



Dave Yost • Auditor of State



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

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Richard Allen Academy II Community School, Montgomery County, Ohio (the School), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

***Basis for Qualified Opinion***

The opinion on the School's June 30, 2012 financial statements was qualified due to the lack of sufficient audit evidence supporting the School's net position and the adjustment made to reduce the 2012 purchased services expense as a corresponding debit to asset, liability, revenue or expense line item could not be determined. We are unable to apply procedures to determine whether the net position in the financial statements at July 1, 2012 and June 30, 2013, were fairly presented in conformity with accounting principles generally accepted in the United States of America.

***Qualified Opinion***

In our opinion, except for the effects of matters described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Richard Allen Academy II Community School, Montgomery County as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary and Other Information*

Our audit was conducted to opine on the School's basic financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures also presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

August 1, 2014

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)**

Our discussion and analysis of Richard Allen Academy II Community School (the School) financial performance provides an overall review of the Schools' financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2013 are as follows:

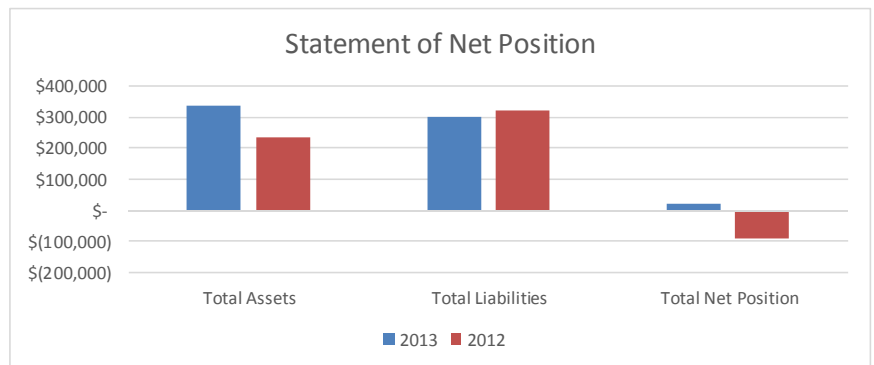
- Total net position increased \$110,305 from 2012.
- Total liabilities decreased \$18,702, or 5.8%, while total assets increased \$91,603, or 39.4% from 2012.
- Total revenue decreased from \$4,439,830 in fiscal year 2012 to \$4,057,055 in fiscal year 2013, a 9% decrease.
- Total expenses decreased from \$4,271,832 in fiscal year 2012 to \$3,946,750 in fiscal year 2013, an 8% decrease from 2012.

**Using this Financial Report**

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

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position reflect how the School did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's Net Position and changes in those assets. This change in Net Position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.



The School uses enterprise presentation for all of its activities.

**Statement of Net Position**

The Statement of Net Position answers the question of how the School did financially during 2013. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)  
(Continued)**

Table 1 provides a summary of the School's Net Position as of June 30, 2013 compared to the prior year.

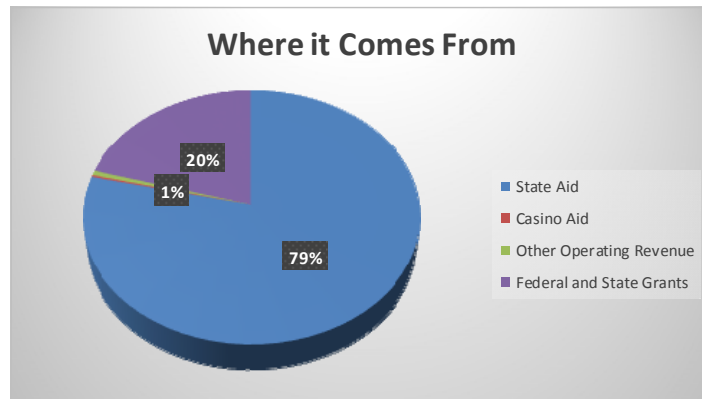
**(Table 1)**  
**Statement of Net Position**

	<b>2013</b>	<b>2012</b>
<b>Assets:</b>		
Current Assets	\$311,820	\$218,622
Non-Current Assets,	12,227	13,822
<b>Total Assets</b>	<b>324,047</b>	<b>232,444</b>
<b>Liabilities:</b>		
Current Liabilities	301,976	320,678
<b>Net Position:</b>		
Net Investment in Capital Assets	12,227	13,822
Unrestricted	9,844	(102,056)
<b>Total Net Position</b>	<b>\$22,071</b>	<b>(\$88,234)</b>

Total assets increased in 2013 by \$91,603 due to increased receivables. Liabilities decreased by \$18,702 and Net Position increased \$110,305 in 2013. Liabilities decreased primarily due to the decrease in payables due to the management company.

