



**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

We have audited the accompanying Balance Sheet of the Ohio Achievement Charter Schools, Inc., Franklin County, Ohio, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and 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 Ohio Achievement Charter Schools, Inc., Franklin County, Ohio, as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2004, 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.

The Ohio Achievement Charter Schools, Inc.
DBA Millennium Community School
Franklin County
Independent Accountants' Report
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The accompanying schedule of federal awards receipts and expenditures is presented for additional analysis as required by 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 financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the 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 9, 2004

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

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

Assets

Current Assets

Cash and Investments	\$ 388,565
Receivable - Federal	18,000
Total Current Assets	<u>406,565</u>

Non-Current Assets

Fixed assets (Net of Accumulated Depreciation)	<u>1,296,412</u>
Total Assets	<u><u>\$ 1,702,977</u></u>

Liabilities and Equity

Current Liabilities

Accounts Payable	\$ 20,343
Accrued Wages & Benefits	303,483
Compensated Absences	11,254
Payable to State Pension Systems	22,730
Capital Lease Payable	180,727
Notes Payable	64,438
Total Current Liabilities	<u>602,975</u>

Long-Term Liabilities

Capital Lease payable	50,977
Notes Payable	263,216
Total Long-Term Liabilities	<u>314,193</u>
Total Liabilities	<u>917,168</u>

Equity

Retained Earnings	<u>785,809</u>
Total Equity	<u>785,809</u>
Total Liabilities & Equity	<u><u>\$ 1,702,977</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 RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues	
Sales	\$ 31,275
Foundation Payments	3,828,493
Other Operating Revenues	4,555
Total Operating Revenues	<u>3,864,323</u>
Operating Expenses	
Salaries & Wages	2,206,503
Fringe Benefits	754,571
Purchased Services	1,035,646
Materials & Supplies	176,608
Depreciation	67,776
Miscellaneous	91,147
Total Operating Expenses	<u>4,332,251</u>
Operating Loss	(467,928)
Non-Operating Revenues and (Expenses)	
Interest Earnings	8,289
State subsidies	8,250
Federal subsidies	418,265
Interest Expense	(62,836)
Total Non-Operating Revenues (Expenses)	<u>371,968</u>
Net Loss	(95,960)
Retained Earnings at July 1, 2002	881,769
Retained Earnings at June 30, 2003	<u>\$ 785,809</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 YEAR ENDED JUNE 30, 2003**

Cash Flows from Operating Activities	
Cash received from Sales	\$ 31,275
Cash received from Foundation Payments	3,828,493
Cash received from Other Operating Revenues	265,140
Cash payments for Personal Services	(2,892,992)
Cash payments for Contract Services	(1,043,083)
Cash payments for Supplies and Materials	(176,800)
Cash payments for Miscellaneous	(338,855)
Net Cash Used for Operating Activities	<u>(326,822)</u>
Cash Flows from Noncapital Financing Activities	
Federal Subsidies	424,122
State Subsidies	8,250
Net Cash Provided by Noncapital Financing Activities	<u>432,372</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from loan	354,610
Payments for Capital Acquisitions	(212,779)
Payments for Interest on Capital Acquisitions	(62,836)
Payments for Capital Acquisitions of loan	(354,610)
Net Cash Used for Capital and Related Financing Activities	<u>(275,615)</u>
Cash Flows from Investing Activities	
Interest on cash and cash equivalents	8,289
Net cash Provided by Investing Activities	<u>8,289</u>
Net decrease in cash and cash equivalents	(161,776)
Cash and cash equivalents at beginning of year	550,341
Cash and cash equivalents at end of year	<u>\$ 388,565</u>
Reconciliation of Operating Income to Net Cash Used for Operating Activities	
Operating Loss	(467,928)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	67,776
Changes in Assets and Liabilities:	
Accounts Receivable	14,316
Accounts Payable	(11,335)
Accrued Wages and Benefits	67,069
Payable to State Pension Systems	(460)
Compensated Absences	3,740
Total Adjustments	<u>141,106</u>
Net Cash Used for Operating Activities	<u>\$ (326,822)</u>

NonCash Investing, Capital, and Financing Activities

During fiscal year 2003, the Ohio Achievement Charter Schools, Inc. entered into a capital lease agreement for equipment for \$7,286.

