	<u>-</u>
Total Liabilities	221,600	-
Net Assets:		
Invested in capital assets	172,437	-
Restricted	185,644	8,700
Unrestricted	<u>(224,810)</u>	<u>791</u>
Total Net Assets	<u>\$ 133,271</u>	<u>\$ 9,491</u>

Total net assets of the School increased by \$123,780 from those reported at June 30, 2003. This increase was due to the School receiving state and federal funding as the 2003-2004 school year was the first the School provided instructional services to students. Current assets include an intergovernmental receivable of \$119,212, including \$86,279 from the State of Ohio for funding of the Disadvantaged Pupil Impact Aid (DPIA) program which was owed to the School at June 30, 2004 but was not received until after year end, \$30,000 in federal charter school grant, and \$2,933 in an ODE funding adjustment based on enrollment. The School invested \$226,446 in capital assets (leasehold improvements and equipment) to provide an adequate environment in which to hold classes as well as providing the necessary equipment for instruction and the necessary support services for the students. Current liabilities include trade payables outstanding at year end as amounts for payroll and related benefits which employees earned prior to year end but will be paid in subsequent months. Non-current liabilities include notes payable issued to finance the initial start-up of the School and capital lease obligations entered into to acquire office equipment.

The \$172,437 of net assets invested in capital assets, net of related debt represents the \$214,407 carrying amount of the School's capital assets less related outstanding capital leases and notes payable used to acquire capital assets. The deficit reported in unrestricted net assets resulted from the School's acquisition of capital assets, which are reported in net assets invested in capital assets, as well as financing the start-up costs associated with beginning educational services during the year. In subsequent years, it is anticipated reported unrestricted net assets will increase over time as the School continues operations.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Management's Discussion and Analysis

For the Year Ended June 30, 2004

(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as revenue and expense comparisons to fiscal year 2003.

Table 2
Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Foundation payments	\$ 443,727	\$ -
Disadvantage pupil impact aid	86,279	-
Other miscellaneous revenues	3,546	-
Non Operating Revenues:		
State and federal grants	271,251	50,000
Interest earnings	<u>21</u>	<u>791</u>
Total Revenues	<u>804,824</u>	<u>50,791</u>
Operating Expenses:		
Fringe benefits	39,617	-
Contractual employees	339,611	-
Management company fees	-	20,300
Building rental	99,867	16,000
Other purchased services	97,061	-
Materials and supplies	88,520	4,500
Depreciation	12,039	-
Other expenses	2,750	500
Non Operating Expenses		
Interest and fiscal charges	<u>1,579</u>	<u>-</u>
Total Expenses	<u>681,044</u>	<u>41,300</u>
Change in net assets	123,780	9,491
Net assets, beginning of year	<u>9,491</u>	<u>-</u>
Net assets, end of year	<u>\$ 133,271</u>	<u>\$ 9,491</u>

As previously mention, the 2003-2004 school year was the first in which the School was fully operational and providing instructional services. Therefore, the revenues and expenses reported for fiscal year 2004 are naturally significantly higher than those reported in the prior year.

State foundation and DPIA revenues are calculated by the State of Ohio based on the student enrollment at the School. State and federal grants are provided to support specific educational programs. It is anticipated these revenue sources will increase as long as student enrollment increases in subsequent years. Expenses include reimbursement of payroll and related costs to the Institute of Charter School Management Resources, Inc. (ICSMR) for the employees providing services at the School. Other significant expenses include lease payments for the building used by the School as well as purchased

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Management's Discussion and Analysis

For the Year Ended June 30, 2004

(Unaudited)

services and supplies used to support student instruction during the year. Expenses for textbooks and instructional equipment are significantly higher in the first few years a school operates and these expenses are expected to decrease over the next few years as the School obtains the necessary textbooks and equipment to support their educational programs.

