



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Richard Allen Academy II Community School
Montgomery County
400 East Second Street
Dayton, Ohio 45402

To the Members of the Board:

We have audited the accompanying Balance Sheet of the Richard Allen Academy II Community School, Montgomery County, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Richard Allen Academy II Community School, Montgomery County, as of June 30, 2003, and the results of its operations and the 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 December 15, 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 cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 15, 2003

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

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

ASSETS

Current Assets

Cash	\$11,130
Receivables	
Intergovernmental	33,978
Prepaid expenses	<u>1,041</u>

Total Current Assets 46,149

Noncurrent Assets

Security Deposit	8,000
Fixed assets (net of accumulated depreciation)	<u>332,120</u>

Total Noncurrent Assets 340,120

Total Assets 386,269

LIABILITIES AND FUND EQUITY

Current Liabilities

Accounts payable	52,571
Accrued wages & benefits payable	55,466
Accrued interest payable	4,040
Intergovernmental payable	13,912
Compensated absences payable	2,554
Capital leases payable	<u>4,297</u>

Total Current Liabilities 132,840

Noncurrent Liabilities

Capital leases payable	15,445
Note payable	<u>167,941</u>

Total Noncurrent Liabilities 183,386

Total Liabilities 316,226

Fund Equity

Unreserved Retained Earnings	<u>70,043</u>
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Total Fund Equity 70,043

Total Liabilities and Fund Equity \$386,269

See accompanying notes to the financial statements

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

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

Operating Revenues	
Foundation payments	\$1,055,824
Disadvantaged pupil impact aid	219,687
Miscellaneous revenue	<u>14,147</u>
Total Operating Revenues	<u>1,289,658</u>
Operating Expenses	
Salaries	535,353
Fringe benefits	127,340
Management company fees	279,282
Building rental	88,000
Other purchased services	162,326
Materials and supplies	182,338
Depreciation	47,651
Other	<u>7,791</u>
Total Operating Expenses	<u>1,430,081</u>
Operating Loss	<u>(140,423)</u>
Nonoperating Revenues/(Expenses)	
State and federal grant revenue	210,824
Interest and fiscal charges	<u>(7,096)</u>
Net Nonoperating Revenues	<u>203,728</u>
Net Income	63,305
Retained Earnings, Beginning of Year	<u>6,738</u>
Retained Earnings, End of Year	<u><u>\$70,043</u></u>

See accompanying notes to the financial statements

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

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

INCREASE (DECREASE) IN CASH

CASH FLOWS FROM OPERATING ACTIVITIES

Cash from State of Ohio	\$1,275,511
Cash payments to suppliers for goods and services	(668,207)
Cash payments to employees for services and benefits	(590,761)
Other operating revenue	<u>14,147</u>
 Net cash provided by operating activities	 <u>30,690</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State and Federal grant revenue	176,846
Proceeds from note payable	212,941
Principal paid on note payable	(45,000)
Interest paid on note payable	<u>(2,391)</u>
 Net cash provided by noncapital financing activities	 <u>342,396</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital acquisitions	(357,271)
Principal paid on capital lease	(2,758)
Interest paid on capital lease	<u>(665)</u>
 Net cash used by capital and related financing activities	 <u>(360,694)</u>

NET INCREASE IN CASH	12,392
CASH, BEGINNING OF YEAR	<u>(1,262)</u>
CASH, END OF YEAR	<u><u>\$11,130</u></u>

**RECONCILIATION OF OPERATING LOSS TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating loss	(140,423)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	47,651
Changes in assets and liabilities:	
Increase in prepaid expenses	(1,041)
Increase in accounts payable	52,571
Increase in accrued wages payable	55,466
Increase in intergovernmental payable	13,912
Increase in compensated absences payable	<u>2,554</u>
 Total Adjustments	 <u>171,113</u>
 Net Cash Provided by Operating Activities	 <u><u>\$30,690</u></u>

Non-Cash Item:	
Capital assets acquired under capital lease	<u><u>\$22,500</u></u>

See accompanying notes to the financial statements

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The School contracts with the Institute of Charter School Management and Resources, Inc. (ICSMR) for a variety of services including management consulting, Ohio Department of Education consulting, Education Management Information System (EMIS) monitoring and consulting, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications.