**Statement of Revenues, Expenses and Changes in Net Position**

Table 2 shows the changes in Net Position for fiscal year 2013, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the school as a whole, the financial position of the school has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)  
(Continued)**

Table 2 shows change in Net Position for fiscal year 2013 compared with fiscal year 2012.

**(Table 2)  
Change in Net Position**

	<b>2013</b>	<b>2012</b>
<b>Operating Revenue:</b>		
State Aid	\$3,189,473	\$3,385,134
Casino Aid	9,734	-
Other Operating Revenue	24,106	119,764
<b>Non-Operating Revenue:</b>		
Federal and State Grants	833,742	934,932
<b>Total Revenues</b>	<b>4,057,055</b>	<b>4,439,830</b>
<b>Operating Expenses:</b>		
Purchased Services	3,800,096	4,161,940
Sponsorship Fees	95,684	67,957
Legal	11,457	11,426
Auditing and Accounting	27,462	24,126
Board of Education	9,456	2,301
Depreciation	1,595	2,182
Miscellaneous	1,000	1,900
<b>Total Expenses</b>	<b>3,946,750</b>	<b>4,271,832</b>
<b>Change in Net Position</b>	<b>\$110,305</b>	<b>\$167,998</b>

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the state foundation and federal entitlement program receipts. Foundation and federal entitlement revenues made up 99% of all revenues for the School in fiscal year 2013. Revenues decreased due to the reduced foundation and entitlement funds.

***Budgeting Highlights***

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 Chapter 5705, unless specifically provided in the community school's contract with its sponsor. The contract between the School and its Sponsor does prescribe a budgetary process. The School has developed a one year spending plan and a five-year forecast that is reviewed periodically by the Board of Trustees. The five-year forecasts are also submitted to the Sponsor and the Ohio Department of Education.

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2013, the School had \$12,227 in capital assets (see note 4).

**Debt**

At June 30, 2013, the School had \$12,500 in notes payable (see Note 15).

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

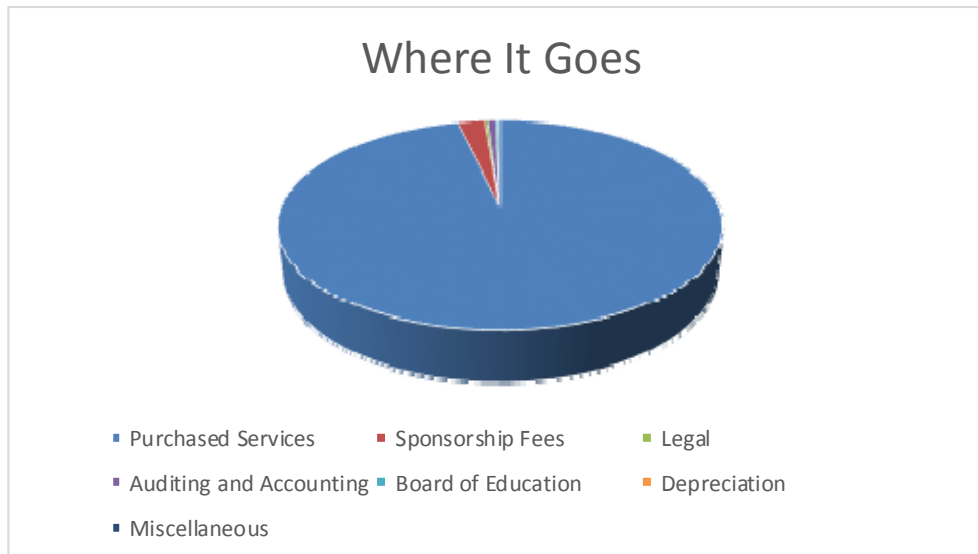
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(UNAUDITED)  
(Continued)**

**Current Financial Related Activities**

The School's financial outlook over the next several years shows continued growth as enrollment is projected to increase. Enrollment for the school is at 379 students as of November 2013. But, future revenue increases are cautious due to Ohio's weak economic recovery.