Capital Assets

At June 30, 2004 the capital assets of the School totaled \$226,446, which was offset by \$12,039 in accumulated depreciation resulting in net capital assets of \$214,407. All capital assets of the School were obtained during fiscal year 2004. Major acquisitions included the following:

<u>Leasehold Improvements:</u>	
Building renovations	\$ 148,612
Electrical upgrades/fire alarm	32,435
Network system	4,217
Building Marquee	4,226
Total leasehold improvements	<u>189,490</u>
<u>Equipment:</u>	
Office copier	22,500
Telephone system	7,046
Computer equipment	1,625
Foodservice equipment	5,785
Total equipment	<u>39,956</u>
Total capital asset acquisitions	\$ <u>226,446</u>

See Note 7 of the notes to the basic financial statements for additional information on the School's capital assets.

Debt

At June 30, 2004, the debt obligations of the School consisted of promissory notes payable totaling \$102,100 used to provide operating and capital funding for the school in its start-up phase, and \$25,470 of capital lease obligations used to acquire office equipment. See Notes 6 and 8 to the basic financial statements for additional details.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Richard Allen Academy III Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Richard Allen Academy III Community School, 368 South Patterson Blvd, Dayton, OH 45402.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Statement of Net Assets

As of June 30, 2004

Assets

Current assets:

Cash \$ 21,252

Receivables:

Intergovernmental 119,212

Total current assets 140,464

Noncurrent assets:

Fixed assets (net of accumulated depreciation) 214,407

Total assets 354,871

Liabilities

Current liabilities:

Accounts payable 56,428

Accrued contract labor 32,351

Intergovernmental payable 5,251

Capital leases payable 6,541

Total current liabilities 100,571

Noncurrent liabilities:

Capital leases payable 18,929

Note payable 102,100

Total noncurrent liabilities 121,029

Total liabilities 221,600

Net Assets

Invested in capital assets, net of related debt 172,437

Restricted for educational grants 185,644

Unrestricted (224,810)

Total net assets \$ 133,271

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2004

<u>Operating revenues:</u>	
Foundation payments	\$ 443,727
Disadvantaged pupil impact aid	86,279
Miscellaneous revenue	<u>3,546</u>
Total operating revenues	<u>533,552</u>
<u>Operating expenses:</u>	
Fringe benefits	39,617
Contractual employees	339,611
Building rental	99,867
Other purchased services	97,061
Materials and supplies	88,520
Depreciation	12,039
Other	<u>2,750</u>
Total operating expenses	<u>679,465</u>
Operating loss	<u>(145,913)</u>
<u>Nonoperating revenues/(expenses):</u>	
State and federal grant revenue	271,251
Interest earnings	21
Interest and fiscal charges	<u>(1,579)</u>
Net nonoperating revenues	<u>269,693</u>
Change in net assets	123,780
Net assets, beginning of year	<u>9,491</u>
Net assets, end of year	\$ <u><u>133,271</u></u>

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Statement of Cash Flows

For the Year Ended June 30, 2004

INCREASE (DECREASE) IN CASH

CASH FLOWS FROM OPERATING ACTIVITIES

Cash from State of Ohio	\$ 440,794
Cash payments to suppliers for goods and services	(234,097)
Cash payments for contractual employees and benefits	(339,299)
Other operating revenue	<u>3,546</u>
Net cash used by operating activities	<u>(129,056)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal and state grant revenues	241,251
Proceeds from note payable	<u>85,600</u>
Net cash provided by noncapital financing activities	<u>326,851</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Capital acquisitions	(196,900)
Proceeds from note payable	16,500
Principal paid on capital lease	(4,076)
Interest paid on capital lease	<u>(1,579)</u>
Net cash used by capital and related financing activities	<u>(186,055)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest earnings	<u>21</u>
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NET INCREASE IN CASH	11,761
CASH, BEGINNING OF YEAR	<u>9,491</u>
CASH, END OF YEAR	<u>\$ 21,252</u>

RECONCILIATION OF OPERATING LOSS TO NET

CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (145,913)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	12,039
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(89,212)
Increase in accounts payable	56,428
Increase in contract labor payable	32,351
Increase in intergovernmental payable	<u>5,251</u>
Total Adjustments	<u>16,857</u>
Net cash used by operating activities	<u>\$ (129,056)</u>

