



**Auditor of State
Betty Montgomery**

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Franklin County
1850 Bostwick Road
Columbus, Ohio 43227

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Ohio Achievement Charter Schools, Inc., Franklin County, Ohio (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 Ohio Achievement Charter Schools, Inc., Franklin County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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We conducted our audit to form an opinion on the financial statements that collectively comprise the School's basic financial statements. The schedule of federal awards receipts and expenditures is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the schedule of federal receipts and expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

January 10, 2005

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Our discussion and analysis of the Ohio Achievement Charter School's (School's) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and 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 new 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 Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

A. Financial Highlights

In total, net assets increased \$145,274 which represents an 18.5% increase from 2003. This increase was due primarily to the fact that the school establishes its operating budget based on the projected revenue for the upcoming school year. The school made only a nominal increase to its operating budget during the year but actual revenues from foundation monies for the year exceeded the revenue projections by over \$93,000.

B. Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

One of the most important questions asked about the School's finances is, "Is the School better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as state revenue, student enrollment growth, and facility conditions in arriving at their conclusion regarding the overall health of the School.

A comparative analysis of fiscal year 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Current Assets	\$ 599,299	\$ 406,565
Capital Assets, Net	<u>1,394,278</u>	<u>1,296,412</u>
Total Assets	1,993,577	1,702,977
Current Liabilities	715,563	602,975
Long Term Liabilities	<u>346,981</u>	<u>314,193</u>
Total Liabilities	1,062,494	917,168

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

	<u>2004</u>	<u>2003</u>
Net Assets:		
Invested in Capital		
Assets, net of debt	916,367	737,054
Unrestricted	<u>14,716</u>	<u>48,755</u>
Total Net Assets	<u>\$931,083</u>	<u>\$ 785,809</u>

The largest portion of the School's net assets (98.4%) reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The School uses capital assets to provide services; consequently, these assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets of the School have increased \$145,274 and unrestricted net assets reflect a healthy positive balance of \$14,716. The increase in net assets is primarily due to two factors the first, as noted before, is a result of actual revenue exceeded projections for fiscal year 2004. The second, the school at its inception (1999) only had a five year charter to operate. Because of this the school could only finance debt for the period of the charter or less. In return, this has had a positive effect, in that the principal portion of the debt is reduced much earlier because of the short term nature of the loans.

Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Sales	\$ 44,266	\$ 31,275
Foundation payments	4,355,531	3,828,493
Other Operating Revenues	61,497	4,555
Non-Operating Revenues:		
Investment Earnings	5,051	8,289
State subsidies	21,716	8,250
Federal subsidies	<u>906,555</u>	<u>418,265</u>
Total Revenues	5,394,616	4,299,127
Operating Expenses:		
Salaries & Wages	2,503,417	2,206,503
Fringe Benefits	928,076	754,571
Purchased Services	1,411,492	1,035,646
Materials & Supplies	176,405	176,608
Depreciation	73,463	67,776
Miscellaneous	103,404	91,147
Non-Operating Expenses:		
Interest expense	<u>53,085</u>	<u>62,836</u>
Total Expenses	5,249,342	4,395,087
Change in Net Assets	<u>\$ 145,274</u>	<u>(\$ 95,960)</u>

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

The School's revenues increased in every area except for investment income. The growth is primarily due to increased enrollment over the prior school year. Similarly, the expenses for salaries and fringes increased as a result of having more staff members to serve the increased number of students.

Capital Assets

The School has \$1,394,278 invested in capital assets net of depreciation. The most significant addition to the School's capital assets for the 2004 fiscal year was the purchase of additional building space, valued at \$148,717 on the books. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

Long-Term Debt

The School has entered into several capitalized lease agreements. The present value of minimum lease payments, net of interest is \$197,025, of which \$108,425 represents the long-term portion.

The School also has an outstanding note of \$280,887, net of interest, due to Park National Bank, with \$238,506 representing the long-term portion. The proceeds from the note were used to pay off the capital lease of the modular buildings with Tatonka, Inc. The note matures October, 2010. Detailed information regarding long-term debt activity is included in the notes to the financial statements (Note 10).