**Contacting the School's Financial Management**

This financial report is designed to provide all citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Brian G. Adams, CFO, Richard Allen Academy II Community School, 368 South Patterson Boulevard Dayton, Ohio 45402.



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

**STATEMENT OF NET POSITION  
JUNE 30, 2013**

**Assets:**

**Current Assets:**

Cash and Cash Equivalents	\$2,177
Accounts Receivable-IMR	283,918
Intergovernmental Receivable	16,769
Security Deposits	8,956
Total Current Assets	<u>311,820</u>

**Non-current Assets:**

Depreciable Capital Assets, net	<u>12,227</u>
Total Assets	<u>324,047</u>

**Liabilities:**

**Current Liabilities:**

Accounts Payable-Vendor	59,816
Accounts Payable-IMR	14,983
Notes Payable	12,500
Contractual Payable	214,677
Total Current Liabilities	<u>301,976</u>

**Net Position:**

Net Investment In Capital Assets	12,227
Unrestricted	<u>9,844</u>
Total Net Position	<u>\$22,071</u>

*See accompanying notes to the basic financial statements.*

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY  
STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>Operating Revenues:</b>	
State Foundation	\$3,189,473
Casino Aid	9,734
Other Operating	24,106
Total Operating Revenues	<u>3,223,313</u>
<b>Operating Expenses:</b>	
Purchased Services	3,800,096
Sponsorship Fees	95,684
Legal	11,457
Auditing and Accounting	27,462
Board of Education	9,456
Depreciation	1,595
Miscellaneous	1,000
Total Operating Expenses	<u>3,946,750</u>
Operating Loss	<u>(723,437)</u>
<b>Non-Operating Revenue/(Expenses)</b>	
Federal and State Grants	833,742
Total Non-Operating Revenue/(Expenses)	<u>833,742</u>
Change in Net Position	110,305
Net Position Beginning of Year	<u>(88,234)</u>
Net Position End of Year	<u><u>\$22,071</u></u>

*See accompanying notes to the basic financial statements.*

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

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Increase (Decrease) In Cash And Cash Equivalents**

**Cash Flows From Operating Activities:**

Cash Received from State of Ohio	\$3,186,505
Cash Received from Other Operating Activities	24,106
Cash Payments to Suppliers for Goods and Services	<u>(4,233,099)</u>

Net Cash Used For Operating Activities	<u>(1,022,488)</u>
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**Cash Flows From Noncapital Financing Activities:**

Cash Received from Federal and State Grants	<u>1,013,628</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,013,628</u>

Net Decrease in Cash and Cash Equivalents	(8,860)
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Cash and Cash Equivalents Beginning of Year	<u>11,037</u>
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Cash and Cash Equivalents End of Year	<u><u>2,177</u></u>
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**Reconciliation Of Operating Loss To Net Cash Used For Operating Activities:**

Operating Loss	(723,437)
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**Adjustments To Reconcile Operating Loss To Net Cash Used For  
Operating Activities:**

Depreciation	1,595
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**Changes in Assets and Liabilities:**

Increase in Accounts Receivable	(265,175)
Increase in Intergovernmental Receivable	(16,769)
Decrease in Accounts Payable	(6,000)
Decrease in Intergovernmental Payable	<u>(12,702)</u>

Net Cash Used For Operating Activities	<u><u>(\$1,022,488)</u></u>
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*See accompanying notes to the basic financial statements.*

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**1. DESCRIPTION OF THE ENTITY**

Richard Allen Academy II Community School (the School) is a nonprofit corporation established pursuant to Ohio Revised 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 contract 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 10 for additional detail on the contractual relationship between IMR and the School).

The School entered into a Sponsor Contract with the Ohio Department of Education (ODE) on June 29, 2012 for a two-year period with the term ending June 30, 2014. (See note 18).

