

**Richard Allen Academy III Community School  
Montgomery County, Ohio**

Basic Financial Statements

June 30, 2007

(with Independent Auditors' Report)





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Richard Allen Academy III Community School  
368 South Patterson Blvd  
Dayton, Ohio 45402

We have reviewed the *Independent Auditors' Report* of the Richard Allen Academy III Community School, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Richard Allen Academy III Community School is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

March 17, 2009

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## INDEPENDENT AUDITORS' REPORT

Richard Allen Academy III Community School  
368 South Patterson Blvd.  
Dayton, Ohio 45402

We have audited the accompanying financial statements of the Richard Allen Academy III Community School (the School) as of and for the year ended June 30, 2007, 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 financial position of the Richard Allen Academy III Community School as of June 30, 2007, and the changes in financial position and 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 10, 2009, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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.



Springfield, Ohio  
February 10, 2009

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## **RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

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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, 2007. 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 2007 are as follows:

- Total net assets decreased \$54,782 in fiscal year 2007 which increased the accumulated deficit to \$79,677 at June 30, 2007.
- Total assets decreased \$32,740 which represents a 12.6 percent decrease from the prior year due primarily to the decrease in capital assets as well as cash on hand. Total liabilities increased \$22,042 the majority of which is reported as accounts payable.
- The \$201,290 operating loss reported for fiscal year 2007 was \$267,506 less than the operating loss reported for fiscal year 2006.

### **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, 2007

(Unaudited)

Table 1 provides a summary of the School's net assets for fiscal year 2007 compared with fiscal year 2006.

Table 1  
Net Assets

	<u>2007</u>	<u>2006</u>	<u>Change</u>
<b>Assets:</b>			
Current assets	\$ 15,898	\$ 20,211	\$ (4,313)
Capital assets, Net	<u>211,317</u>	<u>239,744</u>	<u>(28,427)</u>
Total Assets	<u>227,215</u>	<u>259,955</u>	<u>(32,740)</u>
<b>Liabilities:</b>			
Current liabilities	210,483	188,441	22,042
Non-current liabilities	<u>96,409</u>	<u>96,409</u>	<u>-</u>
Total Liabilities	<u>306,892</u>	<u>284,850</u>	<u>22,042</u>
<b>Net Assets:</b>			
Invested in capital assets	199,817	227,049	(27,232)
Restricted	15,169	-	15,169
Unrestricted	<u>(294,663)</u>	<u>(251,944)</u>	<u>(42,719)</u>
Total Net Assets	<u>\$ (79,677)</u>	<u>\$ (24,895)</u>	<u>\$ (54,782)</u>

Total assets of the School decreased by \$32,740 or 12.6 percent. The receivable amounts reported at June 30, 2007 were \$5,825 more than the receivables amount reported one year prior, however 86.8 percent of the decrease in the asset category was associated with capital assets. The net book value of the School's capital assets for the current fiscal year was \$28,427 less than the amount reported for the previous year due to current year depreciation exceeding current year additions.

As noted in Table 1 above, total net assets of the School decreased by \$54,782 during fiscal year 2007 resulting in an ending net deficit of \$79,677 at June 30, 2007. In addition to the decrease in the assets noted above, the current liabilities of the School increased by \$22,042 as accounts payable reported at June 30, 2007 were \$23,487 higher than the amount reported one year prior. The accounts payable represented 77.6 percent of current liabilities. As the School continues to struggle financially, payments to vendors are stretched out further.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

## Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007, as well as revenue and expense comparisons to fiscal year 2006.

