RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Dave Yost • Auditor of State

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Richard Allen Academy Community School
Montgomery County
368 South Patterson Boulevard
Dayton, Ohio 45402

To the Governing Board:

We have audited the accompanying financial statements of the Richard Allen Academy Community School, Montgomery County, Ohio (the School) as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient audit evidence supporting the School's accounts payable – IMR stated at $134,820 at June 30, 2012.

The opinion on the School's June 30, 2011 financial statements was qualified due to lack of sufficient audit evidence supporting the School's accounts payable – IMR. We are unable to apply procedures to determine whether the net assets in the financial statements as of July 1, 2009, were fairly presented in conformity with accounting principles generally accepted in the United States of America. The School has also included, in accounts payable - IMR in the accompanying statement of net assets, certain payables that, in our opinion, are not true payables of the School. If these payables were removed, total liabilities would be decreased by $101,632. Additionally, net assets would be increased by $101,632, for the year then ended.

As discussed in Note 12 to the financial statements, the School has suffered recurring losses from operations and has a net asset deficiency. Note 12 describes management's plan regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the accounts payable – IMR as described in the third paragraph and the effects matters discussed in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Richard Allen Academy Community School, as of June 30, 2012, 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 August 28, 2013, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Dave Yost

Dave Yost
Auditor of State

August 28, 2013

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED

The discussion and analysis of Richard Allen Academy Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- Total net assets increased by $46,690 in fiscal year 2012 which resulted in accumulated net asset deficit of $2,205 at June 30, 2012.

- Total assets increased by $49,824 primarily due to an increase in cash and intergovernmental receivables.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity.

The financial statements answer the question, "How did we do financially during the fiscal year?" These statements include all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

The statement of net assets reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2012 compared with fiscal year 2011.

Table1
Net Assets

	2011 (Restated)	2012	Incr/(decr)
Assets:			
Current Assets	$231,176	$281,000	$49,824
Total Assets	231,176	281,000	49,824
Liabilities:			
Current Liabilities	280,071	283,205	3,134
Total Liabilities	280,071	283,205	3,134
Net Assets:			
Unrestricted	(48,895)	(2,205)	46,690
Total Net Assets	($ 48,895)	($ 2,205)	$46,690

Total assets of the School increased by $49,824 or 38.5 percent, primarily due to an increase in cash and intergovernmental receivable.

As noted in Table 1 above, total net assets of the School increased by $46,690 during fiscal year 2012 resulting in an ending net deficit of $2,205 at June 30, 2012.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012, as well as revenue and expense comparisons to fiscal year 2011.

Table 2
Change in Net Assets

	2011	2012	Incr/(decr)
Operating Revenues:			
State Foundation	$ 774,620	$ 809,748	$35,128
Other Operating Revenues	50,543	55,731	5,188
Non-operating Revenues:			
Federal & State Grants	251,800	243,017	(8,783)
Grants and Donations - Restricted		22,955	22,955
Total Revenues	1,076,963	1,131,451	54,488
Operating Expenses:			
Purchased Services	1,043,865	1,035,445	(8,420)
Sponsorship Fees	11,646	16,263	4,617
Audit Fees	46,646	12,977	(33,669)
Legal Services		12,598	12,598
Board Meeting Expenses	3,362	4,945	1,583
Other		2,533	2,533
Total Expenses	1,105,519	1,084,761	(20,758)
Change in Net Assets	(28,556)	46,690	75,246
Beginning Net Assets	(20,339)	(48,895)	(28,556)
Ending Net Assets	($ 48,895)	($ 2,205)	$46,690

In total, revenue increased by $54,488 while total expenses decreased by $20,758 resulting in a net increase in net assets.

Capital Assets

At June 30, 2012, capital assets of the School consisted of $123,884 of leasehold improvements, equipment and furniture which were offset by $123,884 in accumulated depreciation resulting in net capital assets of zero as fixed assets were fully depreciated. There were no capital asset additions for the year.

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

Debt

During the year ended June 30, 2012, the School had $6,781 in notes payable outstanding to IMR. The loans do not contain provisions for interest and were due by December 31, 2011, unless extended by both parties or payment is demanded by the management company.

Please see note 15 to the basic financial statements for more detailed information on the School's debt.

Contacting the School

This financial report is designed to provide a general overview of the finances of the Richard Allen Academy Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Richard Allen Community School, 368 South Patterson Blvd, Dayton, OH 45402.