The School operates under a self-appointing 10-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 454.37 FTE students for fiscal year 2013 represents a decrease of 25.12 from the prior year.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

**A. Basis of Presentation**

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

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

**B. Measurement Focus/Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the Statement of Net Position.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Statement of Revenues, Expenses and Changes in Net Position present increases (e.g., revenues) and decreases (e.g., expenses) in total Net Position. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants, entitlements and donations, are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and the Sponsor does not prescribe an annual budget requirement, but sets forth a requirement to submit a spending plan each fiscal year. Furthermore, the School must submit a five-year forecast to its Sponsor annually.

**D. Cash and Cash Equivalents**

All monies received by the School are maintained in a demand deposit account. The School did not have any investments during fiscal year 2013.

**E. 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 computers and equipment. Improvements to capital assets are depreciated over the remaining useful lives of the related fixed assets.

**F. Intergovernmental Revenues**

The School currently participates in the state foundation and state poverty based assistance programs. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The School participates in the Comprehensive Continuous Improvement Planning Program through the Ohio Department of Education. Revenue received from this program is recognized as non-operating revenues. Amounts awarded under the above programs for the 2013 school year totaled \$4,032,949.

**G. Accrued Liabilities Payable**

The School has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of June 30, 2013.

**H. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**I. Net Position**

Net Position represent the difference between assets and liabilities. The Net Position component "net investment in capital assets" consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net Position is 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 contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

**J. Operating and Non-Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

**3. CASH AND CASH EQUIVALENTS**

The following information classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit and Investment Risk Disclosures".

The School maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2013, the book amount of the School's deposits was \$2,177 and the bank balance was \$2,365.

The entire bank balance was covered by FDIC and therefore not considered to be subject to custodial credit risk. The School had no investments at June 30, 2013 or during the fiscal year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**4. CAPITAL ASSETS**

A summary of the School's capital assets at June 30, 2013, follows:

<b>Capital Assets Being Depreciated:</b>	<b>Balance 6/30/2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2013</b>
Leasehold Improvements	\$339,078			\$ 339,078
Computers & Equipment	149,361			149,361
Vehicles	111,100			111,100
Total Capital Assets Being Depreciated	<u>599,539</u>			<u>599,539</u>
Less: Accumulated Depreciation	<u>(585,717)</u>	<u>(\$1,595)</u>		<u>(587,312)</u>
Total Capital Assets Being Depreciated Net	<u>\$13,822</u>	<u>(\$1,595)</u>	<u>\$0</u>	<u>\$12,227</u>

**5. RECEIVABLES AND DEPOSITS**

At June 30, 2013, the school had receivables in the amount of \$283,918 which are amounts due from IMR. The school also has lease deposits due from IMR in the amount of \$8,956. In addition, the school is due monies from ODE in the amount of \$16,769 for intergovernmental receivables. Intergovernmental receivables consist of federal assistance (CCIP) which eligibility requirements have been met (earned) at June 30, 2013, but the cash was not received by year end.

**6. ACCOUNTS PAYABLE**

At June 30, 2013, the school had accounts payable totaling \$ 289,476. \$14,983 is due to IMR, \$214,677 is due Richard Allen Preparatory Academy and Richard Allen Academy I for contract services in prior fiscal years, and \$59,816 is due various vendors during the normal course of conducting operations.

**7. 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; injuries to employees; and natural disasters. For fiscal year 2013, the School contracted with WRM American 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 provides umbrella liability coverage of \$4,000,000 per occurrence, as well as, in the aggregate.

There have been no settlements exceeding coverage in the last three years. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

**B. Employee Insurance Benefits**

As part of the management agreement with the IMR (see note 10), insurance benefits are paid by the Institute.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**8. 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 pension plans. 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 contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employer/ Audit Resources.

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the school is required to contribute 14 percent of annual covered payroll. 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 by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10 percent. The remaining 0.9 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School contributions to SERS for the year ended June 30, 2013, 2012 and 2011 were \$43,821, \$21,291, and \$28,543, respectively, which equaled the required contributions each year.

**B. State Teachers Retirement System**

**Plan Description** – The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is 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, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](http://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 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 DB Plan and the DC 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

A DB or Combined Plan member with five or more years credited service that 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.