Non-Cash Item:

Capital assets acquired under capital lease	<u>\$ 25,470</u>
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See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

1. Description of the School and Reporting Entity:

Richard Allen Academy III Community School (the School) is a state nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service. The School, which is part of the State's education program, is independent of any school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

The School contracts with the Institute of Charter School Management and Resources, Inc. (ICSMR) for a variety of services including management consulting, Ohio Department of Education consulting, Education Management Information System (EMIS) monitoring and consulting, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications. All employees of the School are ICSMR employee's and are subsequently contracted to the School. The School is responsible for reimbursing ICSMR for the payroll and benefits of the employees assigned to the School. (See note 12 for additional detail on the contractual relationship between ICSMR and the School).

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, 2001 through June 30, 2006 after which, the School must apply for an additional contract with the Sponsor. The School operates under a self-appointing eight-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, nine full-time and one part-time certified teaching personnel and one full-time and two part-time non-certified support personnel who provide services to an enrollment of 95 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 School has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of presentation

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

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

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 statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets 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 does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

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.

F. Capital assets and depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$500 for computers and \$1,000 for all other items. 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 is computed using the straight-line method over estimated useful lives of five to seven years for equipment and five to thirty-nine years for leasehold improvements. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

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

The School also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$50,000 for the planning phase of the School and an additional \$225,000 during the year ended June 30, 2004. Revenue from this program was used during fiscal year 2004 for activities of the startup phase of the School.

Amounts awarded under state and federal grant or entitlement programs for the 2004 school year totaled \$801,257.

H. Operating and non-operating revenues and expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include foundation payments and disadvantaged pupil impact aid received from the State of Ohio. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various state and federal grants and interest expense comprise the non-operating revenues and expenses of the School.

I. Accrued liabilities payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2004, including:

Accrued Contract Labor – salary reimbursements made to ICSMR made after year-end were for services employees rendered in fiscal year 2004. Teaching personnel are paid in 24 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2004 for all salary payments made to teaching personnel during the month of July 2004.

Intergovernmental payable – payment for the employer's share of the retirement contribution (\$4,529), workers' compensation (\$253) and Medicaid (\$469) associated with services rendered during fiscal year 2004, but were not paid until the subsequent fiscal year.

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.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Change in Accounting Principles:

For fiscal year 2004, the School has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB 34 creates new basic financial statements for reporting on the School financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user's ability to interpret the information within the statements

4. 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, 2004, the carrying amount of the School's deposits was \$21,252 and the bank balance was \$27,273, the entire balance of which was covered by federal depository insurance.

5. Intergovernmental Receivables:

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs. The intergovernmental receivable reported at June 30, 2004, \$119,212 represents funding owed the School as of June 30, 2004 under the State of Ohio's Disadvantaged Pupil Impact Aid program, but was not received until after year end (\$86,279), funding from Federal Charter School Grant program (\$30,000), and an adjustment in the School's fiscal year 2004 funding amount by ODE (\$2,933).

6. Capital Leases Payable:

During fiscal year 2004, the School entered into two leases; one for a copier and the other for a telephone system. The terms of the agreements provide options to purchase the equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one, which transfers benefits and risks of ownership to the lessee. Capital assets acquired through the leases have been capitalized in an amount equal to the present value of the future minimum lease payments of \$29,546. At the time of acquisition, a corresponding liability was recorded. Principal payments in fiscal year 2004 associated with these leases totaled \$4,076.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2004.