Table 2  
Change in Net Assets

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Operating Revenues:			
Foundation payments	\$ 1,082,548	\$ 988,701	\$ 93,847
Poverty based assistance	71,968	56,226	15,742
Miscellaneous revenue	818	350	468
Non-Operating Revenues:			
Local grants/contributions	-	-	-
State and federal grants	146,409	345,371	(198,962)
Interest earnings	130	241	(111)
Total Revenues	<u>1,301,873</u>	<u>1,390,889</u>	<u>(89,016)</u>
Operating Expenses:			
Contractual employees	679,131	801,762	(122,631)
Management company fees	242,266	171,082	71,184
Building rental	96,000	96,000	-
Other purchased services	200,825	173,736	27,089
Materials and supplies	105,139	226,549	(121,410)
Depreciation	29,927	31,316	(1,389)
Other expenses	3,336	13,628	(10,292)
Non-Operating Expenses:			
Interest and fiscal charges	31	407	(376)
Loss on disposal of asset	-	13,500	(13,500)
Total Expenses	<u>1,356,655</u>	<u>1,527,980</u>	<u>(171,325)</u>
Change in Net Assets	(54,782)	(137,091)	82,309
Net Assets, Beginning of Year	<u>(24,895)</u>	<u>112,196</u>	<u>(137,091)</u>
Net Assets, End of Year	<u>\$ (79,677)</u>	<u>\$ (24,895)</u>	<u>\$ (54,782)</u>

The \$109,589 increase in revenue received from the State of Ohio for fiscal year 2007 resulted from increased student enrollment for the year as well as an increase in the per pupil funding amount used in calculating foundation revenue by the State. Federal and state grant revenue decreased significantly by \$198,962 due to the School receiving a federal charter school grant from the Ohio Department of Education during 2006 that it did not receive in the current year. The amount received under this grant during fiscal year 2006 was \$200,000. Total revenues for the School decreased \$89,016 over those reported for the prior fiscal year which was a 6.4 percent decrease.

## **RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

Management's Discussion and Analysis

For the Year Ended June 30, 2007

(Unaudited)

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Total expenses reported for fiscal year were \$1,356,655, which is \$171,325 or 11.2 percent less than those reported in the prior year. In years prior to fiscal year 2006, the management company absorbed a significant portion of the employee's health care costs as well as waived the majority of the management fee called for in the School's contract with ICSMR. However, as the revenues of the School increased during fiscal year 2006 those additional costs were assessed to the School and purchases were made which were delayed as the School was struggling through its start-up period. The \$121,410 reduction in supplies and materials illustrates this point in that since the items were purchased in the prior year, similar expenses were not necessary in fiscal year 2007. Management has been diligent in monitoring operating expenses. Staff was reassigned during fiscal year 2007 which reduced personnel expense by 15.3 percent.

### **Capital Assets**

At June 30, 2007 capital assets of the School consisted of \$295,890 of leasehold improvements, equipment, and vehicles which was offset by \$84,573 in accumulated depreciation resulting in net capital assets of \$211,317. During the year the School added \$1,500 in vehicles. Current year depreciation expense was \$29,927.

Please see note 5 to the basic financial statements for more detailed information on the School's capital assets.

### **Debt**

At June 30, 2007 the debt obligations of the School consisted of promissory notes payable totaling \$96,409 used to provide operating and capital funding for the school in its start-up phase.

During fiscal year 2007, the School made principal payments of \$1,195 to satisfy a capital lease obligation.

Additional details and information on the School's debt obligations can be found in notes 10 and 11 to the basic financial statements.

### **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 Community School, 368 South Patterson Blvd, Dayton, OH 45402.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL  
STATEMENT OF NET ASSETS**

**JUNE 30, 2007**

**Assets:**

Current assets:

Intergovernmental receivable	\$ 15,898
Total current assets	<u>15,898</u>

Noncurrent assets:

Capital assets	295,890
Accumulated depreciation	<u>(84,573)</u>
Total noncurrent assets	<u>211,317</u>

**Total Assets** 227,215

**Liabilities:**

Current liabilities

Accounts payable	163,397
Accrued contract labor	34,086
Intergovernmental payable	5,847
Compensated absences payable	902
Overdraft bank payable	<u>6,251</u>
Total current liabilities	<u>210,483</u>