The School was approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2002 through June 30, 2007 after which, the School must apply for an additional contract with the Sponsor. The School operates under a self-appointing ten-member Board of Trustees (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School has one instructional/support facility staffed by one principal, 23 full-time and part-time certified teaching personnel who provide services to an enrollment of 222 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 manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Measurement Focus and Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total liabilities) consists of retained earnings. The operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract, however the budget does not have to follow the provisions of Ohio Rev. Code Section 5705.

The School's Board adopts a formal budget at the beginning of the school year. Spending limits are set based on projected revenue from the State of Ohio and other known sources. The Board's adoption of the budget states that actual expenditures are "not to exceed" budget amounts. The School Principal and Treasurer are responsible for ensuring that purchases are made within these limits. However, any variances from the budgetary amounts are presented to the Board for subsequent approval.

D. Cash

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

E. Estimates

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of \$500. The School does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture and fixtures, textbooks, and equipment is computed using the straight-line method over estimated useful lives of five to ten years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Leasehold improvements are depreciated over the life of the lease agreement of 5 years.

G. Intergovernmental Revenues

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

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

The School also participates in the Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$50,000 for the planning phase of the School and an additional \$100,000 during the year ended June 30, 2003. Revenue from this program was used during fiscal year 2003 for activities of the startup phase of the School.

Amounts awarded under the above named programs for the 2003 school year totaled \$1,486,335.

H. Compensated Absences

The School's principal earns vacation leave each year. The Principal is allowed to carry over any unused vacation leave to subsequent school years. A liability of \$2,554 has been recognized for earned but unused vacation leave at June 30, 2003. No other employees accrue vacation benefits.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its balance sheet relating to expenses, which are due but unpaid as of June 30, 2003, including:

Wages payable – salary payments made after year-end that were for services rendered in fiscal year 2003. Teaching personnel are paid in 25 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, 2003 for all salary payments made to teaching personnel during the months of July and August 2003.

Intergovernmental payable – payment for the employer's share of the retirement contribution (\$12,450), workers' compensation (\$434), Medicaid (\$804), and Montgomery County ESC (\$224) associated with services rendered during fiscal year 2003, but were not paid until the subsequent fiscal year.

J. Federal Tax Exemption Status

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

3. DEPOSITS AND INVESTMENTS

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At June 30, 2003, the carrying amount of the School's deposits was \$11,130 and the bank balance was \$22,799, the entire balance of which was covered by federal depository insurance.

4. INTERGOVERNMENTAL RECEIVABLES

All receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. Intergovernmental receivables of the School at June 30, 2003 consisted of the federal Title I grant program in the amount of \$33,978.

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

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

5. CAPITAL LEASES PAYABLE

During fiscal year 2003 the School entered into a lease for a new copier. The terms of these agreements provide an option to purchase the copiers. The leases meet the criteria of capital leases 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. Fixed assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments of \$22,500. At the time of acquisition, a corresponding liability was recorded. Principal payments in fiscal year 2003 associated with the lease totaled \$2,758.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2003.

	Fiscal Year	Lease Payment
	2004	\$5,134
	2005	5,134
	2006	5,134
	2007	5,135
	2008	1,284
Total Minimum Lease Payments		21,821
Less: Amount Representing Interest		(2,079)
Present Value of Minimum Lease Payments		\$19,742

6. FIXED ASSETS

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

Vehicles/Equipment	\$ 379,771
Less: Accumulated Depreciation	(47,651)
Net Fixed Assets	\$ <u>332,120</u>

7. 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 2003, the School contracted with Cincinnati Insurance Company for business personal property, director and officer liability and general liability insurance. Building coverage has a \$3 million dollar limit and business personal property coverage carries \$100,000 limit, both have a \$500 deductible and 80 percent coinsurance clause. The director and officer liability coverage provides \$1,000,000 per loss with a \$5,000 deductible. General liability coverage provides \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. The Cincinnati Insurance Company also provides umbrella liability coverage of \$1,000,000 per occurrence, as well as, in the aggregate.