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RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2012

Assets:	
Current Assets:	
Cash and Equivalents	$28,515
Accounts Receivable - IMR	101,632
Intergovernmental Receivable	41,514
Contractual Receivable	109,339
Total Current Assets	281,000
Liabilities:	
Current Liabilities:	
Accounts Payable - Vendor	36,558
Accounts Payable - IMR	236,452
Intergovernmental Payable	3,414
Notes Payable - IMR	6,781
Total Current Liabilities	283,205
Net Assets:	
Restricted for Scholarships	22,995
Unrestricted	(25,200)
Total Net Assets	($2,205)

See accompanying notes to the basic financial statements.

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Operating Revenues:	
State Foundation	$809,748
Other Operating Revenues	55,731
Total Operating Revenues	865,479
Operating expenses:	
Purchased Services	1,035,445
Sponsorship Fees	16,263
Audit Fees	12,977
Legal Services	12,598
Board Meeting Expenses	4,945
Other	2,533
Total Operating Expenses	1,084,761
Operating Loss	(219,282)
Non-Operating Revenues:	
Federal and State Grants	243,017
Grants and Donations - Restricted	22,955
Total Non-Operating Revenues	265,972
Change in Net Assets	46,690
Net Assets at Beginning of Year	(48,895)
Net Assets at End of Year	($2,205)

See accompanying notes to the basic financial statements.

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Cash Flow from Operating Activities:	
Cash Received from State Foundation	$813,162
Cash Received from Other Operating Activities	61,070
Cash Payment for Goods and Services	(1,085,041)
Net Cash Used in Operating Activities	(210,809)
Cash Flow from Non-Capital Financing Activities:	
Cash Received from Federal and State Grants	201,503
Cash Received from Grants and Donations	22,955
Net Cash Provided by Non-Capital Financing Activities	224,458
Net Increase in Cash and Cash Equivalents	13,649
Cash and Cash Equivalents, Beginning of Year	14,866
Cash and Cash Equivalents, End of Year	$28,515
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	($219,282)
Adjustment to Reconcile Operating Loss to Net Cash Used in Operating Activities	
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	5,339
Increase in Intergovernmental Payable	3,414
Decrease in Accounts Payable	(280)
Total Adjustments	8,473
Net Cash Used in Operating Activities	($210,809)

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

The School contracts with the Institute of Management and Resources, Inc. (IMR) for a variety of services including management consulting, Education Management Information System (EMIS) monitoring and consulting, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications, and any other services requested by the School. In addition, all employees of the School are IMR employees and are subsequently contracted to the School. (See note 9 for additional detail on the contractual relationship between IMR and the School.)

The School entered into a Sponsor Contract with Kids Count of Dayton, Inc. on December 15, 2006. The contract was renewed on May 25, 2011 for an additional term ending June 30, 2012.

The School operates under a self-appointing five-member Board. The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School's enrollment of 116.64 FTE students for fiscal year 2012 represents a decrease of 2.74 students from the prior year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities is defined as net assets. Net assets are segregated into three categories: 1) net assets invested in capital assets, net of related debt 2) restricted net assets and 3) unrestricted net assets. The statement of revenues, expenses and changes in net assets present increases (i.e. revenues) and decreases (i.e. expenses) in net total assets.

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

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

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Schools contract with its Sponsor. The contract between the School and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on a semi-annual basis.

D. Cash

All monies received by the School are maintained in demand deposit accounts.

E. Estimates

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

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The School maintains a capitalization threshold of $1,000. The School does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are expensed.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Parity Aid Program, which is poverty aid funding. These programs are recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and State grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

H. Operating and Non-Operating Revenues And Expenses

Operating revenues are those revenues that are generated directly by the School's primary mission. For the School, operating revenues include foundation payments (basic aid and special education funding) and parity aid received from the State of Ohio. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Federal and state grants comprise the non-operating revenues of the School.

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2012.

J. Federal Tax Exemption Status

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that, in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the school's bank balance was $28,515. The entire bank balance was covered by federal depository insurance and therefore not considered to be subject to custodial credit risk.

4. RECEIVABLES

All receivables are considered collectible in full.

Intergovernmental Receivable – amounts owed to the School for the federal and state grants as well as excess Foundation deductions for STRS.

Contractual Receivable – amounts due from Richard Allen Academy II Community School for kindergarten contract.

5. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2012, follows:

Capital Assets	Beginning Balance	Additions	Deletions	Ending Balance
Leasehold Improvements	$37,965			$37,965
Equipment	74,919			74,919
Furniture	11,000			11,000
Total	123,884			123,884
Less: accumulated depreciation	(123,884)			(123,884)
Capital Assets, net	$ 0			$ 0

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the School contracted with the WRM America and Cincinnati Specialty Underwriters for business personal property, director and officer liability and general liability insurance. Director and officer liability coverage is set at $1,000,000, total loss. General liability coverage provides $1,000,000 per occurrence and $2,000,000 in the aggregate with no deductible. The WRM America also provide umbrella liability coverage of $4,000,000 per occurrence, as well as, in the aggregate.