Long term portion of notes payable 96,409

**Total Liabilities** 306,892

**Net Assets:**

Invested in capital assets, net of related debt	199,817
Restricted for grants	15,169
Unrestricted (Deficit)	<u>(294,663)</u>

**Total net assets** \$ (79,677)

See accompanying notes to the basic financial statements

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**  
**Statement of Revenues, Expenses and Changes in Net Assets**

**Year Ended June 30, 2007**

<b>Operating Revenues:</b>	
State foundation	\$ 1,082,548
Poverty Based Assistance	71,968
Other operating revenues	<u>818</u>
<b>Total operating revenues</b>	<u>1,155,334</u>
<b>Operating Expenses:</b>	
Contractual employees	679,131
Purchased Services:	
Management company fee	242,266
Building rentals	96,000
Other	200,825
Materials and supplies	105,139
Depreciation	29,927
Other expenses	<u>3,336</u>
<b>Total operating expenses</b>	<u>1,356,624</u>
Operating Loss	(201,290)
<b>Nonoperating revenues (expense):</b>	
Federal and state grants	146,409
Interest income	130
Interest and fiscal charges	<u>(31)</u>
<b>Total nonoperating revenues (expenses)</b>	<u>146,508</u>
Change in net assets	(54,782)
Net assets, beginning of year (Deficit)	<u>(24,895)</u>
Net assets, end of year (Deficit)	<u><u>\$ (79,677)</u></u>

See accompanying notes to the basic financial statements

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**  
**Statement of Cash Flows**

**Year Ended June 30, 2007**

**Cash flows from operating activities:**

Cash received from State of Ohio - Foundation	\$ 1,085,390
Cash received from State of Ohio - Parity Aid	71,968
Cash received from other operating revenues	818
Cash payments for contracted personal services	(704,445)
Cash payments for contract services	(532,698)
Cash payments for supplies and materials	(63,815)
Cash payments for other expenses	(5,489)
Net cash used by operating activities	<u>(148,271)</u>

**Cash flows from noncapital financing activities:**

Cash received from implied bank loan	6,251
Cash received from state and federal grants	134,478
Net cash provided by noncapital financing activities	<u>140,729</u>

**Cash flows from capital and related financing activities:**

Principal paid on capital lease	(1,195)
Acquisition of capital assets	(1,500)
Interest paid on capital lease	(31)
Net cash used by capital and related financing activities	<u>(2,726)</u>

**Cash flows from investing activities:**

Investment income	<u>130</u>
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Net change in cash and cash equivalents	(10,138)
Cash and Cash Equivalents at beginning of year	<u>10,138</u>
Cash and Cash Equivalents at end of year	<u><u>-</u></u>

**Reconciliation of operating loss to net cash used by operating activities:**

Operating loss	(201,290)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	29,927
Change in assets and liabilities:	
Accounts receivable	3,264
Intergovernmental receivable	2,842
Accounts payable	23,487
Accrued contract labor payable	(4,289)
Compensated absences	(2,065)
Intergovernmental payable	(147)

Net cash used by operating activities	<u><u>\$ (148,271)</u></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, 2007

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### 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 Management and Resources, Inc. (IMR) 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. In addition all employees of the School are IMR employee's and are subsequently contracted to the School. The School is responsible for reimbursing IMR for the payroll and benefits of the employees assigned to the School. (See note 9 for additional detail on the contractual relationship between IMR and the School).

The School was originally approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing July 1, 1999. In June 2005, the School entered into a one-year Sponsor Contract with St. Aloysius Orphanage through June 2006 however, on April 1, 2006 the Board, with the approval of St. Aloysius, assigned the Sponsor Contract to KIDS Count of Dayton, Inc. and extended the terms of the Contract through June 30, 2009.

The School operates under a self-appointing ten-member Board of Trustees (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School's enrollment for 2007 was 180 pupils; a 6.50 percent increase over the prior year.