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**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004**

Assets

Current Assets

Cash and Cash Equivalents	\$ 545,810
Receivable - Accounts	659
Receivable - Federal	52,830
Total Current Assets	<u>599,299</u>

Non-Current Assets

Capital assets (Net of Accumulated Depreciation)	<u>1,394,278</u>
Total Assets	<u><u>\$ 1,993,577</u></u>

Liabilities

Current Liabilities

Accounts Payable	\$ 24,409
Accrued Wages & Benefits	457,059
Compensated Absences	16,313
Payable to State Pension Systems	86,802
Capital Leases Payable	88,600
Note Payable	42,380
Total Current Liabilities	<u>715,563</u>

Long-Term Liabilities

Capital Leases Payable	108,425
Note Payable	238,506
Total Long-Term Liabilities	<u>346,931</u>
Total Liabilities	<u>1,062,494</u>

Net Assets

Invested in Capital Assets, Net of related Debt	916,367
Unrestricted	14,716
Total Net Assets	<u><u>\$ 931,083</u></u>

The accompanying notes are an integral part of the financial statements

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Operating Revenues	
Sales	\$ 44,266
Foundation Payments	4,355,531
Other Operating Revenues	61,497
Total Operating Revenues	<u>4,461,294</u>
Operating Expenses	
Salaries & Wages	2,503,417
Fringe Benefits	928,076
Purchased Services	1,411,492
Materials & Supplies	176,405
Depreciation	73,463
Miscellaneous	103,404
Total Operating Expenses	<u>5,196,257</u>
Operating Loss	(734,963)
Non-Operating Revenues and (Expenses)	
Interest Earnings	5,051
State subsidies	21,716
Federal subsidies	906,555
Interest Expense	(53,085)
Total Non-Operating Revenues and (Expenses)	<u>880,237</u>
Change in Net Assets	145,274
Net Assets Beginning of Year	785,809
Net Assets End of Year	<u>\$ 931,083</u>

The accompanying notes are an integral part of the financial statements

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Cash Flows from Operating Activities

Cash received from sales	\$ 44,082
Cash received from Foundation Payments	4,355,531
Cash received from Other Operating Revenues	61,022
Cash payments for personal services	(3,209,865)
Cash payments for contract services	(1,412,857)
Cash payments for supplies and materials	(176,235)
Cash payments for Miscellaneous	(97,064)
Net Cash Used for Operating Activities	<u>(435,386)</u>

Cash Flows from Noncapital Financing Activities

Cash from Federal & State Subsidies	893,441
Net Cash Provided By Noncapital Financing Activities	<u>893,441</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	(252,776)
Payments for Interest on Capital Acquisitions	(53,085)
Net Cash Used for Capital and Related Financing Activities	<u>(305,861)</u>

Cash Flows from Investing Activities

Interest on cash and cash equivalents	5,051
Net Cash Provided By Investing Activities	<u>5,051</u>

Net increase in cash and cash equivalents	157,245
Cash and cash equivalents at beginning of year	388,565
Cash and cash equivalents at end of year	<u>\$ 545,810</u>

**Reconciliation of Operating Income to Net Cash
Provided By (Used for) Operating Activities**

Operating Loss	(734,963)
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**Adjustments to Reconcile Operating Income to Net
Cash Provided by (Used for) Operating Activities**

Depreciation	73,463
Changes in Assets and Liabilities:	
Accounts Receivable	(659)
Accounts Payable	4,066
Accrued Wages and Benefits	153,576
Payable to State Pension Systems	64,072
Compensated Absences	5,059
Total Adjustments	<u>299,577</u>
Net cash (used) for operating activities	<u>\$ (435,386)</u>

The accompanying notes are an integral part of the financial statements

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**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Ohio Achievement Charter Schools, Inc. (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 fifth grade. 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 necessary services necessary for the operation of the school.

The School was approved for operation under contract with the Ohio Department of Education (the Sponsor) for a period of five years commencing July 1, 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 six member Board of Trustees. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees control the School's instructional/support facility staffed by 44 non-certified and 36 certificated full time teaching personnel who provide services to 675 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

The School uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus and Basis of Accounting

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. Operating statements present increases and decreases 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 used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the 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 does not prescribe a budgetary process for the School.

D. Cash and Investments

All monies received by the School are pooled and deposited in a central bank account. All monies of the School are maintained in this account or temporarily used to purchase short term investments.

During fiscal year 2004, investments were limited to STAR Ohio and repurchase agreements. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2004. Repurchase agreements are valued at cost.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased are considered to be cash equivalents.

E. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at their fair values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Furniture and Equipment	10
Computer equipment	5

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

The School also participates in the State Special Education Program, the National School Breakfast and Lunch Programs, Title I, Safe and Drug-Free Schools, Enhancing Education through Technology Program, Improving Teacher Quality, Innovative Education Program, and the Federal Emergency Repair Program. Grants and entitlements received under these programs 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 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.

Amounts awarded under the above named programs for 2004 school year totaled \$5,283,802.

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned for all employees.

The School does not have a liability for sick benefits upon termination, therefore no liability is recognized.

3. DEPOSITS AND INVESTMENTS

Deposits: The carrying value of the School's deposits totaled (\$59,160), and the bank balance totaled \$2,218, all of which was covered by federal depository insurance.

Investments of the School as of June 30, 2004 were as follows:

<u>Weighted Average Investments</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>
Repurchase Agreement	\$293,409	0.003
STAR Ohio	311,561	0.003
Total Investments	\$604,970	

Interest Rate Risk – The School has no policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The investments in STAR Ohio are rated AAAM by Standard & Poor's. The repurchase agreement is specifically pledged by a single security. The School places no limit on the amount that may be invested in any one issuer.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts receivable of \$659 and intergovernmental receivables (federal grants) of \$52,830. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. CAPITAL ASSETS

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

	Balance 6/30/03	Additions	Balance 6/30/04
Capital Assets being depreciated			
Building and Building Improvements	\$ 1,206,086	\$ 148,717	\$ 1,354,803
Furniture and Equipment	157,098	4,838	161,936
Computer Equipment	<u>109,555</u>	<u>17,774</u>	<u>127,329</u>
Subtotal	1,472,739	171,329	1,644,068
Less: Accumulated Depreciation	<u>(176,327)</u>	<u>(73,463)</u>	<u>(249,790)</u>
Net Capital Assets	<u>\$ 1,296,412</u>	<u>\$ 97,866</u>	<u>\$ 1,394,278</u>

6. RISK MANAGEMENT

A. Property and 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 fiscal year 2004, the School contracted with Chubb Insurance Group for building and personal property insurance and with Western Heritage for general liability. There is a \$1,000 deductible for both coverages.

Professional liability is protected by Western Heritage Insurance Company with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate with a \$1,000 deductible.

B. Worker's Compensation

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

7. DEFINED BENEFIT PENSION PLANS

A. 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. Benefits are established by Chapter 3307 of the Ohio Revised Code. 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, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

A. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan (CP). The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds multiplied by an actuarially determined annuity factor. The DC plan allows members to place all of their member contributions and employer contributions equal to 10.5 percent 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 fifty and termination of employment.

The CP offers features of both the DB Plan and DC Plan. In the CP, 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. DC and CP members will transfer to the DB during their fifth year of membership unless they permanently select the DC or CP.

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 balance from the existing DB into the DP or CP. This option expired on December 31, 2001.

A DB or CP member with five or more years of 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 who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salary and the School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by STRS, upon recommendation 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 contribution for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002, were \$241,698, \$189,961, and 171,622, respectively. For 2004, the School has contributed \$204,119 for fiscal year 2004 and the remainder has been recorded as a payable to State Pension Systems.

B. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute an actuarially determined rate. The current School 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: for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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 statutory maximum amounts, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002, were \$153,731, \$109,704, and \$117,268, respectively. For 2004, the School has contributed \$104,508 and the remainder has been recorded as a payable to State Pension Systems.

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-classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation 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.

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 the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$17,264 and \$13,569 for fiscal years 2004 and 2003.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

For the School, the amount to fund health care benefits, including surcharges, during the 2004 and 2003 fiscal years equaled \$141,581 and \$ 155,437, respectively.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 20 days of vacation per year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who are not on a twelve-month contract do not earn vacation time. All employees earn sick leave at the rate of one and one fourth days per month.

Sick leave may be accumulated up to 15 days. Upon retirement, no payment is made for accumulated unused sick leave.

B. Insurance Benefits

The School has contracted with a private carrier to provide employee health insurance. The School paid 100% of the monthly premium for fiscal year 2004. The total monthly premium was \$780 for family coverage and \$260 for single coverage.

10. LONG-TERM DEBT

A Capitalized Leases

During fiscal years ending 2004, 2003 and 2002, the School entered into capitalized leases for office equipment, buildings, food service equipment, telephone system and a tractor. 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. The capital leases have been recorded at the present value of future minimum lease payments as of the inception dates. The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of June 30, 2004.