Employee Insurance Benefits – As part of the management agreement with the Institute of Charter School Management and Resources, Inc. (see note 11), insurance benefits for School employees are paid by the Institute through the monthly management fee established in the agreement.

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

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

8. DEFINED BENEFIT PENSION PLANS

State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

The School's required contributions for pension obligations for the fiscal year ended June 30, 2003 were \$67,184; 81.5 percent was contributed during fiscal year 2003 with \$12,450 representing the unpaid contribution for fiscal year 2003 recorded as an intergovernmental payable.

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

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

9. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002. For the School, this amount equaled \$5,929 during the 2003 fiscal year.

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

10. NOTE PAYABLE

The following is a summary of the note activity for the School at June 30, 2003:

	Balance 7/1/02	Increase	Decrease	Balance 6/30/03
Demand Promissory Note				
APR: LIBOR plus 2.75 percent	\$ 0	\$ 212,941	\$ 45,000	\$ 167,941

The demand promissory note was issued by the Institute of Charter School Management and Resources, Inc (ICSMR) to provide the School with funding during the start-up phase of the School. A portion of the note, or the entire note, may be called at any time, upon written notice to the School, however not prior to June 30, 2005.

11. AGREEMENT WITH INSTITUTE OF CHARTER SCHOOL MANAGEMENT AND RESOURCES, INC.

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

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

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

11. AGREEMENTS WITH INSTITUTE OF CHARTER SCHOOL MANAGEMENT AND RESOURCES, INC. (Continued)

The Management Agreement's term coincides with the school's charter agreement and provides that ICSMR will perform functions reasonably required to manage the operation of the School; ensure students receive services which are in accordance with applicable educational standards; make every effort to ensure the School complies with the requirements of any applicable statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquire all necessary licenses and permits; maintain all student and financial records required by federal, state and local laws and regulations, as well as, protecting the confidentiality of those records; act as the School's agent in making deposits and disbursements promptly; provide for all expenses of operating the School, including lease payments for the school building, equipment and operating supplies needed in the operation of the School, from its management fee; be responsible for hiring qualified teachers and other employees of the School, as well as, dismissal of such employees. However, the School will be responsible for the compensation of the employees.

ICSMR receives a monthly management fee of 10% of the total operating revenues of the School from all sources excluding extraordinary items. ICSMR charges the School for any expenses it incurs on behalf of the School in order to provide District wide services. These expenses may include but are not limited to District wide management services provided by ICSMR employees in the area of instruction, transportation, financial, and general business management and development, as well as, district wide purchase of textbooks and supplies. During fiscal year 2003, the School paid ICSMR a total of \$279,282 for professional, accounting and legal, management and other services.

12. CONTINGENCIES

A. Grants

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

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. This information was not available as of the date of this report. The School does not anticipate any material adjustments to state funding for fiscal year 2004, as a result of such review.

C. Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the Richard Allen Academy II is not presently determinable.

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

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

13. 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.

14. OPERATING LEASE

The School leases its facilities from St. Joseph Catholic Church under a three-year lease agreement beginning July 1, 2002 through June 30, 2005. The monthly lease payments during fiscal year 2003 were \$8,000, with ICSMR reimbursing the School \$1,000 per month for office space occupied. Total rental payments for the school for fiscal year 2003 were \$88,000. According to the terms of the Lease agreement, rental payments are schedule to increase to \$8,500 and \$9,000 per month for fiscal year 2004 and 2005, respectively.