### 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.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2007

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A. Basis of presentation

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

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 is defined as net assets. Net assets are segregated into three categories: 1) net assets invested in capital assets, 2) restricted net assets and 3) unrestricted 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 into separate funds.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

## RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

### Notes to the Basic Financial Statements

June 30, 2007

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#### 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. 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 is computed using the straight-line method over estimated useful lives of five years for leasehold improvements and vehicles, and five to seven years for equipment. Improvements to capital assets are depreciated over the remaining useful lives of the related fixed assets.

#### G. Intergovernmental revenues

The School currently participates in the State Foundation Program and the State Parity Aid Program, which is poverty aid funding. 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.

#### 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, 2007, including:

Accrued Contract Labor – salary reimbursements to ICSMR made after year-end which were for services employees rendered in fiscal year 2007. 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, 2007 for all salary payments made to teaching personnel during the month of July 2007.

Intergovernmental payable – amounts owed to other governmental entities, including payment for the employer's share of the retirement contribution and other related payroll taxes, associated with services rendered during fiscal year 2007, but were not paid until the subsequent fiscal year.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2007

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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 as a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation and reduced by the outstanding debt used to finance capital projects. 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. Deposits and Investments:

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the School's deposits was (\$6,251) and the bank balance was \$2,693. The entire bank balance was covered by federal depository insurance and therefore not considered to be subject to custodial credit risk.

4. Receivables:

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. The intergovernmental receivables at June 30, 2007 consisted of amounts due related to the National School Lunch Program (\$9,392), the Title I Grant (\$6,328), and State Foundation settlement (\$178).

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2007

5. Capital Assets:

A summary of the School's capital assets at June 30, 2007, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Leasehold improvements	\$ 223,037	\$ -	\$ -	\$ 223,037
Equipment	71,353	-	-	71,353
Vehicles	-	1,500	-	1,500
Total	<u>294,390</u>	<u>1,500</u>	<u>-</u>	<u>295,890</u>
Less: accumulated depreciation on:				
Leasehold improvements	(36,085)	(15,356)	-	(51,441)
Equipment	(18,561)	(14,271)	-	(32,832)
Vehicles	-	(300)	-	(300)
Total	<u>(54,646)</u>	<u>(29,927)</u>	<u>-</u>	<u>(84,573)</u>
Net capital assets	<u>\$ 239,744</u>	<u>\$ (28,427)</u>	<u>\$ -</u>	<u>\$ 211,317</u>

6. Risk Management:

Property and liability – The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School contracted with the Indiana Insurance Company for business personal property, director and officer liability and general liability insurance. Business personal property coverage carries a \$1,000 deductible and has a \$2,100,000 blanket business income limit. Director and officer liability coverage is set at \$1,000,000, total loss. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Indiana Insurance Company also provides umbrella liability coverage of \$4,000,000 per occurrence, as well as, in the aggregate. Business auto coverage is provided by through Indiana Insurance Company carrying a \$1,000 deductible and \$1,000,000 limit.

There has been no significant reduction in coverage in relation to the prior fiscal year. Settled claims have not exceeded commercial coverage in any of the last three fiscal years.

Employee insurance benefits – As part of the management agreement with the IMR (see note 9), insurance benefits are paid by the Institute and reimbursed monthly by the School.

## RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

### Notes to the Basic Financial Statements

June 30, 2007

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#### 7. 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, 2007, 10.68 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, 2007, 2006, and 2005 were \$1,474, \$2,267, and \$2,035 respectively; 100 percent has been contributed for each of the fiscal years.

##### 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.

## RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

### Notes to the Basic Financial Statements

June 30, 2007

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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, 2007, 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 percent for members and 14 percent 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, 2007, 2006, and 2005 were \$67,788, \$80,791, and \$48,489, respectively; 100 percent has been contributed for all fiscal years.

#### 8. Post-Employment Benefits

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

STRS retirees who participate in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employee contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007 the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund; for the School this amounted to \$5,214 for fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2007 the balance in the Fund was \$4.1 billion. For the fiscal year ended June 30, 2007 net health care costs paid by STRS were \$265.6 million and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

## RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

### Notes to the Basic Financial Statements

June 30, 2007

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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, 2007, the allocation rate is 3.32 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 2007, the minimum pay has been established at \$35,800. 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. For the School, the amount to fund health care benefits, including the surcharge, was \$1,474 for fiscal year 2007.