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, 2003**

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 fourth 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 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 650 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles 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 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 track and report the School's financial activities. Enterprise accounting is used to account for operations that are financed in a manner similar to private business enterprises where the intent is that the cost (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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2003, 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, 2003. 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. Fixed Assets and Depreciation

Fixed assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed 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 is depreciated using the straight line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fixed Assets and Depreciation (Continued)

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

F. Intergovernmental Revenues

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year 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 as grants and entitlements for 2003 school year totaled \$426,515.

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

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

Deposits: The carrying value of the School's deposits totaled (\$73,378), and the bank balance totaled \$24,599, all of which was covered by federal depository insurance.

Investments: The School's investments are categorized to give an indication of the level of risk assumed by the school at the fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the school or its agent in the school's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterpartys trust department or agent in the schools name.

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

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

3. DEPOSITS AND INVESTMENTS (Continued)

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the school's name.

Investments of the school as of June 30, 2003 were as follows:

<u>Investments</u>	<u>Category 3</u>	<u>Reporting Value</u>
Repurchase Agreement	\$103,579	\$103,579
Star Ohio		358,364
Total Investments		<u>\$461,943</u>

The School invests in STAR Ohio which is not evidenced by securities that exist in physical or book-entry form and is not categorized by credit risk. The repurchase agreement is specifically pledged by a single security.

4. RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental receivables (federal grants) totaling \$18,000. All intergovernmental receivables are considered collectible in full.

5. FIXED ASSETS

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

Building and Building Improvements	\$ 1,206,086
Furniture and Equipment	157,098
Computer Equipment	<u>109,555</u>
Subtotal	1,472,739
Less: Accumulated Depreciation	<u>(176,327)</u>
Net Fixed Assets	<u>\$ 1,296,412</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 2003, the School contracted with the Hartford Insurance Group for building and personal property insurance. There is a \$ 1,000 deductible with a 100%, all risk policy.

Professional liability is protected by the 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.

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

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at 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 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 a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$109,704, \$117,268, and \$105,161, respectively. For 2003, the School has contributed \$94,647 and the remainder has been recorded as a payable to State Pension Systems.

B. State Teachers Retirement System

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

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

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

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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 years ended June 30, 2003, 2002, and 2001 were \$189,961, \$171,622, and \$142,416 respectively. For 2003, the School has contributed \$182,288 and the remainder has been recorded as a payable to State Pension Systems.

8. POSTEMPLOYMENT 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-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$13,569 for the fiscal year ended June 30, 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 Billion at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

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

8. POST EMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For fiscal year 2003, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay had been established at \$14,500. For the School, the amount to fund health care benefits, including surcharge, was \$155,437 for the fiscal year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available) were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits as \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000 (the latest information available).

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 2003. The total monthly premium was \$666 per employee for family coverage, \$422 for employee and children coverage, \$466 for employee and spouse coverage, and \$222 for single coverage.

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

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

10. CAPITALIZED LEASES

During fiscal years ending 2003, 2002 and 2001, 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, 2003.

Fiscal Year Ending June 30,	
2004	\$180,727
2005	60,560
2006	9,384
2007	3,113
2008	<u>465</u>
Total minimum lease payments	254,249
Less: interest	<u>(22,544)</u>
Present Value of minimum lease payments	<u>\$231,705</u>

11. OTHER LEASES

During fiscal year 2000, the School entered into a lease agreement with the 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 \$9,500 payable on or before the first day of each month. During the year, the School paid \$114,000.

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 decision 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, 2003
(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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall position of the School at June 30, 2003.

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

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. The President also served as a Board Member of Ohio Achievement Charter Schools, Inc. from July 1, 2002 through April 8, 2003. 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

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 amount owed under this contract for fiscal year 2003 totaled \$382,849.