Fiscal Year Ending June 30,	
2005	113,212
2006	62,036
2007	55,765
2008	<u>13,625</u>
Total minimum lease payments	244,638
Less: interest	<u>47,613</u>
Present Value of minimum lease payments	<u>\$197,025</u>

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

10. LONG-TERM DEBT (Continued)

B. Notes Payable

The note payable for the School as of June 30, 2004 was as follows:

Park National Bank Loan, 6.25%	
Matures 10/17/10	\$280,886

A promissory note was issued in Fiscal Year 2003 through Park National Bank. The monthly payments are \$5,369.84 (through October 2003) and \$5,352.77 (starting in November 2003) and will conclude in October 2010. The note has a variable interest rate adjusted to the prime rate every October with the current rate being 6.25%. The proceeds from the note were used to pay off the capital lease of the modular buildings with Tatonka, Inc.

The annual requirements to amortize all outstanding note debt as of June 30, 2004, including interest are as follows:

Fiscal Year Ending June 30	Park National Bank
2005	\$58,045
2006	63,430
2007	63,430
2008	63,430
2009	63,430
2010	<u>21,143</u>
Total	332,908
Less: Amount representing Interest	<u>(52,022)</u>
Total Note Principal Outstanding	<u>\$280,886</u>

11. OTHER LEASES

During fiscal year 2000, the School entered into a lease agreement with Obermiller, LLC for a building and approximately six acres of land located at the School. The term of the lease commenced May 1, 2000 through May 1, 2005. Thereafter, the lease is on a month to month basis. The monthly rent for both land and building is \$10,500 payable on or before the first day of each month. During the year, the School paid \$126,000.

12. 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 on its financial operations.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2004.

B. Litigation

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

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. According to the review of fiscal year 2004, the School was underpaid \$1,196 which will be included with foundation funding in fiscal year 2005. This amount is deemed immaterial and is not reflected as an Intergovernmental Receivable on the Statement of Net Assets.

14. MANAGEMENT CONSULTING CONTRACT

The School entered into a five-year contract on July 1, 1999 with Achievement Education Services, Inc. for management consulting services. The President of Achievement Education Services also is the Founder of Ohio Achievement Charter Schools, Inc. and also serves as the Chief Executive Officer. Under the contract, Achievement Education Services is required to provide the following services to Ohio Achievement Charter Schools, Inc.:

- Superintendent Services
- Staff Development and Recruiting
- Program Development
- Budgeting, Financial Reporting and Audit Preparation
- Building and Grounds Planning and Maintenance
- Curriculum Research and Development
- Marketing and Publicity
- Testing Program and Analysis
- Grant Preparation and Management
- Board Recruitment and Management
- Personnel Services

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

14. MANAGEMENT CONSULTING CONTRACT (Continued)

For the services listed above, the School is required to pay a fee to Achievement Education Services, Inc. The fee is equal to 10% of the total per pupil allowance received from the State of Ohio. In the event that the year end reconciliation results in a difference between the total amount paid and the agreed fee, with a balance owed, the Achievement Education Services has the right to suspend collection until such time as the School determines that cash flow permits such payment. The total expense paid under this contract for fiscal year 2004 totaled \$435,553.

15. PURCHASED SERVICES EXPENSES

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

Professional and Technical Services	\$ 653,175	
Property Services	275,599	
Travel Mileage/Meeting Expense	14,109	
Communications	29,859	
Utilities	58,447	
Contracted Craft or Trade Services	197,185	
Other Purchased Services	183,118	
Total Purchased Services	<u>\$1,411,492</u>	

16. RELATED PARTY TRANSACTIONS

A lease agreement between Obermiller, LLC, an Ohio Limited Liability Company and the Ohio Achievement Charter Schools, Inc., an Ohio non-profit corporation was entered into on May 1, 2000. The individual who serves as the CEO of the Ohio Achievement Charter Schools, Inc. is the spouse of the owner of Obermiller, LLC. The School paid Obermiller, LLC a total of \$126,000 during the year for rent.