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

B. Employee Insurance Benefits

As part of the management agreement with the IMR (see note 9), insurance benefits are paid by the Institute.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *"Employers/Audit Resources"*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current 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 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were $90,742, $94,416, and $41,027, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under *"Publications".*

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all 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 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

7. DEFINED BENEFIT PENSION PLANS (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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were $144,197, $180,102, and $150,037, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

8. POST EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was $96.40 for most participants, but could be as high as $369.10 per month depending on their income and the SERS' reimbursement to retirees was $45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *"Employers/Audit Resources"*.

8. POST EMPLOYMENT BENEFITS (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was $35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were $3,930, $11,432, and $1,477, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were $5,359, $6,076, and $2,440, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The School contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under *"Publications"* or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were $11,092, $13,854 and $11,541, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

9. MANAGEMENT COMPANY AGREEMENTS

On September 1, 2006, the School entered into an agreement with the Institute of Management and Resources, Inc. (IMR), a non-profit corporation, to provide management services. The agreement with IMR is through June 30, 2015.

The Management Agreement provides that IMR will perform functions reasonably required to manage the operation of the School; ensure students receive services which are in accordance with applicable educational standards; make every effort to ensure the School complies with the requirements of any applicable statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquire all necessary licenses and permits; maintain all student and financial records required by federal, state and local laws and regulations, as well as, protecting the confidentiality of those records; act as the School's agent in making deposits and disbursements promptly; provide for all expenses of operating the School, including lease payments for the school building, equipment and operating supplies needed in the operation of the School, from its management fee. IMR is responsible for hiring qualified teachers and all other employees which are subsequently contracted to operate the School. For fiscal year 2012, the expense related to contractual employees totaled $766,179; $640,885 for payroll and $125,294 for benefits, respectively.

IMR receives a monthly management fee of 10 percent of total revenues of the School from all sources after deductions of STRS, SERS and audit adjustments. Another 87 percent of operating revenues covers expenses incurred on behalf of the School in order to provide district-wide services. These expenses include but are not limited to district-wide management services provided by IMR employees in the area of instruction, transportation, financial and general business management and development as well as district-wide purchase of text books and supplies.

The table below shows the management company expenses for fiscal year 2012.

Direct:	
Salary and Wages	$640,885
Benefits	125,294
Food Service	12,284
Health Insurance	86,338
Property and Causality Insurance	6,402
Professional and Legal Services	4,529
Postage	74
Purchased Services	187,243
Rent	9,097
Repairs and Maintenance	5,328
Supplies	3,056
Telephone/Networking	3,042
Utility	28,840
Indirect:	
Overhead	178,332
Total Expenses	$1,290,744

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

10. CONTINGENCIES

A. State Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. As a result of review after fiscal year-end 2012, the Ohio Department of Education overpaid the School $3,414. This amount was recognized in the financial statements as intergovernmental payable.

B. Litigation

On October 18, 2012, The Institute of Management and Resources, Inc. (“IMR”), the management company of the School, filed a complaint for declaratory judgment and injunctive relief against the School, as well as the Auditor of State and Attorney General regarding findings for recovery issued by the Auditor in favor of the School.

Institute of Management and Resources, Inc. v. Dave Yost, et al.
Montgomery County, Ohio Court of Common Pleas: Case No. 2012 CV 07494

Both IMR and the School dispute the Auditor’s interpretation of the contract and have attempted to resolve the matter amicably with both the Auditor and the Attorney General, who is tasked with enforcing findings for recovery. Not only were the parties unsuccessful in resolving the dispute, the Auditor has put both parties on notice that they intend to issue similar findings against IMR for the 2012 fiscal year. Accordingly, IMR has filed this action pursuant to R.C. 9.24, challenging the Auditor’s interpretation of the management contract and enjoining the Attorney General from enforcing the finding. Because the Auditor and Attorney General are acting on behalf of the School statutorily, the School is an indispensable party to the litigation. The outcome of this case will have a material impact on financial statements of the School, the exact amount of which is not known at this time.

11. OPERATING LEASES

On October 1, 2007, the School entered into an operating lease agreement with ICSMR for the use of the facilities commencing on October 1, 2007, and continuing through June 30, 2012. The terms of this lease agreement calls for monthly rental payments of $5,300.

12. MANAGEMENT’S PLAN REGARDING ACCUMULATED DEFICIT

Management has taken steps towards increasing student enrollment and containing costs, which would provide additional State funding and reduce expenses respectively, enabling the School to return to financial stability.