15. RELATED PARTIES

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

During fiscal year 2003 ICSMR provided operating funds to the School through a \$212,941 demand note. During the fiscal year, the School made principal payments of \$45,000 against the note, with the remainder of \$167,941 shown as a note payable on the School's balance sheet.

In addition, two classrooms and an office within the Richard Allen Academy II Community School building are used by Westpark Academy rent free. Westpark Academy is a pre-K private school owned and operated by the President and CFO of ICSMR.

16. OTHER PURCHASED SERVICES

During the year ended June 30, 2003, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	\$ 36,835
Communications & networking services	29,010
Real estate tax	12,785
Public relations and postage	1,620
Property services	39,742
Utilities	35,222
Pupil transportation	1,566
Other	5,546
	<u>\$ 162,326</u>

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

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

17. BEGINNING BALANCE / RETAINED EARNINGS

The School received various revenues, including state start-up funds of \$50,000, and made various expenditures totaling \$51,262, associated with starting operations prior to July 1, 2002. Included in the above noted expenditures, the \$8,000 security deposit paid on the building rental was capitalized, resulting in a beginning retained earnings of \$6,738.

18. MATERIAL NON-COMPLIANCE

Budget Approval

Richard Allen Academy II's Community School Contract Exhibit 2 indicates that the Board will adopt a formal budget at the beginning of the school year, and that actual expenditures will not exceed budget amounts, with the Treasurer and School Principal being responsible for ensuring that purchases are made within those limits. There is no documentation of the Board approving a budget for the 2003 fiscal year.



Auditor of State Betty Montgomery

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

Richard Allen Academy II Community School
Montgomery County
400 East Second Street
Dayton, Ohio 45402

To the Members of the Board:

We have audited the financial statements of the Richard Allen Academy II Community School, Montgomery County, (the School), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 15, 2003. We conducted our audit in accordance with auditing standards generally accepted by the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the School in a separate letter dated December 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted certain 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 15, 2003.

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

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 15, 2003

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

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

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

FINDING NUMBER 2003-001

Budget Approval

Richard Allen Academy II's Community School contract, Exhibit 2, states that the Board of Trustees will adopt a formal budget at the beginning of the school year, and that actual expenditures will not exceed budget amounts with the Treasurer and School Principal being responsible for ensuring that purchases are made within those limits.

The School was unable to provide documentation that the Board approved a budget for the 2003 fiscal year. The failure to approve a formal budget prevents the Board from making sound financial decisions and could result in unauthorized expenditures or expenditures exceeding the available resources.

The Board should review House Bill 364 (effective April 2003), and establish policies for compliance with amendments to Revised Code Chapter 3314, particularly budget approval, financial planning, and reporting requirements.

FINDING NUMBER 2003-002

Contractual Agreements

Richard Allen Academy II leases their school building from St. Joseph Catholic Church under a three-year lease agreement which began on July 1, 2002. The total lease payments for the 59,582 square foot facility during fiscal year 2003 were \$96,000. The Institute of Charter School Management Resources, Inc. (ICSMR) and Westpark Academy utilized a portion of the school building during fiscal 2003. ICSMR used part of the building for office space and Westpark Academy used space for an office and two preschool classes. Richard Allen Academy II's Board failed to enter into formal agreements with ICSMR and Westpark Academy stating the specific portion of the facilities to be used, whether utilities will be furnished, termination requirements, required payments and dates, etc.

The failure to enter into formal agreements clearly stating the terms could result in litigation in the event all parties are not in agreement as to what was expected. In addition, Richard Allen Academy II receives public funds to support their operation and formal documentation is required to support all receipt and expenditure transactions.

The Board of Richard Allen Academy II should require a formal contract for all financial arrangements and formally document their approval of those contracts in the Board minutes.



**Auditor of State
Betty Montgomery**

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RICHARD ALLEN ACADEMY II 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
FEBRUARY 10, 2004**