Net health care cost for the year ending June 30, 2006 (the latest available information) was \$158.8 million. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2006 the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs. On the basis of accrual projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 of estimated annual net claims costs. The number of participants eligible to receive benefits at June 30, 2006 was 59,492.

#### 9. Management Company Agreements:

For the period July 1, 2006 through August 31, 2006, the School was a party to a management agreement with the Institute of Charter School Management and Resources, Inc. (ICSMR), which is an educational consulting and management company. Effective September 1, 2006, the School ended the agreement with ICSMR and entered into an agreement with the Institute of Management and Resources, Inc. (IMR), a non-profit corporation, to provide management services. The agreement with IMR includes a termination date of June 30, 2015. The terms and duties contained within each of the respective agreements are virtually identical.

The Management Agreement provides that IMR 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. IMR is responsible for hiring qualified teachers and all other employees which are subsequently contracted to operate the School. The School reimburses IMR every pay-period for the gross payroll expense of the contract employees working at the School and monthly for the related cost of the benefits offered to these employees. For fiscal year 2007, the expense related to contractual employees totaled \$679,131; \$544,251 for payroll and \$134,880 for benefits, respectively.

IMR receives a monthly management fee of 10% of the total operating revenues of the School from all sources excluding extraordinary items. IMR 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 IMR 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 2007, the School reported expenses totaling \$126,850 for professional, accounting and legal, management and other services to its management companies.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2007

The table below shows the management company expenses for fiscal year 2007.

Management Company Expense:	
Direct Expenses:	
Contract employees - salaries	\$ 544,251
Contract employees - benefits	134,880
Management company fee	115,416
Indirect Expenses:	
Administration expense allocation	<u>126,850</u>
Total Expenses	<u>\$ 921,397</u>

The administration expenses incurred by IMR are allocated to the four different Richard Allen Schools under its control. These expenses are allocated to the individual school based on the student enrollment at each school to the total enrollment of all the schools.

10. Notes Payable:

The following is a summary of the note activity for the School at June 30, 2007:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Demand Promissory Note - ICSMR	\$ 84,909	\$ -	\$ -	\$ 84,909
Line of Credit - ICSMR	-	500	500	-
Demand Promissory Note - West Park Academy	<u>11,500</u>	<u>-</u>	<u>-</u>	<u>11,500</u>
Total	<u>\$ 96,409</u>	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 96,409</u>

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.

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.

During fiscal year 2007 the School paid \$0 on the note payable to ICSMR. No repayment schedule has been established nor is any additional payment on either of the notes anticipated during fiscal year 2008 due to the current financial condition of the School. During the year, the School received \$500 in August for cash flow and repaid the loan by the end of the month.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2007

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11. Capital Lease Payable:

The School entered into a lease agreement in a prior year to provide financing for the purchase of a telephone system. The terms of this agreement 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 \$7,046. At the time of acquisition, a corresponding liability was recorded. Principal payments in fiscal year 2007 associated with this leases totaled \$1,195 paid off the balance that was due during 2007.

12. Restricted Net Assets:

At June 30, 2007 the School reported restricted net assets totaling \$15,169. The nature of the net asset restrictions are as follows:

State educational program grants	\$ 1,805
Federal educational program grants	<u>13,364</u>
Total	<u>\$ 15,169</u>

13. 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 review of fiscal year 2007 determined that ODE owed the School additional foundation revenue of \$178.