17. TAX EXEMPT STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on December 7, 1999. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC
FRANKLIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through Ohio Department of Education:				
Nutrition Cluster:				
School Breakfast Program	05PU - 2003	10.553	\$ 12,304	\$ 12,304
	05PU - 2004	10.553	29,880	29,880
			<u>42,184</u>	<u>42,184</u>
National School Lunch Program	LLP4 - 2003	10.555	35,125	35,125
	LLP4 - 2004	10.555	101,260	101,260
			<u>136,385</u>	<u>136,385</u>
Total U.S. Department of Agriculture - Nutrition Cluster			178,569	178,569
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Part A	C1S1 - 2003	84.010	69,805	65,853
	C1S1 - 2004	84.010	288,065	275,565
			<u>357,870</u>	<u>341,418</u>
Title I School Improvement	C1SK - 2004	84.010	50,000	50,000
			<u>50,000</u>	<u>50,000</u>
Total CFDA 84.010			407,870	391,418
Safe and Drug-Free Schools and communities - Title IV	DRS1 - 2003	84.186	(313)	-
	DRS1 - 2004	84.186	7,909	7,908
			<u>7,596</u>	<u>7,908</u>
Special Education Grants to States - Title VIB	6BSX - 2003 -P	84.027	9,483	10,605
	6BSX - 2004 -P	84.027	54,981	64,443
			<u>64,464</u>	<u>75,048</u>
Education Technology State Grants - Title II-D	TJS1 - 2003	84.318	5,129	5,157
	TJS1 - 2004	84.318	6,348	6,347
			<u>11,477</u>	<u>11,504</u>
Improving Teacher Quality State - Title II-A	TRS1 - 2003	84.367	20,555	19,279
	TRS1 - 2004	84.367	76,185	78,688
			<u>96,740</u>	<u>97,967</u>
Innovative Education Program - Title V	C2S1 - 2003	84.298	-	838
	C2S1 - 2004	84.298	9,626	7,664
			<u>9,626</u>	<u>8,502</u>
Total Ohio Department of Education:			597,773	592,347
<i>Passed Through Ohio School Facilities Commission:</i>				
Federal Emergency Repair Program	835	83.352A	84,314	36,956
Total Ohio School Facilities Commission:			84,314	36,956
Total U.S. Department of Education			682,087	629,303
Totals Federal Awards Receipts and Expenditures			\$ 860,656	\$ 807,872

The accompanying notes to this schedule are an integral part of this schedule.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School's federal award programs. The schedule has been prepared on the cash basis of accounting.



Auditor of State Betty Montgomery

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

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Franklin County
1850 Bostwick Road
Columbus, Ohio 43227

To the Board of Trustees:

We have audited the financial statements of the Ohio Achievement Charter Schools, Inc., Franklin County, Ohio, (the School) as of and for the year ended June 30, 2004, and have issued our report thereon dated January 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted 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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as items 2004-001.

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.

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The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Franklin County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the School's management in a separate letter dated January 10, 2005.

This report is intended solely for the information and use of audit committee, management, the Board of Trustees, and federal awarding agencies and pass-through entities, 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

January 10, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Franklin County
1850 Bostwick Rd.
Columbus, Ohio 43227

To the Board of Trustees:

Compliance

We have audited the compliance of the Ohio Achievement Charter Schools, Inc. Franklin County, Ohio, (the School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

As described in items 2004-002 through 2004-005 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding Eligibility and Reporting that are applicable to its Nutrition Cluster program. In addition, the District did not comply with requirements regarding Eligibility that are applicable to its Title 1 program. Compliance with such requirements is necessary, in our opinion, for the School to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

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The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Franklin County
Independent Accountants' Report on Compliance with Requirements
Applicable To the Major Federal Programs and Internal Control Over
Compliance In Accordance With OMB Circular A-133

The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2004-006. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the School in a separate letter dated January 10, 2005.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-002 through 2004-006.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 2004-002, 2004-003, and 2004-005 to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 10, 2005

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	Yes
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster -CFDA # 10.553 and 10.555 Title I -CFDA 84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2004
(Continued)**

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

Finding Number	2004-001
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Expenditure Authorization

The Staff Handbook requires that a requisition first be completed and then signed by the appropriate supervisor and the CEO and then sent to the Treasurer. The Treasurer will determine if there are adequate funds available in the budget. Items ordered shall be inspected by the requestor. If there are any problems with the order, the Treasurer must be contacted to resolve any problems. The Staff member will date, sign, and write "O.K. to pay" and return it to Treasurer.

In fourteen out of sixty non-payroll transactions tested, there was no evidence that a review or authorization process was in place to ensure that invoices submitted were legitimate school expenditures. This, by itself, did not cause grant or budgetary violations.

