



**Auditor of State
Betty Montgomery**

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governance:

We have audited the accompanying balance sheet of the Rhea Academy Community School, Montgomery County, (the School), as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Accumulated Deficit and the Statement of Cash Flows for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were not able to obtain documentation to support the Salaries and Fringe Benefits expense functions and the Other Current Liabilities line item, nor were we able to satisfy ourselves as to those activities by other auditing procedures. Those financial activities represent 25 percent of operating expenses and 13 percent of current liabilities, respectively.

In our opinion, except for the effects of the matters discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhea Academy Community School, Montgomery County, as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As shown in the financial statements, for the year ended June 30, 2002, the School has incurred a cash overdraft payable of \$9,123, a working capital deficiency of \$66,027, and accumulated a deficit retained earnings of \$43,203. Accordingly, there is substantial doubt about the School's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery
Auditor of State

December 12, 2003

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

Assets

Non-Current

Fixed Assets (net, where applicable, of accumulated depreciation)	\$32,718
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Total Assets	32,718
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Liabilities and Accumulated Deficit

Current Liabilities

Cash Overdraft Payable	9,123
Intergovernmental Payable	41,816
Accrued Wages and Benefits Payable	2,000
Current Portion of Loan Payable	4,350
Other Current Liabilities	8,738
Total Current Liabilities	66,027

Non-Current Liabilities

Loan Payable	9,894
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Total Liabilities	75,921
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Accumulated Deficit	(43,203)
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Total Liabilities and Accumulated Deficit	\$32,718
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The accompanying notes to the financial statements are an integral part of this statement.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN ACCUMULATED DEFICIT
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenues

Foundation Payments	\$512,768
Total Operating Revenue	<u>512,768</u>

Operating Expenses

Salaries	68,011
Fringe Benefits	56,659
Purchased Services	207,279
Materials and Supplies	19,012
Depreciation	76,111
Other Expenses	<u>65,089</u>
Total Operating Expenses	<u>492,161</u>

Operating Income

20,607

Non-Operating Revenues

Federal Grants	150,000
State Grants	3,000
Other Non Operating Revenue	<u>22,714</u>
Total Non-Operating Revenues	<u>175,714</u>

Net Income

196,321

Accumulated Deficit at Beginning of Year

(239,524)

Accumulated Deficit at End of Year

(\$43,203)

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

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$536,828
Cash Payments for Employee Salaries	(97,392)
Cash Payments for Employee Benefits	(72,407)
Cash Payments for Purchased Services	(198,541)
Cash Payments for Materials and Supplies	(17,442)
Cash Payments for Other Operating Expenses	<u>(283,827)</u>
Net Cash Used For Operating Activities	<u>(132,781)</u>

Cash Flows from Capital and Related Financing Activities:

Principal Payments - Loan	<u>(1,570)</u>
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Cash Flows from Noncapital Financing Activities:

Federal Grants	150,000
State Grants	3,000
Other Non Operating Revenue	<u>22,714</u>
Net Cash Provided By Noncapital Financing Activities	<u>175,714</u>

Net Decrease in Cash and Cash Equivalents 41,363

Cash and Cash Equivalents at Beginning of Year (50,486)

Cash and Cash Equivalents at End of Year (9,123)

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

Operating Income 20,607

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

Depreciation 76,111

Change in Assets and Liabilities:

(Decrease) in Accounts Payable	(77,624)
(Decrease) in Intergovernmental Payable	(131,232)
(Decrease) in Accrued Wages & Benefits Payable	(29,381)
Increase in Other Current Liabilities	<u>8,738</u>
Total Adjustments	<u>(229,499)</u>

Net Cash Used For Operating Activities (\$132,781)

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

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**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL

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

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

The School operates under the direction of a five-member Board of Governance. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student populations, curriculum, academic goals, performance standards, admissions standards, and qualifications of teachers. The Board of Trustees controls the School's one instructional/support facility staffed by 1 noncertified and 8 certified full-time teaching personnel who provide services to 100 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. Under this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires monthly spending plans for subsequent fiscal years to be prepared and submitted annually. In addition, the contract between the School and its Sponsor requires a budget to be adopted annually, and be reviewed on a monthly basis.