	Fiscal Year		Lease Payment
	2005	\$	8,750
	2006		8,076
	2007		6,115
	2008		5,134
	2009		1,284
Total Minimum Lease Payments			29,359
Less: Amount Representing Interest			(3,889)
Present Value of Minimum Lease Payments		\$	25,470

7. Capital Assets:

A summary of the School's capital assets at June 30, 2004, follows:

	Beginning Balance		Additions		Deletions		Ending Balance
Capital assets being depreciated:							
Leasehold improvements	\$ -		\$ 189,490		\$ -		\$ 189,490
Equipment	-		36,956		-		36,956
Total	-		226,446		-		226,446
Less: accumulated depreciation on:							
Leasehold improvements	-		(6,765)		-		(6,765)
Equipment	-		(5,274)		-		(5,274)
Total	-		(12,039)		-		(12,039)
Capital assets, net	\$ -		\$ 214,407		\$ -		\$ 214,407

8. Notes Payable:

The following is a summary of the note activity for the School at June 30, 2004:

	Balance 7/1/03		Increase		Decrease		Balance 6/30/04
Demand Promissory Note - ICSMR	\$ -		\$ 90,600		\$ -		\$ 90,600
Demand Promissory Note – West Park Academy	-		11,500		-		11,500
Total	\$ -		\$ 102,100		\$ -		\$ 102,100

The demand promissory note with the Institute of Charter School Management and Resources, Inc. (ICSMR) was issued to provide the School with funding to address cash flow issues arising during initial start-up phase of the School. The note stipulates that no interest will accrue if it is paid in full by June 30, 2009. A portion of the note, or the entire note, may be called at any time, upon written notice to the School, however not prior to June 30, 2006.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

The demand promissory note with West Park Academy, Inc. was issued to provide the School with funding for capital acquisitions as well as funding to address cash flow issues arising during the initial start-up phase of the School. The note stipulates that no interest will accrue if it is paid in full by June 30, 2009. A portion of the note, or the entire note, may be called at any time, upon written notice to the School, however not prior to June 30, 2005.

It is not anticipated that either of these notes will be repaid during fiscal year 2005.

9. 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 2004, the School contracted with the 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. Director and officer liability coverage is set at \$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

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims did not exceed commercial coverage in the previous fiscal year (the first fiscal year of existence for the School).

Employee insurance benefits – As part of the management agreement with the Institute of Charter School Management and Resources, Inc. (see note 12), insurance benefits for School employees are paid by the Institute through the monthly management fee established in the agreement.

10. Defined Benefit Pension Plans:

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate, the current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; at June 30, 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2004 was \$2,531; 100 percent has been contributed for the year.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 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 an 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 members 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. 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, 2004, plan members were required to contribute the statutory maximum of 10.0 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.

The School's required contributions for pension obligations for the fiscal year ended June 30, 2004 was \$31,812; 100 percent has been contributed for the year.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

11. Postemployment Benefits

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B 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. All 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, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio 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, 2004, 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 \$3.1 billion on June 30, 2004. For the School, this amount equaled \$2,403 during the 2004 fiscal year.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 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, 2004, the allocation rate is 4.91 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 2004, the minimum pay has been established at \$24,500. For the School, the amount to fund health care benefits, including the surcharge, was \$1,054 for fiscal year 2004.

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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

12. Agreements with Institute of Charter School Management and Resources, Inc.:

The School is a party to a management agreement with the Institute of Charter School Management and Resources, Inc. (ICSMR), which is an education consulting and management company.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

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. Beginning in August 2003, ICSMR became responsible for hiring qualified teachers and all other employees which are subsequently contracted to operate the School. The School reimburses ICSMR every two weeks for the gross payroll expense of the contract employees working at the School, for fiscal year 2004 employee payroll reimbursement totaled \$339,611.

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, district wide purchase of textbooks and supplies. During fiscal year 2004, ICSMR did not collect management fees from the School to provide assistance to the School during its start-up phase.

13. Restricted Net Assets:

At June 30, 2004 the School reported restricted net assets totaling \$185,644. The nature of the net asset restrictions are as follows:

State specific educational program grants	\$ 180
Federal specific educational program grants	<u>185,464</u>
Total	<u>\$ 185,644</u>

14. Contingencies:

A. Grants

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

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and 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 did result in state funding being adjusted. The School received notification that adjustments to their state funding for fiscal year 2005 will be made in the amount of \$2,933 as a result of such review.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

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. 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 the School is not presently determinable.