Pre-approval of expenditures is the School's primary authorization control. To improve control and accountability over non-payroll expenditure activity, we recommend that the School follow their policy for non-payroll expenditure transactions.

3. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARDS

CFDA Title and Number	<u>Nutrition Cluster:</u> School Breakfast Program – CFDA 10.553 National School Lunch Program –CFDA 10.555
Federal Award Number / Year	05PU-2003, 05PU-2004, LLP4-2003LLP4-2004
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Finding Number	2004-002
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Eligibility (Non-Compliance)

7 CFR 245.6 provides that each child receiving free and reduced lunches must annually submit an application to the School. The School must then certify a child's family income and family size and place him/her within income eligibility standards issued by the Office of Food Nutrition Services. The application must be approved and maintained on file.

According to the applications on file, ten percent of students tested were not properly classified as per the income eligibility scale. This weakness could allow ineligible students to receive free and reduced lunch benefits, and could allow the School to receive incorrect amounts for reimbursement from the State.

THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2004
(Continued)

3. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARDS (Continued)

Eligibility (Non-Compliance) (Continued)

7 CFR 245 6a requires that by December 15th of each school year a participating school (school food authority-SFA) must verify the information presented on a sample of the applications that it has approved for free and reduced price meals. The verification sample size is based on the number of approved applications on file on October 31st. SFAs may select the sample by either of two methods specified in the section. Further, the SFA must follow-up on children determined ineligible for free and reduced price meals and change the category of such children determined ineligible.

7 CFR 245.6a, c state that the school verifying applications shall maintain on file for review a description of the verification to be accomplished. The description shall include:

- (1) A summary of the verification efforts including the techniques to be used;
- (2) the total number of applications on file by October 31;
- (3) the percentage or number of applications verified;
- (4) all verified applications must be readily retrievable by the school and include all documents submitted by the household in an effort to confirm eligibility, reproductions of those documents, or annotations made by the determining official which indicate which documents were submitted by the household and the date of submission;
- (5) documentation of any changes in eligibility and the reasons for the changes; and
- (6) all relevant correspondences between the household selected for verification and the school food authority/school.

Although a blank form letter designed to notify parents/guardians that they have been selected for verification was on file and although the school requested an extension on the December 15th due date, the School could not provide any evidence that verification procedures were performed, nor could they provide any evidence that the state granted an extension to the December 15th due date.

In addition to the above, we noted the following:

- The School has no written verification procedures or summary of procedures actually performed;
- The School has no documentation regarding the number/percentage of applications selected;
- The School has no documentation identifying which specific applications were selected for verification;
- No applications were noted bearing evidence that verification procedures had been performed; and
- No other evidence was noted to support that the School performed verification activities.

The questioned cost for not providing proof of eligibility verifications and not properly classifying students per the income eligibility scale for the Nutrition Cluster is \$178,569.

We recommend that the School establish policies and procedures regarding eligibility verification. Those policies and procedures at a minimum should incorporate the requirements of the above noted CFR sections.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARDS (Continued)

CFDA Title and Number	<u>Nutrition Cluster:</u> School Breakfast Program – CFDA 10.553 National School Lunch Program –CFDA 10.555
Federal Award Number / Year	05PU-2003, 05PU-2004, LLP4-2003LLP4-2004
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Finding Number	2004-003
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Reporting

7 CFR 210.8(a) provides, in part, that the School Food Authority shall establish internal controls which ensure the accuracy of lunch counts prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: an on-site review of the lunch counting and claiming system employed by the school; comparisons of daily free, reduced price and paid lunch counts against data which will assist in the identification of lunch counts in excess of the number of free, reduced price and paid lunches served each day to children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems.

The School has written internal control procedures of their lunch counting system. However, these procedures have not been adhered to.

- The School did not ensure that the number of free and reduced breakfast/lunches claimed for reimbursement represents an accurate reflection of approved applications and daily attendance.
- The School did not ensure that the monthly Claims for Reimbursement correctly indicated the number of free and reduced applicants as compared to the approved application on file.
- The School did not ensure that the Daily Meal Counts agreed with the amounts reported on the monthly Claims for Reimbursement.

During testing we noted that the School under-reported 2,221 lunches and 1,798 breakfasts to the State for reimbursement for fiscal year 2004, as compared to the number of lunches which were actually purchased from the caterer.