C. Litigation

A lawsuit entitled **Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #3:04CV197** was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal Constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still pending, and the effect of this suit, if any, on the School cannot presently be determined.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2007

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In addition, subsequent to year end, a vendor initiated a lawsuit in Common Plea Court seeking payment for goods and services the vendor contends were provided to the School and payment was never made. The total of the vendor's invoices which are in dispute is \$30,584 for all four of the related Richard Allen Schools. A Settlement with the vendor has been negotiated and a repayment schedule has been established. The portion of the unpaid invoices related to the School has been included in the accompanying financial statements as part of accounts payable. In the event the School fails to perform under the settlement, the vendor may seek judgment for the amount of the claims that remain unsatisfied, plus applicable interest.

14. Other Purchased Services:

During the fiscal year ended June 30, 2007 other purchased services expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 58,929
Property services	50,161
Travel and meetings	150
Communications	20,650
Utilities	36,129
Contracted trades or labor	33,262
Pupil transportation services	1,544
Total other purchased services	<u>\$ 200,825</u>

15. 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. Rental payments for fiscal year totaled \$96,000. The terms of the lease are not expected to change significantly for fiscal year 2008.

16. Management's Plan Regarding Accumulated Deficit:

As shown in the accompanying financial statements, the School had an accumulated deficit of \$79,677 as of June 30, 2007, which includes \$163,397 in accounts payable.

To address the financial condition of the School, the Board of Director's approved a reduction in the number of school personnel as well as in all other categories of the School's operating budget for fiscal year 2008. In addition, subsequent to the end of fiscal year 2007, the IMR has informed the School that a portion, if not all, of the unpaid management fees would be forgiven. The liability reported at June 30, 2007 for unpaid management company fees was \$61,183, which was included in accounts payable on the statement of net assets.

Management is confident the steps noted above, as well as additional efforts directed towards increasing student enrollment, which would provide additional State funding, will enable the School to return to financial stability.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL**

Notes to the Basic Financial Statements

June 30, 2007

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17. Related Parties:

The Board, Chief Executive Officer, and Chief Fiscal Officer of Richard Allen Academy III Community School serve in the same capacity for Richard Allen Academy I, Richard Allen Academy II, and Richard Allen Preparatory Community Schools, all of which are managed by the Institute of Management and Resources, Inc. (IMR). IMR receives 10 percent of the School's state funding as a management company fee. See Note 9.

The Institute of Charter School Management Resources, Inc.(ICSMR), a corporation wholly owned by the Chief Operating Officer of the School, provides and bills for consulting services to IMR, the management company for the School. The cost of the services provided to IMR by ICSMR are allocated to the School, as well as the other Richard Allen schools.

At June 30, 2007 the School owes the Institute of Charter School Management and Resources, Inc. \$84,909 on a demand promissory note issued in prior years to provide funding during the initial start-up phase of the School.

At June 30, 2007 the School owes West Park Academy, a private school owned and operated by ICSMR and managed by IMR, \$11,500 on a demand promissory note issued in prior years to provide funding during the initial start-up phase of the School.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Richard Allen Academy III Community School  
368 South Patterson Blvd.  
Dayton, Ohio 45402

We have audited the financial statements of the Richard Allen Academy III Community School (the School), as of and for the year ended June 30, 2007, and have issued our report thereon dated February 10, 2009. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompany schedule of findings and responses as items 2007-003 through 2007-007.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies identified above, we consider items 2007-005, 2007-006 and 2007-007 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 performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2007-001 and 2007-002.

We noted certain additional matters that we reported to management of the School in a separate letter dated February 10, 2009.

The School's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the School's response and, accordingly, we express no opinion on it.

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

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
February 10, 2009

**Finding Number 2007-001**

Ohio Rev. Code Section 117.38 requires community schools and other governmental entities to file GAAP basis financial statements with the Auditor of State's Office within 150 days of the end of the fiscal year. The School filed its fiscal year 2007 report with the State Auditor's Office on February 6, 2008 which was not within the timeframe required by State law.

The School should implement procedures to ensure the reporting deadlines contained in the Ohio Revised Code are met for future reporting periods. The State of Ohio is able to declare the School "unauditable" if a complete report is not filed within the prescribed timeframe. One provision of being declared "unauditable" is that the State could cease payment of State Foundation funding to the School. For fiscal year, State Foundation funding represented approximately 85 percent of the total revenues reported by the School.