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

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash.

E. Estimates

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

F. Fixed Assets

Fixed assets are capitalized at cost. The costs of additions are capitalized and expenditures for repairs and maintenance are expensed when incurred. When property or equipment is sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in additions to or deductions from net assets.

Depreciation of fixed assets is provided utilizing the straight-line method over the estimated useful lives of the assets as follows:

Equipment and furniture	7 years
Leasehold Improvements	3 years
Vehicles	5 years

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

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

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

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

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

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

H. Compensated Absences

The School does not record a liability for compensated absences because its policy is not to pay out accumulated leave balances upon termination of employment.

I. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2002, are reported as accrued liabilities in the accompanying financial statements.

J. Exchange and Non Exchange Transactions

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

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

3. DEPOSITS

At June 30, 2002, the carrying amount of the School's deposits was (\$9,123) and the bank balance was \$26,994. The carrying amount of deposits is reflected on the financial statements as a Cash Overdraft liability.

4. FIXED ASSETS

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

Equipment & Furniture	\$ 33,336
Vehicle	22,036
Leasehold Improvements	<u>211,402</u>
	266,774
Less: Accumulated Depreciation	<u>(234,056)</u>
Net Fixed Assets	<u>\$ 32,718</u>

5. RISK MANAGEMENT

A. Property & Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the fiscal year 2002, the School contracted with Burlington Insurance Company for property and general liability insurance. There is a \$500 deductible for property and a \$1,000 deductible for theft. The policy has various limits with a general aggregate limit of \$2,000,000.

B. Workers' Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

6. DEFINED BENEFIT PENSION PLAN

State Teachers Retirement System

The School District 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.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

6. DEFINED BENEFIT PENSION PLAN (Continued)

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, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 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 District's required contributions for pension obligations for the fiscal years ended June 30, 2002, 2001, and 2000 were \$8,405, \$13,698, and \$9,685 respectively; 100 percent has been contributed for fiscal years 2002, 2001 and 2000. The School has paid all contributions required through June 30, 2002, however, as of December 12, 2003, the School owed STRS a required contribution for fiscal year 2003 of \$1,316.

7. POST-EMPLOYMENT BENEFITS

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

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

7. POST-EMPLOYMENT BENEFITS (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2002, the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

8. STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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

9. LEASES

The School leases real estate under a three-year operating lease, of \$2,800 per month, which, expired on September 30, 2002. Future lease payments of \$33,600 are payable for fiscal year 2003. On December 15, 2003 the lease was extended for the same terms and conditions of the original lease, until December 31, 2006.

Rent expense for the real estate was \$33,600 for the year ended June 30, 2002. Of this, \$25,200 was forgiven by the building owner.

10. LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2002:

During the fiscal year 2001, the School entered into an installment loan, for a utility van, at an interest rate of 23.95%, payable in monthly installments of \$492 including principle and interest, maturing August 2006. The utility van is used as the collateral for the loan.

Total Loan Payable at June 30, 2002	\$ 14,244
Less – Current Portion of Loan Payable	<u>(4,350)</u>
Net Non-Current Loan Payable	<u>\$ 9,894</u>

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

10. LONG-TERM DEBT (Continued)

Future maturities of long-term debt are as follows:

Years Ending <u>June 30.</u>	<u>Amount</u>
2003	\$ 4,350
2004	3,943
2005	4,997
2006	<u>954</u>
	<u>\$14,244</u>

11. PURCHASED SERVICES

A summary of the School's purchased services for the fiscal year ended June 30, 2002:

Professional and Technical Services	\$84,175
Utilities	25,718
Instruction Services	46,852
Property Services	5,895
Advertising	5,453
Health Services	6,063
Communications	5,044
Staff Services	8,960
Food Services	6,885
Other	<u>12,234</u>
	<u>\$207,279</u>

12. FEDERAL AND STATE GRANTS

During fiscal year June 30, 2002 the School received the following grants:

Management Information System	\$ 3,000
Charter School Programs and Improvements	<u>150,000</u>
Total Grants	<u>\$153,000</u>

13. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2002.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

13. CONTINGENCIES (Continued)

B. State Funding

During the fiscal years ended June 30, 2002, the School billed the state of Ohio in excess of amounts due to them based on an estimated number of pupils the School expected during the years. The School has been, and is to complete repaying the state of Ohio during the next fiscal year. The amount of repayment outstanding at June 30, 2002 was \$24,060 and is reported as an intergovernmental payable. The School is to repay the State of Ohio with monthly deductions from fiscal year 2003 foundation payments.