13. RELATED PARTIES

The Governing Board, of Richard Allen Academy Community School served in the same capacity for the Richard Allen Preparatory, Richard Allen Academy II, and Richard Allen Academy III Community Schools for the portion of fiscal year 2012, all of which are managed by the Institute of Management and Resources, Inc (IMR). Richard Allen Academy Community School shares its Chief Executive Officer, Superintendent and the Treasurer/CFO with the other three Richard Allen Schools named above. The School pays IMR a management fee of ten percent of the total revenue of the School from all sources after a deduction of SERS, STRS, and audit adjustments. The School pays IMR another 87 percent for expenses incurred on behalf of the School. See Note 9. The School has a note payable due to IMR. See Note 15.

The Institute of Charter School Management Resources, Inc. (ICSMR), a corporation wholly owned by the Chief Executive Officer of the School, provides and bills for consulting services to IMR, the management company for the School. The cost of the services provided to IMR by ICSMR is allocated to the School, as well as the other Richard Allen schools. The School has an operating lease with ICSMR for the use of the facilities. See Note 11. The School's Superintendent is the daughter of the IMR/ICSMR CEO. The CEO's husband is the School's co-founder. In April 2012, the CEO resigned as CEO of IMR, ICSMR, and Richard Allen Academy Community School.

14. PURCHASED SERVICES

During the fiscal year ended June 30, 2012, purchased service expenses for services rendered were as follows:

Management Services	$ 788,256
Certified Retirement	147,159
Non-Certified Retirement	100,030
Total	$1,035,445

15. NOTES PAYABLE

At June 30, 2012, the School had outstanding notes payable to IMR of $6,781. These notes were originally required to be repaid from operating revenue by December 31, 2011, unless extended by the two parties. The repayment of the notes has subsequently been extended until payment is required by IMR. The loans do not contain any provision for interest. A summary of School's short term debt obligations for the year are as follows:

Note Payable	Beginning Balance	Additions	Deletions	Ending Balance
Operating Loan – IMR	$6,781			$6,781

16. SUBSEQUENT EVENTS

Effective July 1, 2012, the School entered into a two-year Sponsorship contract with the Ohio Department of Education (ODE) in return for three percent (3%) of all funds received by the School from the State of Ohio foundation payments.

16. SUBSEQUENT EVENTS (Continued)

On October 18, 2012, The Institute of Management and Resources, Inc. ("IMR"), the management company of the School, filed a complaint for declaratory judgment and injunctive relief against the School, as well as the Auditor of State and Attorney General regarding findings for recovery issued by the Auditor in favor of the School.

Institute of Management and Resources, Inc. v. Dave Yost, et al.
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Both IMR and the School dispute the Auditor's interpretation of the contract and have attempted to resolve the matter amicably with both the Auditor and the Attorney General, who is tasked with enforcing findings for recovery. Not only were the parties unsuccessful in resolving the dispute, the Auditor has put both parties on notice that they intend to issue similar findings against IMR for the 2012 fiscal year. Accordingly, IMR has filed this action pursuant to R.C. 9.24, challenging the Auditor's interpretation of the management contract and enjoining the Attorney General from enforcing the finding. Because the Auditor and Attorney General are acting on behalf of the School statutorily, the School is an indispensable party to the litigation. The outcome of this case will have a material impact on financial statements of the School, the exact amount of which is not known at this time.

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Richard Allen Academy Community School
Montgomery County
368 South Patterson Boulevard
Dayton, Ohio 45402

To the Governing Board

We have audited the financial statements of Richard Allen Academy Community School, Montgomery County, Ohio (the School) as of and for the year ended June 30, 2012 which collectively comprise the School's basic financial statements and have issued our report thereon dated August 28, 2013, wherein we noted that we were unable to obtain sufficient audit evidence supporting the School's accounts payable – IMR and the opening equity. We also noted that the School has an accumulated deficit of $2,205 as of June 30, 2012. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2012-001 and 2012-002 described in the accompanying schedule of findings to be material weaknesses

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-003 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-002 through 2012-005.

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated August 28, 2013.

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

We intend this report solely for the information and use of management, the Board of Directors, the School sponsor, and others within the School. We intend it for no one other than these specified parties.

Dave Yost
Auditor of State

August 28, 2013

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2012

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

FINDING NUMBER 2012-001

MATERIAL WEAKNESS

At June 30, 2010, the School reported $103,724 in accounts receivable balance due from its management company, Institute of Management & Resources (IMR). This balance consisted of June 30, 2010 reconciling items for various revenues deposited by IMR in its bank account instead of the School's bank account during fiscal year 2010 and expenditures made by the school that were actually management company expenses. During 2011, the School receipted $2,092 of this receivable amount from school lunch receipts. However, there was no evidence that IMR actually repaid the remaining receivable amount of $101,632 to the School during fiscal years 2011 and 2012 or netted the receivables against the payables due to the management company during either year. Additionally, the School did not report any receivable due from the management company at June 30, 2012 on the original financial statements provided to the Auditor of State on December 4, 2012. In accordance with the foregoing facts, and pursuant to **Ohio Revised Code Section 117.28**, a Finding for Recovery was issued in June 30, 2011 audit report which remains unpaid to date.