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

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

15. PURCHASED SERVICES EXPENSES

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

Professional and Technical Services		
Achievement Education Services	\$382,849	
Other Consulting Services	68,475	
Professional & Legal Services	46,563	
Other	35,210	
Total Professional and Technical Services		\$533,097
Property Services		
Obermiller LLC	114,000	
Other Lease/Loan Payments	13,951	
Repair and Maintenance of Building	53,397	
Other	11,928	
Total Property Services		193,276
Travel Mileage/Meeting Expense		16,925
Communications		35,721
Utilities		56,237
Contracted Craft or Trade Services		182,319
Other Purchased Services		<u>18,071</u>
Total Purchased Services		<u>\$1,035,646</u>

16. LONG-TERM OBLIGATIONS

Long-term obligations for the School as of June 30, 2003 were as follows:

Park National Bank Loan, 7.00%	
Matures 10/17/09	\$354,610

The promissory note was issued in Fiscal Year 2003 through Park National Bank. The monthly payments are \$5,369.84 and will conclude in October 2009. 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 outstanding note debt as of June 30, 2003, including interest are as follows:

Fiscal Year Ending <u>June 30</u>	<u>Park National Bank</u>
2004	\$64,438
2005	64,438
2006	64,438
2007	64,438
2008	64,438
2009	64,438
2010	<u>21,479</u>
Total	408,107
Less: Amount representing Interest	<u>(80,453)</u>
TOTALS	<u>\$ 327,654</u>

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

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

17. 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 \$114,000 during the year for rent.

18. FULL-TIME EQUIVALENCY REVIEWS

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student data to the State, upon which foundation funding is calculated. The conclusions of this review could result in the 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 2003, as a result of such review.

19. 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 have occurred that might adversely affect the School's tax exempt status.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	05PU-2002	10.553	\$14,730	\$14,730
	05PU-2003	10.553	<u>38,564</u>	<u>38,564</u>
			53,294	53,294
National School Lunch Program	LLP4-2002	10.555	29,342	29,342
	LLP4-2003	10.555	<u>80,753</u>	<u>80,753</u>
			110,095	110,095
Total U.S. Department of Agriculture - Nutrition Cluster			<u>163,389</u>	<u>163,389</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Part A	C1S1-2002	84.010	37,103	37,574
	C1S1-2003	84.010	<u>111,000</u>	<u>114,951</u>
			148,103	152,525
Safe and Drug-Free Schools and Communities State Grants	DRS1 – 2001	84.186	-	3,941
	DRS1 – 2002	84.186	-	2,818
	DRS1 – 2003	84.186	<u>313</u>	<u>-</u>
			313	6,759
Eisenhower Professional Development State Grants, Title II	MSS1 - 2002	84.281	<u>277</u>	<u>277</u>
			277	277
Special Education Grants to States	6BSX-2002-P	84.027	13,267	13,267
	6BSX-2003-P	84.027	<u>22,155</u>	<u>21,033</u>
			35,422	34,300

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
Title II – D Education Technology State Grants	TJS1-2003	84.318	28	-
Class Size Reduction	CRS1-2002	84.340	296	10,234
Title II – A Improving Teacher Quality State	TRS1-2003	84.367	72,142	73,418
Innovative Education Program	C2S1-2002	84.298	2,675	3,768
Strategies	C2S1-2003	84.298	839	-
			3,514	3,768
Total U.S. Department of Education			260,095	283,291
Totals Federal Awards Receipts and Expenditures			\$423,484	\$444,670

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, 2003**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

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**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

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, 2003, and have issued our report thereon dated January 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider 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

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.

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 9, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM 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 Road
Columbus, Ohio 43227

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 its major federal program for the year ended June 30, 2003. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 item 2003-001 in the accompanying schedule of findings, the School did not comply with requirements regarding eligibility that are applicable to its Nutrition Cluster 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 its major federal program for the year ended June 30, 2003.

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www.auditor.state.oh.us

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated January 9, 2004.

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 9, 2004

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

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)?	No
(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?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(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
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003
(Continued)**

3. FINDING FOR FEDERAL AWARDS

1. Eligibility

Finding Number	2003-001
Nutrition Cluster: School Breakfast and National School Lunch Program	10.553 and 10.555
Federal Award Number / Year	2002-2003
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Ohio Department of Education

Non-Compliance

Code of Federal Regulations Section & 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 or reduced price meals. The verification sample size is based on the number of approved applications on file on October 31st. School food authorities 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.

Code of Federal Regulations Section 7 CFR 245.6c states 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, the School could not provide any evidential matter that the verification procedures were performed.

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



**Auditor of State
Betty Montgomery**

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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
FEBRUARY 12, 2004**