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 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 is set for oral argument on November 18, 2003. The effect of this suit, if any, on the School is not presently determinable.

On March 15, 2002 a judgment was granted in favor of Dayton Board of Education against the School for \$17,756, plus judgment interest and court costs. Rhea Academy, Inc. had contracted with Dayton Board of Education to provide food service. This liability is included as an intergovernmental payable on the financial statements.

D. State Contract

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

14. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT

The School accumulated a deficit of \$43,203 for the year ended June 30, 2002. The deficit is due in large part to State Foundation monies paid to the School based upon a projected student enrollment which was higher than the actual enrollment for both fiscal years 2000, 2001, and 2002. This resulted in the State disbursing overpayments for foundation distributions.

Management plans to eliminate the deficit by continuing the financial policies that it implemented during the prior fiscal years which have decreased the deficit. In addition, the School will continue repaying the abovementioned overpayments to the State.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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

15. ACCOUNTABILITY

The School is required to disclose all instances of violations of finance related legal provisions. During the audit period the School was found to be in violation of the following provisions:

Ohio Rev. Code Section 3314.08(J) states a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payment to be received by the school pursuant to division (D) of the section.

The School entered into a five year loan in August 2000 which matures in September 2005, for the purpose of purchasing a van, in violation of the abovementioned section of Ohio Revised Code.

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Auditor of State Betty Montgomery

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

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

To the Board of Governance:

We have audited the financial statements of Rhea Academy Community School (the School), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 12, 2003, wherein we noted the School has a negative working capital and a net accumulated deficit that raises substantial doubt about its ability to continue as a going concern. Also, we were not able to obtain documentation supporting the Salaries and Fringe Benefits expense functions and the Other Current Liabilities line item, nor were we able to satisfy ourselves as to those activities by other auditing procedures. Except for the matters referred to in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated December 12, 2003.

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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-007 through 2002-010.

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**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, of the reportable conditions described above, we consider items 2002-007 through 2002-010 to be material weaknesses. 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 December 12, 2003.

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



Betty Montgomery
Auditor of State

December 12, 2003

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Finding For Recovery – School Monies Unaccounted For

The School made various payments to Monica Rhea without proper supporting documentation. This resulted in payments totaling \$33,059 that were not accounted for in the Schools general ledger. This amount consisted of the following:

- Check number 1167 in the amount of \$1,600 was written to cash; the check was signed by Monica Rhea;
- \$2,559 was transferred from the Provident Account #0195-786 (School bank account) to Provident Account #5754-561 (a non-school bank account);
- \$2,850 was transferred from the Provident Account #0866-410 (School bank account) to Provident Account #4054-615 (a non-school bank account);
- An over-the-counter check issued on December 18, 2001 that was signed and endorsed by Monica Rhea in the amount of \$350. The general ledger stated that the purpose of the check was Christmas for staff, however, no invoice was on record supporting the amount expended;
- \$6,500 and \$18,000 in over-the-counter checks issued from Provident Bank and Liberty Bank, respectively, were signed and endorsed by Monica Rhea with no documentation given;
- \$200 in excess of repayment of a previous deposit made;
- \$1,000 withdrawal from Liberty Bank on December 24, 2001 with no documentation given.

In accordance with the foregoing facts, and according to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies being unaccounted for is hereby issued against Monica Rhea, Treasurer and Board Member of Rhea Academy Community School, and her bonding company, American Contractors Indemnity Company, jointly and severally, in the amount of \$33,059, and in favor of Rhea Academy Community School.

Additionally, the Board of Governance should establish and implement policies and procedures to require that all expenditures of the School be paid by warrants in sequential order and be documented by invoices and approved by the Governing Board. This would improve internal controls and ensure that public monies are expended appropriately.