On August 12, 2013, the School agreed to present the accounts receivable on June 30, 2012 statement of net assets by increasing the corresponding accounts payable to IMR. As noted above, there is no indication that the receivables were netted against payables during 2011. The School overstated June 30, 2012 accounts payable - IMR by $101,632 and understated the beginning net assets by the same amount. Due to this known error and other issues related to the IMR payable line item noted in finding number 2012-002, we are unable to provide an opinion on this line item. Beginning net assets are also materially misstated.

Failure to provide adequate supporting documentation for all financial statement line items could result in financial statement opinion modifications. Procedures should be implemented to verify the overall financial integrity of the information presented in the financial statements.

Official's Response: See pages 32 and 33.

FINDING NUMBER 2012-002

NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Revised Code Section 3314.03 (B)(5) and **AOS Bulletin 2000-005** require that the management of each community school be responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of assets, and the efficiency and effectiveness of its operations, and its compliance /with applicable laws, regulations and contracts.

The School utilized Sage accounting system for recording its financial transactions. The system was designed to capture information on an accrual basis of accounting. Based on review of the general ledger from the system these accounts were not accurately updated or corrected in a timely basis throughout the year. In addition, numerous correcting entries were posted in the general ledger.

**FINDING NUMBER 2012-002
(Continued)**

The School's Finance Report for 2012 lacked sufficient underlying support to opine on some line items and contained errors which resulted in reclassifications and adjustments to correctly report the financial activity during and at the end of the period as follows:

Statement of Net Assets:

- The 2011 audit opinion over Accounts Payable-IMR line item was qualified due to lack of supporting documentation. $125,011 of the $134,820 amount originally reported as payable to the management company at June 30, 2012 was related to 2011 balance. Due to lack of sufficient audit evidence related to the beginning balance, we cannot render an opinion on this line item. Additionally, payables reported by the School included $2,533 in payable to the management company for Finding for Recovery. There was no amount due to the management company for finding for recoveries related to prior audits. No adjustments were made to the accounts payable – IMR line item due to auditor's inability to opine on this line item.
- Intergovernmental receivables were overstated by $30,963 due to the School reporting inaccurate receivables related to SERS and STRS overpayments during 2012. The financial statements were adjusted for this error.
- Intergovernmental receivables were understated by $21,384 due the School not reporting receivables related to its federal grants. The financial statements were adjusted for this error.
- Intergovernmental Payables were understated by $2,884 due to the School not recording a payable due to SERS for underpayment of retirement contributions during 2012. The financial statements were not adjusted for this error.

Statement of Revenues, Expenses, and Changes in Net Assets:

- Purchased Services was understated by $33,847 due to the above noted errors related to intergovernmental payable and receivable. $30,963 of this error amount has been adjusted in the accompanying financial statements.
- Federal and State Grants were understated by $21,384 due to the above noted error related to intergovernmental receivables. The financial statements have been adjusted.

Statement of Cash Flows:

Multiple adjustments were made to the Statement of Cash Flows to properly reflect the following line items:

- Cash flow from miscellaneous sources
- Cash payments for goods and services
- Cash received from federal and state grants
- Various reconciling items in reconciliation of operating loss to net cash used by operating activities were also adjusted

FINDING NUMBER 2012-002
(Continued)

In addition to the items above, there are other doubts regarding the Accounts Payable - IMR line item. The First Addendum to the management company agreement between the School and the Institute of Management and Resources, Inc. (IMR) effective July 1, 2009 required to the School to pay "eighty-seven percent (87%) of the remaining 90%" of revenue of the School from all sources to the IMR for school expense fees incurred on behalf of the School for district wide operational services, i.e., transportation, supplies, textbook, rents, utilities, etc. At the inception of the first addendum, the School transferred its various accounts payable related to district wide operational services to the IMR and has been reporting the payable as due to the management company instead of specific vendor on its financial statements. Given the age of these liabilities, it would be expected that the outside vendors would have either pursued legal action to obtain payment or written the amounts off as uncollectible and stopped the pursuit of payment. Additionally, the School historically has had a low cash balance, including just $28,515 at June 30, 2012 out of which only $5,520 could be used to repay these liabilities. Based on IMR's interpretation of the management contract and the new management company contract as discussed in finding number 2012-005, nearly all of the School's revenue was turned over to IMR for payment of the School's expenses over the last two years. If this practice continues, the School may never have the funds to pay these liabilities even if they are legitimate obligations.