*Managements Response to Comments: Management is working to change the financial structure in-house so that the financial requirement of meeting the GAAP filings can be met in the future.*

**Finding Number 2007-002**

Effective September 1, 2006, the School became a party to a management contract with the Institute of Management and Resources (IMR) to provide educational services and management support. This new management contract replaced the agreement in place with the Institute of Charter School Management and Resources (ICSMR) which was in effect from July 1, 2006 through August 31, 2006.

Section 2.6(b) of the management contract states "within 120 days after the close of the fiscal year, a balance sheet and related statement of revenue and expenses showing the results of the School's operations during the fiscal year, both audited by an independent certified public accounting firm chosen by the School, with the approval of the Institute, which approval shall not be unreasonably withheld".

As noted above, the financial statements of the School were not compiled until February 2008 which did not permit an audit to be completed within the 120 days after the close of the fiscal year as required by the management contract provision.

The School should monitor the performance of IMR to ensure all provisions of the management letter are adhered to.

*Managements Response to Comments: Section 2.6(b) of the management contract is being amended to be in accordance with ORC Section 117.38.*

**Finding Number 2007-003**

Section 3 of the management contract entered into with the Institute of Management and Resources (IMR), effective September 1, 2006 states that the School shall pay to IMR a management fee of ten percent of the total operating revenues of the School from all sources excluding extraordinary items received or obtained by the School. This fee is to be paid no later than the tenth day of the next month, and final adjustment to reflect actual revenue earned during the month shall be made by each party within 30 days of the end of the month.

**Finding Number 2007-003 (continued)**

As written, the wording in the current management agreement is vague, at best, at what constitutes the base revenues for which the ten percent management fee is calculated. While the agreement calls for the exclusion of "extraordinary items" received or obtained by the School from the base revenue, the agreement provides no clarification of what should be interpreted as "extraordinary items". Lack of clarity leaves the decision-making to the financial officer who is employed by IMR. In addition, the agreement does not address subsequent repayment of revenues received in prior years, such as adjustments to State Foundation revenues by the Ohio Department of Education, and the effect these adjustments have on determining current management fees.

To ensure the management fee is consistently calculated using the appropriate base revenue amount, the School should consider amending the current management contract with IMR to provide additional clarification of what revenues should be included in the revenue base and how certain revenue adjustments should be handled when calculating the monthly management fee.

*Managements Response to Comments: The Board of Directors voted to amend the management contract so that the language is in accordance with the intent of the agreement and clarification of what revenues should be included in the base. The revisions will include the process for adjustments and calculations of the management fees.*

**Finding Number 2007-004**

During fiscal year 2007, stipend payments were made to various School and IMR(ICSMR) personnel were paid for various training related sessions and technical services. However, there was minimal documentation related to the nature of service to be provided or when and where the actual training sessions or service was provided. In addition, the payment for these stipends were processed through the accounts payable process instead of the normal payroll process as required for employees. Therefore, there were no payroll taxes withheld or remitted on wages earned by School personnel.

All stipend payments should be approved by the Board of Trustees in advance with a listing of the reasons the stipends are being granted. Supplemental contracts should be issued to all employees receiving these stipend payments with a written expectation of duties to be performed to receive payment. All stipend payments to employees should be processed through the payroll system and the appropriate payroll tax withheld.

*Managements Response to Comments: The Board of Directors has agreed that the Audit/Finance Committee shall receive the information regarding employee stipends and the reasons for such stipends and report such information to the Board of Directors for ratification.*

**Finding Number 2007-005**

For fiscal year 2007 the School reported a change in net assets of \$(54,782) which resulted in an accumulated deficit of \$79,677 at June 30, 2007. The continuing decline in the financial condition and increasing magnitude of the accumulated deficit indicates the School's finances are not properly monitored throughout the year. Financial monitoring controls should include regular review of budget to actual information, detailed revenue and expenditure reports, projection of amounts for the remainder of the year based on current activity, monthly bank reconciliation and month end cash position reports. As a result of the cash flow issues encountered by the School during the current and previous fiscal years, the outstanding obligations owed to various vendors at year-end increased dramatically. As a result the School continues to pay late fees for over-due amounts.