FINDING NUMBER 2002-002

Ohio Rev. Code Section 3314.08(J) states a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payment to be received by the school pursuant to division (D) of the Section. The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money is borrowed. The proceeds of the notes shall be used only for the purposes for which the anticipated receipts may be lawfully expended by the school. The School entered into a five year loan during August 2000 which matures during September 2005, for the purpose of purchasing a van. The five year loan exceeds the fiscal year-end restrictions provided in the statute.

To comply with the abovementioned Section of Code, the Board should determine a method to effectively eliminate this van loan. In addition, it is recommended that the Board review amendments to Revised Code Chapter 3314, effective April 2003 (House Bill 364).

FINDING NUMBER 2002-003

Certain deficiencies were noted in the School's compliance of the contract terms with the Ohio Department of Education. To ensure completeness, accuracy, and consistency over the School's budgetary activities, the School should address the following conditions:

- The Board failed to approve monthly spending plans for the next fiscal year. The contract between the **Ohio Department of Education and Rhea Academy, Exhibit 2**, states monthly spending plans for the subsequent fiscal years will be prepared and submitted annually. To comply with the abovementioned Section of the School's contract with the Ohio Department of Education, the Board should approve monthly spending plans at the end of each fiscal year, for the subsequent fiscal year, and document such in their minutes.
- The Board failed to approve monthly budget reviews and amendments. The contract between the **Ohio Department of Education and Rhea Academy, Exhibit 2**, states the budget will be reviewed monthly. To comply with the abovementioned section of the Schools contract with the Ohio Department of Education, the fiscal officer should prepare, and the Board should approve, monthly budget verses actual reports, and amend such budget if deemed necessary.

Implementing these procedures will assist the School in more accurate and effective budgeting of School's monies. (Also see amendments to Revised Code Chapter 3314, effective April, 2003.)

FINDING NUMBER 2002-004

Ohio Admin. Code Section 117-2-03(B) states all community schools are required to prepare an annual financial report in accordance with generally accepted accounting principles (GAAP). The annual financial report is required to be filed with the Auditor of State within 150 days after the close of the fiscal year. The School failed to file an annual financial report within the time line prescribe by the above section of Ohio Revised Code. Subsequently, a subpoena was issued by the Auditor of State to obtain the financial records.

The Governing Board should establish and implement policies and procedures to ascertain that the annual financial report is filed on a timely manner as prescribed by the abovementioned section of Revised Code.

FINDING NUMBER 2002-005

Ohio Rev. Code Sections 3307.26 and 3307.28 requires that school districts withhold from employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined by the State Teachers Retirement System (STRS) and to subsequently remit to STRS the amounts withheld, along with an appropriate percentage of employer matching contributions. The School has paid all contributions required through June 30, 2002, however, as of December 12, 2003, the School owed STRS a required contribution for fiscal year 2003 of \$1,316.

To comply with the abovementioned Sections of Code and to reduce the risk of incurring late payment penalties and Interest charges, the School should remit to STRS the amounts withheld, along with an appropriate percentage of employer matching contributions, and adhere to the monthly payment schedule established for payment of STRS contributions.

FINDING NUMBER 2002-006

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

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

The School had little or no controls over cash reconciliations, recording transaction to accounting ledgers, and documenting cash disbursements. Additionally, the School's management closed and opened bank accounts without the proper authorization of the Governing Board.

The School should design and implement an internal control process that provides reasonable assurance of the integrity of its financial reporting.

FINDING NUMBER 2002-007

Payroll withholdings for State Employees Retirement System (SERS) were improperly withheld from four employee earnings. These employees were not were not members of SERS, nor required to be members, of SERS and should not have had any SERS withholdings from their wages. The amount withheld during fiscal year 2002 was \$602, and was not remitted to SERS or paid back to the employees. This resulted in an underpayment of earnings to the employees.

The Governing Board should establish and implement policies and procedures to ascertain that deductions from employees are appropriate and properly withheld. The Board should also repay the four employees the total amount of SERS withheld from their wages.