In addition to lack of detailed support, the financial statements originally presented for audit did not present detailed activity to arrive at the financial statement amounts.

Procedures should be developed and implemented to provide for integrity of the financial records. Additionally, the amounts in the financial statements, notes to the financial statements, and MD&A should be supported by appropriate documentation. Failure to establish these procedures could result in inaccurate financial reporting of the School's activities.

The School should also consider utilizing software like one offered by MDECA for accounting. Such software is specifically designed for Schools and utilize Ohio Department of Education recommended USAS to better capture accounting information. This software will not capture information on accrual basis of accounting. However, it will allow the School to segregate its activity in funds and help the School properly track its federal expenditures. Additionally MDECA will provide data integrity that the current software did not provide.

Official's Response: See pages 32 and 33.

FINDING NUMBER 2012-003

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

Ohio Revised Code Section 3314.024 requires community school management companies that receive more than 20 percent of the annual gross revenues of the school to provide a detailed accounting including the nature and cost of the services it provides to the community school. This information shall be included in the footnotes to the financial statements of the school, and be subject to audit during the course of the regular financial audit of the community school. **Auditor of State Bulletin 2004-009** provides guidance for management company footnote disclosure. The Bulletin also allows the school to obtain an agreed upon procedures report on this particular note disclosure from an independent auditor.

FINDING NUMBER 2012-003
(Continued)

The School's agreed upon procedures (AUP) report obtained from an independent accountant noted various exceptions pertaining to Richard Allen Academy that resulted in the management company footnote and/or the federal awards receipts and expenditures schedule being revised. The following exceptions were noted:

- The management company incorrectly reported retirement expenditures in the amount of $255,319 that were made by the School as management company expenditures. A correction was made to correctly remove the expenditures from the footnote.
- Various receipts and expenditure adjustments in the amount of $28,382 were either corrected on the applicable schedules in the AUP report or did not materially impact the schedules.
- Various expenditures totaling $17,203 were not properly allocated between schools, improperly included in expenditures, or not allowable and have been corrected on the applicable schedules.

No audit adjustments were required in the accompanying financial statements; however, the errors noted in this report are significant enough to warrant attention of those charged with governance.

Policies and procedures should be established and implemented to verify that the management company properly and accurately reports all expenditures made on behalf of the School in accordance with the Auditor of State Bulleting 2004-009. Failure to do so could result in opinion modifications in the future.

Official's Response: See pages 32 and 33.

FINDING NUMBER 2012-004

NONCOMPLIANCE/ FINDING FOR RECOVERY

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, **Ohio Attorney General Opinion 82-006** indicates that it must be memorialized by a duly enacted ordinance or resolution and *may have a prospective effect only*.

In response to the finding for recoveries stemming from the special audit conducted by the Auditor of State of Ohio, the Academy retroactively amended its management company contract during the January 21, 2012 meeting. Section Three of the revised contract in part states that the Academy shall pay to IMR a management fee of ten percent (10%) of the total revenues of the Academy from all sources after deduction of STRS, SERS and audit adjustments. The Academy will pay to IMR eight-seven percent (87%) of total revenues of the Academy from all sources after deduction of STRS, SERS and audit adjustments for School Expense Fees incurred on behalf of the Academy for school-wide operational services, i.e. transportation, supplies, textbooks, rents, utilities, etc. This Addendum shall be of full force and effect retroactive to July 1, 2008. The addendum replaced **First Addendum to the Management Agreement** between Institute of Management and Resources, Inc. (IMR) and the School which stated, in part, that the School shall pay to IMR a management fee of 10% of the total revenues of the School from all sources after deduction of STRS, SERS, and audit adjustments. The School will pay to the IMR 87% of the remaining 90% for School Expense Fee incurred on behalf of the School for District wide operational services, i.e., transportation, supplies, textbooks, rents, utilities, etc.

FINDING NUMBER 2012-004
(Continued)

Per Ohio Attorney General Opinion 82-006 retroactive approval of the management company contract is not legal and the First Addendum to the Management Agreement would be binding up to January 21, 2012. The Second Addendum was effective after this date.

Between July 1, 2011 and January 21, 2012, the School paid $437,897 to IMR for management fee and school related expenses. Other than IMR contract, there was no support, such as billing statements or support for amounts paid and transferred to IMR for this period during fiscal year 2012. Fiscal year 2012 revenues up to January 21, 2012, amount to $440,410. 10% or $44,041 of these revenues was due to the IMR for management fee. 87% of the remaining $396,369 amounting to $344,841 was due to IMR for "School Expense Fees." Based on the management agreement, total payment to IMR for management company and school expense fees should have been $388,882. The management company was overpaid $49,015.