15. 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.

16. Operating Leases:

The School leases its facilities from the Butler Metropolitan Housing Company under a lease agreement which began on May 1, 2003 for fiscal year 2003, and is renewable annually on July 1 as long as the School remains chartered by the Ohio Department of Education to operate a chartered public school. If the School loses their Ohio Department of Education charter the lease terminates and the premises must be vacated within 30 days. Rent for fiscal year 2004 totaled \$99,867. The lease was renewed on July 1, 2004 for fiscal year 2005.

17. Related Parties:

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

During fiscal year 2004, ICSMR provided operating funds to the School through a \$90,600 demand promissory note. In addition, West Park Academy, a private pre-kindergarten school owned and operated by the Chief Executive Officer of ICSMR, provided operating and capital funds to the School through a \$11,500 demand promissory note. These promissory notes payable, totaling \$102,100 are shown on the School's statement of net assets at year end.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

Notes to the Basic Financial Statements

June 30, 2004

18. Other Purchased Services:

During the fiscal year ended June 30, 2004, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$	19,876
Property services		29,712
Meetings and travel		627
Communications		8,756
Utilities		37,690
Pupil transportation		400
	\$	<u>97,061</u>

19. Beginning Net Assets:

Prior to July 1, 2003, the School received various revenues, including state start-up funds of \$50,000 and made various expenditures totaling \$41,300 associated with starting operations. This activity resulted in the beginning net asset balance of \$9,491.



Auditor of State Betty Montgomery

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

Richard Allen Academy III Community School
Montgomery County
368 S. Patterson Blvd.
Dayton, Ohio 45402

To the Members of the Board:

We have audited the financial statements of Richard Allen Academy III Community School, Montgomery County, (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 8, 2005. 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2004-001.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2004-001 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated February 8, 2005.

This report is intended solely 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.



Betty Montgomery
Auditor of State

February 8, 2005

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
MONTOMGERY COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING 2004-001

Contract between Management Company and Richard Allen Academy III Community School

Richard Allen Academy III and the Institute of Charter School Management and Resources (ICSMR) have entered into a contract for ICSMR to provide educational services and support; however, that contract is not specific as to the billing rates and the allocation of certain costs. At a minimum, the contract should be expanded to include the establishment of a specific billable rate, a policy for handling of compensated absences, a policy for the management company's billing for management services and fees and the period covered.

- There is no approved billable rate in the contract. However, ICSMR has established a billable rate per classification (i.e. Treasurer, Superintendent, Chief Executive, Human Resources, etc.) It was noted that the rate was increased at July 1, 2004, without approval of the Board. The failure to establish a Board approved rate could allow the management company to change the rate for administrative services at will.
- There is no policy covering compensated absences or addressing the payout of compensated absences upon retirement. The School itself does not have employees, as they are contracted through ICSMR, however the payout of compensated absences of these employees is to be paid by the School. There is no policy to govern how the payout would be handled for an employee who has worked at several of the management company's schools over the years.
- There is no formal policy as to how ICSMR invoices the schools for management services and contract labor benefits. The school was billed in different ways throughout the audit period by ICSMR. ICSMR manages 4 schools and there were several months where ICSMR billed three of the schools at 30 percent and one at 10 percent. Other months, three schools were billed for the management services based upon student population at each school and the fourth school was charged nothing.
- ICSMR bills the school monthly for management fees, contract labor benefits, and a management fees. The invoices for these services do not stipulate whether the billing is being done in advance or as the services are performed.

The establishment of formal procedures for the billing process would allow the school to monitor the billings and determine that they are correct and complete and consistent with the agreed upon terms of the contract. The School should review their current contract with the management company and expand it to be specific as to the billings from the management company for goods and services performed.



**Auditor of State
Betty Montgomery**

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**RICHARD ALLEN ACADEMY III 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
MARCH 22, 2005**