FINDING NUMBER 2002-008

Expenditures should be supported by proper documentation. During the period tested, 31 of 52, or 60% of disbursement items, did not have invoices or proper documentation presented prior to making payments. This failure prevented verification of whether expenditure amounts were spent to the benefit of the School or students.

Additionally, the School could not provide documentation to support Salaries and Fringe Benefits expense functions and the Other Current Liabilities line items in the financial statements. Those financial activities represent 25 percent of operating expenses and 13 percent of current liabilities, respectively.

The Governing Board should establish and implement policies and procedures to require proper documentation of disbursements, including payroll, prior to making payments. The policies and procedures should include required supporting documentation and records that will be maintained at the School to support payment of invoices and payroll. Further, the Governing Board should review expenditure and payroll transaction reports at Board meetings. This will ascertain that only disbursements benefiting the School and students have been paid.

FINDING NUMBER 2002-009

During the period tested, Monica Rhea, Treasurer and Board Member of Rhea Academy Community School, issued an over-the-counter check to herself for \$4,000 from the School's Liberty Savings Bank account on April 4, 2002. The School's ledger noted this amount as a repayment to Ms. Rhea. On June 3, 2002, \$4,000 was deposited in the School's Provident 1-A bank account. The School's records showed the \$4,000 was a repayment by Ms. Rhea and not a loan to the School.

School monies are public monies and should only be used for the benefits of the School and its students. The Governing Board should establish and implement policies prohibiting management and officers from obtaining personal loans from the School.

FINDING NUMBER 2002-010

Certain deficiencies were noted in the Schools cash reconciliation and disbursement procedures. These deficiencies contributed to the School's negative (\$9,123) cash book balance at June 30, 2002. To ensure completeness, accuracy, and consistency in the Schools cash reconciliations, the School should address the following conditions:

- The School hired an outside accountant to prepare monthly bank reconciliations, however, often did not receive or review the reconciliations. In addition, the bank statements included items clearing as checks, with no check number. The Board should obtain and review all monthly bank statements and reconciliations to determine the School's bank accounts are reconciling to their ledgers.
- Bank reconciliations were performed, however, did not agree to the Schools ledgers. In addition, outstanding checks were not always included on the outstanding check list. The School should agree their cash reconciliations to their ledgers, and ensure all applicable items are included in the cash reconciliations.
- Checks that have been outstanding over a year in the amount of \$7,439 had not cleared the bank account as of June 30, 2002 and the School did not have a policy in place regarding outstanding checks. The Board should approve a policy to address when the Treasurer should remove long outstanding checks from the monthly bank reconciliation, to include, transfer of the amounts to an unclaimed monies fund.
- \$14,716 in in-sufficient fund checks were returned from the bank. As a result, the School was assessed bank charges. The School did not reflect these checks being returned in the ledgers.
- The Schools ledgers were incorrect, due to the School issuing over-the-counter checks or transferring money to other bank accounts that were not School accounts. In addition, many invoices were noted not being paid in a timely manner.

The Board should implement accounting and budgeting policies and procedures, including monthly bank reconciliation procedures and expenditure transaction procedures to ensure expenses can be paid in a timely manner, and liabilities will not be incurred that the school cannot meet.

**RHEA ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUIDT FINDINGS
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-10357-001	Failure to follow Ohio Department of Education contract regarding spending plans.	No	Partially Corrected – See Finding Number 2002-003
2001-10357-002	Ohio Rev. Code Section 3314.10 failure to remit amounts withheld to State Teachers Retirement System (STRS)	No	Not Corrected – See Finding Number 2002-005
2001-10357-003	Ohio Rev. Code Section 3314.08(J) Entering into a loan that matures greater than one year.	No	Not Corrected – See Finding Number 2002-002
2001-10357-004	Ohio Admin. Code Section 117-2-03(B) Failure to file annual financial report with the Auditor of State.	No	Not Corrected – See Finding Number 2002-004
2001-10357-005	Deficiencies in payroll procedures	No	Not Corrected – See Finding Number 2002-008
2001-10357-006	Deficiencies in cash reconciliations procedures.	No	Not Corrected - See finding number 2002-009
2001-10357-007	Maintaining a fixed asset accounting system.	Yes	

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RHEA ACADEMY COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 21, 2004**