From January 22, 2012 to June 30, 2012, the School paid $342,751 to IMR for management fees and school related expenses. There were no billing statements or support for amounts paid and transferred to IMR during this period. The School received $372,584 in "total revenues" between January 21, 2012 and June 30, 2012. 10% or $37,258 of these revenues was due to the IMR for management fee. 87% or $324,148 of these revenues was also due to IMR for "School Expense Fees." Based on the management agreement, total payment to IMR for management company and school expense fees should have been $361,406. The management company was underpaid $18,655.

In accordance with the forgoing facts, and pursuant to **Ohio Revised Code Section 117.28**, a finding for recovery for public money illegally expended in the amount of $30,360 is hereby issued against the Institute of Management and Resources, Inc., and in favor of Richard Allen Academy.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure was made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St 47 (1929); 1980 Op. Atty Gen. No. 80-074: Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty Gen. No. 80-074.

Felix O'Aku, Treasurer, authorized bank transfers resulting in the improper payment. Accordingly, a Finding for Recovery is hereby jointly and severally issued against Felix O'Aku and his bonding company the Ohio Casualty Insurance Company in the amount of $30,360 and in favor of the Richard Allen Academy.

The School should review its management company contract and verify that payments made to the management company are in accordance with the board ratified contract. Failure to do so could result in future potential overpayments and findings for recoveries. Also, any payments made to the management company should be adequately supported.

Official's Response: See pages 32 and 33.

FINDING NUMBER 2012-005

NONCOMPLIANCE

Ohio Rev. Code Section 2921.42 (A), in part, states that no public official shall knowingly do any of the following:

(1) Authorize, or employ the authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest;

(4) Have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected;

On September 1, 2006 the School entered into a management contract with Institute of Management and Resources, Inc. (IMR). The School's Founder and Director, Jeanette Harris; her husband and Emeritus Board member Rev. Earl Harris and her daughter and Schools' Superintendent Michelle Prear Ferell, now Michelle Thomas, were listed as original directors of IMR per articles of incorporation filed with the Secretary of State. The Management Company Contract was modified on July 1, 2009 and again on January 21, 2012. The original contract and amendments were signed by Jeanette Harris on behalf of the management company. During this time Jeanette Harris was also serving as the Director of the School. In April 2012, Jeanette Harris resigned from her positions at the management company and the School. At the same time Rev. Earl Harris resigned from the School's Board. Michelle Thomas took over the role of president at the management company and CEO of the Schools after Jeanette Harris' departure.

The School also employed the Management Company's CFO, Felix O'Aku as its Treasurer. The School electronically transferred $780,648 to its management company during fiscal year 2012. All electronic transfers were initiated by Treasurer, Felix O'Aku. The management company was overpaid $30,360 during the fiscal year and finding for recovery has been issued against the management company and in favor of the School.

The School has shared its administration with the management company and there have been instances where the Management Company has benefited at the expense of the School. The arrangement between the management company and the School is also in violation of **Ohio Rev. Code Section 2921.42** as management at the School had an interest in the affairs of IMR. The School should take appropriate steps to verify that its management is independent of the management company, and policies and procedures are in place to detect and appropriately address any conflict of interest. Failure to do so could result in the School entering into contracts that might not be in the best interest of the School or the students who attend it.

A referral has been made to the Ohio Ethics Commission.

Official's Response: See pages 32 and 33.

RICHARD ALLEN ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2011-001	Ohio Rev. Code Section 3314.02(E)(2) – Governing Board members serving on Board for more than two schools.	Yes	
2011-002	Finding for Recovery in amount of $82,939 against Institute of Management and Resources for overpayment of management fees.	No	Finding for Recovery has not been repaid.
2011-003	Finding for Recovery in amount of $101,632 against Institute of Management and Resources for unpaid receivables. Financial statement opinion was also modified.	No	Finding for Recovery has not been repaid. Material Weakness repeated as Finding Number 2012-001.
2011-004	Ohio Rev. Code Section 3314.03 (B)(5) and AoS Bulletin 2000-005 – Financial statement misstatements	No	Repeated as Findings Number 2012-002
2011-005	Ohio Rev. Code Section 3314.024 and AoS Bulletin 2004-009 – Management Company Footnote	No	Repeated as Finding Number 2012-003

OFFICIALS' RESPONSES TO AUDIT REPORT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Finding 2012-001

The School's position that receivables were netted against payables (decreased receivable and decreased payables) remains unchanged from the 2011 audit. In 2012, the Auditors and the School agreed to reverse the original entry with which the receivable were netted against the payables as a condition of resolving the 2011 finding for recovery (2011-003) and the resulting opinion qualification. The agreed upon reversal (increase receivable and increase payables) was made as an adjusting entry in the 2012 audit, the finding for recovery was resolved, but qualification was removed for only the receivable. It appears now that the Auditors seem to be accepting only one side of a double-sided entry and rejecting the other; specifically, they are accepting the increase in receivable and rejecting the increase in payable. The School is open to any suggestions from the Auditors as to what would be required for the other side of the entry to be deemed acceptable.