**Finding Number 2007-005 (continued)**

The School should develop and institute an effective monitoring process for how the School is managed financially, including necessary adjustment of budget amounts if necessary. In addition, Board of Trustee members should be provided monthly financial reports which would enable members to more effectively determine the financial condition of the School on an on-going basis rather than waiting for the quarterly meetings to occur. Once management is able to become current with all vendors, the appropriate fiscal procedures should be implemented and complied with to ensure obligations are not made without the necessary funds being available.

*Managements Response to Comments: Significant improvements in the net assets for FY08 have been made. Additional financial accountability has been given to principals.*

**Finding Number 2007-006**

The Schools utilizes a commercial accounting system for recording the day to day financial transactions. Included in the system are several accounts which attempt to capture information on the accrual basis of accounting, such as receivables and payables. Based on our review of the general ledger, it does not appear these accounts are being accurately updated on a timely basis throughout the year. In addition, the School converts the financial activity from the general ledger accounts to the cash basis of accounting for the preparation of the 4502 financial statement as well as to provide a starting point for the preparation of the GAAP financial statements.

The School should determine what basis of accounting it would benefit from in recording the day to day transactions. If it is determine to maintain the current accrual system then all accounts should be properly updated throughout the year as the transactions occur; when revenue is earned and expenses are incurred. If it is determined this is not practical, the School may benefit from moving to a cash basis general ledger where receipts are recorded when received and expenditures are recorded when disbursements are made. Whatever decision is made, it is the responsibility of the School to accurately update the general ledger accounts when the appropriate transactions are made.

*Managements Response to Comments: Management is working to change from an accrual system to a cash system.*

**Finding Number 2007-007**

During the audit of the fiscal year 2007 financial statements, audit adjustments were necessary to correct the amounts reported for accounts payable, accrued wages and benefits, and receivable. In addition, certain reclassifications of revenues were necessary to ensure revenue classifications were appropriate.

The School should continue to work with the outside accounting help it has acquired to ensure the amounts and information presented in the financial statements are accurate and complete. The annual audit of the financial statement should not be considered part of the School's internal controls over financial reporting.

*Managements Response to Comments: Management was made aware of and agreed with the adjustments noted during the audit. Those adjustments were posted to the financial statements. We will work on ensuring future financial statements are accurate prior to presenting for audit.*

**Finding 2006-001**

The School did not file the Form 990 tax return with the Internal Revenue Service for fiscal year 2006 within the timeframe established by section 501(a) of the Internal Revenue Code.

*Status: Corrected.*

**Finding 2006-002**

The School did not file its GAAP financial report with the Auditor of State's Office within the timeframe established by Ohio Rev. Code Section 117.38

*Status: Not corrected – repeated as finding 2007-001.*

**Finding 2006-003**

The management contract between the School and the Institute of Charter School Management and Resources, Inc. did not contain specific information related to administrative billing rates and allocation of certain costs.

*Status: Partially corrected – see finding 2007-003.*

**Finding 2006-004**

There was not sufficient documentation of the services provided or Board approval for the various stipend payments made to various School or ICSMR personnel during the year.

*Status: Not corrected – repeated in finding 2007-004. The School has taken steps subsequent to fiscal year 2007 to address this situation.*

**Finding 2006-005**

The accumulated deficit and decrease in net assets reported for fiscal year 2007 indicated the School's finances were not being properly monitored and adjusted during the year.

*Status: Not corrected – repeated in finding 2007-005. The School has taken steps subsequent to fiscal year 2007 to address this situation.*



Mary Taylor, CPA  
Auditor of State

**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 31, 2009**