In addition, during testing of the Nutrition Cluster grant, we noted that the Director of Pupil Services had misplaced all records from the Breakfast Program from fiscal year 2004, which included count sheets.

We recommend the School ensure that breakfast and lunch counts reported on the monthly Claims for Reimbursement are adequately supported by the attendance and lunchroom records.

**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARDS (Continued)

CFDA Title and Number	<u>Nutrition Cluster:</u> School Breakfast Program – CFDA 10.553 National School Lunch Program –CFDA 10.555
Federal Award Number / Year	05PU-2003, 05PU-2004, LLP4-2003LLP4-2004
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Finding Number	2004-004
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The Ohio Department of Education's (ODE) Claims Reimbursement and Reporting System (CRRS) and the CRRS User Manual require that schools participating in ODE sponsored federal nutrition programs submit meals served and financial data for each month of food service operations. The required financial data includes food service inventory cost and labor and other cost data. The CRRS User Manual provides that such cost information should be provided for the respective claiming period.

During testing of the monthly Claims for Reimbursement, we noted that the financial information reported on monthly Claim for Reimbursement Reports did not agree with the accounting records. The overall variance for the entire fiscal year amounted to \$9,011.

We recommend the School ensure that the financial information reported on the monthly Claims for Reimbursement is adequately supported by the accounting records.

CFDA Title and Number	<u>Title 1</u> Grants to Local Education Agencies - CFDA 84.010
Federal Award Number / Year	C1S1 -2003, C1S1 – 2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Finding Number	2004-005
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**THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2004
(Continued)**

3. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARDS (Continued)

Eligibility

Title I, Section 1115 of Elementary School and Secondary Education Act (ESEA) (20 USC 6315) states that Title I, Part A funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas, a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging academic achievement standards. Eligible children are identified on the basis of multiple, educationally related, objective criteria established by the local educational agency and supplemented by the school. Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards and are thus eligible for Title I services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; children who received services under the Migrant Education Program under Title I, Part C (or its predecessor authority) at any time in the two preceding years; and, children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services.

The School contends that children were placed into the Title I program via Professional Development Committee (PDC) referral. The PDC utilized the Stanford 9 test scores to determine which children were eligible for Title I services. However, the School was not able to locate the individual student Stanford 9 test scores, or a written scale that noted what scores would make a child eligible for Title I services. Due to the lack of records, we were unable to verify the accuracy of information used in eligibility determinations, or ensure the accuracy and completeness of data used to determine eligibility requirements.

The questioned cost for not providing proof of eligibility for Title 1 is \$391,418.

We recommend the School maintain all records used to determine eligibility for Title I services. Additionally, we recommend the School maintain a written scale which supports the placement of children in the Title I program to

CFDA Title and Number	<u>Title 1</u> Grants to Local Education Agencies - CFDA 84.010
Federal Award Number / Year	C1S1 -2003, C1S1 – 2004
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Finding Number	2004-006
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THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2004
(Continued)

3. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARDS (Continued)

Activities Allowed / Allowable Costs

OMB Cost Principles Circular A-87 describes selected cost items and allowable and unallowable costs. **Attachment A, paragraph C** states that costs must be reasonable and necessary for the performance and administration of Federal awards. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

Costs must be documented in accordance with the A-102 Common Rule as codified by the federal awarding agency. Transactions must be properly recorded and accounted for to:

1. Permit the preparation of reliable financial statements and Federal reports;
2. Maintain accountability over assets; and
3. Demonstrate compliance with laws, regulations, and other compliance requirements.

During testing of Title I expenditures, we noted employees who were not documented as Title 1 Instructors received salaries and bonuses in the amount of \$22,936.

Accordingly, a questioned cost is issued in the amount of \$ 22,936.

We recommend the School review and pre-approve all federal expenditures for reasonableness, necessity, and allowability, and maintain all supporting documentation for all transactions. All instructors to be paid with Title I funds should be pre-approved to ensure that only employees providing Title I related services are paid with the federal funds.

THE OHIO ACHIEVEMENT CHARTER SCHOOLS, INC.
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	7 CFR 245.6a, c: School did not provide any evidence that eligibility verifications were performed for free and reduced lunch applications.	No	Not Corrected; repeated as finding 2004-002.



**Auditor of State
Betty Montgomery**

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**THE OHIO ACHIEVEMENT CHARTER SCHOOLS
FRANKLIN 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
MAY 5, 2005**