Auditor of State's Conclusion: The Academy did not provide and sufficient documentary evidence to support that receivables were netted against the payables. The School should have increased opening equity instead of accounts payable.

Finding 2012-002

The School has taken the following steps to address the issues raised in Finding 2012-002: (1) the School has hired a Treasurer who reports directly to the Governing Board, as opposed to the management company. This will provide a greater degree of independence and internal control; (2) the Treasurer will be responsible for the compilation of financial statements independent from the management company, which should help eliminate the errors reported previously; (3) the Treasurer has years of demonstrable experience in capturing and providing accounting information in the form and preferred by the Ohio Department of Education.

Finding 2012-003

The School and management company have entered into a new management agreement effective October 1, 2013. That agreement requires the management company to report all expenditures made on behalf of the School to the Governing Board on a regular basis.

Finding 2012-004

The School disputes the Auditor of State's interpretation of the management agreement fee language in effect from July 1, 2011 through January 21, 2012. Accordingly, both IMR and the School have formally contested the related findings or recovery in accordance with ORC 9.24. That case, *Institute of Management and Resources, Inc. v. Dave Yost, et al*., Case No. 2013 CV 000682, is currently pending in the Franklin County Court of Common Pleas before Judge Guy L. Reece II.

In addition, the Governing Board has implemented a procedure whereby, in order for IMR to receive more than the contractual management fee, they must submit a formal request specifying the amount of funds needed, along with the proposed use of those funds, which must be formally approved by the Governing Board at a properly convened meeting of the same.

Finding 2012-005

At the time both the School and management company were founded, community school officials were specifically exempted from the provisions of ORC 2921.42 via ORC 3314.03. The amendment to that law did not take effect until July 1, 2006. Since that time, Jeanette Harris has resigned as CEO of IMR and CEO of the Richard Allen Schools. Reverend Harris was an emeritus member of the Governing Board, which was an honorary title bestowed upon him by the voting Governing Board members in recognition of his contributions to the Schools as a founder thereof. Although the emeritus Board position was ceremonial and non-voting, Reverend Harris resigned from the same in 2011 order to avoid any appearance of impropriety.

With regard to Dr. Michelle Thomas, she is the CEO of the management company and is employed by the same. By and through the management agreement between the IMR and the School and pursuant to formal Board action, Dr. Harris serves as Superintendent of the Richard Allen Schools and principal of Richard Allen Academy and Richard Allen Academy II. However, Dr. Thomas receives no additional compensation for serving as the chief executive for the management company beyond the compensation received for serving in her administrative capacities at the Schools. In addition, Dr. Thomas is not, and has never been, CEO of the Richard Allen Schools. This is a clear misstatement by the Auditors.

Mr. Felix O'Aku does serve as CFO for IMR. Mr. O'Aku also served as fiscal officer of the School. The fact of the matter is that it is a customary business practice in the state of Ohio for charter school management companies and sponsorship organizations to provide fiscal and treasury services to the schools that they oversee. The noncompliance finding does not allege that Mr. O'Aku serving as fiscal officer for the School while being employed by IMR is in violation of state law because no such prohibition exists. However, as of July 1, 2013, Mr. O'Aku has been replaced as fiscal officer for the School in order to avoid any appearance of impropriety.

And as previously discussed, Finding 2012-004 was a refund to IMR for a payment made by IMR to the School in an attempt to resolve various findings for recovery. Because the Attorney General refused to accept IMR's repayment of $2,237 on behalf of the various Board members, Jeanette Harris and Steven Johnson, Mrs. Harris personally submitted repayment to the School in the same amount in order to resolve the related findings. Accordingly, IMR was issued a refund for that $2,237 payment.

Auditor of State's Conclusion: Michelle Thomas served as the Superintendent at the School and CEO of the Management Company. Felix O'Aku served as the Treasurer of Schools and CFO of Management Company. Due to close relationship between the School and the Management Company, the Auditor of State believes there is a conflict of interest and this issue has been referred to the Ohio Ethics Commission.

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RICHARD ALLEN ACADEMY COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 6, 2013