**Funding Policy** - For the fiscal year ended June 30, 2013, 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 contribution for pension obligations to STRS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$316,749, \$211,867, and \$206,039, respectively, of which 100% has been contributed.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

**9. POST-EMPLOYMENT BENEFITS**

**A. School Employee Retirement Systems**

**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 monthly premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 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](http://www.ohsers.org), under "Employers/Audit Resources".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**9. 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 2013, 0.16 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 2013, the actuarially determined amount was \$20,525.

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 for the fiscal years ended June 30, 2013, 2012 and 2011 were \$535, \$992 and \$3,456, respectively.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$2,475, \$1,257 and \$1,837, respectively.

**B. State Teachers Retirement System**

**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](http://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 2013, 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, 2013, 2012, and 2011 were \$24,365, \$16,297 and \$15,849, respectively, all of which has been contributed for all fiscal years.

**10. 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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**10. MANAGEMENT COMPANY AGREEMENTS (Continued)**

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.

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 2013.

<b>Direct:</b>	
Salary and Wages	\$1,579,324
Benefits	29,290
Food Service	23,418
Health Insurance	178,293
Property & Casualty Insurance, Workers Comp	43,191
Professional and Legal Services	3,253
Purchased Services	121,748
Rent	272,963
Repairs and Maintenance	5,726
Supplies	111
Telephone/Networking	3,686
Utility	87,674
<b>Indirect:</b>	
Overhead	576,790
<b>Total Expenses</b>	<b><u>\$2,925,467</u></b>

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.

**11. PURCHASED SERVICES**

For the period July 1, 2012 through June 30, 2013, purchased service expenses were for the following services:

Management Services	\$3,413,936
Certified Retirement	340,596
Non-Certified Retirement	45,564
<b>Total</b>	<b><u>\$3,800,096</u></b>



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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**12. TAX EXEMPT STATUS**

The School completed its application and filed for tax exempt status under 501(c) 3 of the Internal Revenue Code and was approved for tax exempt status. 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.

**13. PENDING 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 received 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. 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 the financial statements of the School, the exact amount of which is not know at this time.

**14. RELATED PARTY TRANSACTIONS**

The Governing Board, of Richard Allen Academy II Community School served in the same capacity for the Richard Allen Preparatory, Richard Allen Academy, and Richard Allen Academy III Community Schools effective May 1, 2013, all of which are managed by the Institute of Management and Resources, Inc (IMR). Richard Allen Academy II 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 10). The School has a note payable due to IMR. (See Note 15) and leases its facility from IMR. (See Note 16).

The School's Superintendent is also the CEO of IMR. The School's Treasurer is also the CFO of IMR.

**15. NOTES PAYABLE**

At June 30, 2013, the School had outstanding notes payable to IMR of \$12,500. 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:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**15. NOTES PAYABLE (Continued)**

<b>Note Payable</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Operating Loan - IMR	\$12,500			\$12,500

**16. OPERATING LEASES**

The School leases its facilities from the Institute of Management and Resources (IMR) under a six-year lease agreement beginning July 1, 2011 through June 30, 2016. The terms of the lease are renewable annually on July 1 as long as the School remains chartered by the Ohio Department of Education to operate a chartered public school. The monthly lease payments during fiscal year 2013 were \$11,000.

**17. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2013.

**B. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2013 were calculated by ODE in February 2014 and will be included in the financial activity for fiscal year 2014.

**18. SPONSOR**

On 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. Sponsor fee expense at June 30, 2013 totaled \$95,684.

**19. CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2013, the School has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013  
(Continued)**

**19. CHANGE IN ACCOUNTING PRINCIPLES (Continued)**

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the School.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the School.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the School.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the School's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had no effect on the beginning net position of the School.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the School.

**20. SUBSEQUENT EVENTS**

During fiscal year 14, the school has entered into a new management agreement with IMR. The terms of the new agreement calls for the payment of 94% of all state aid and 100% of federal grants. The Board has also hired its own Treasurer to oversee payments to IMR and to assist it with financial oversight.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>FEDERAL GRANTOR Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	\$39,813	\$39,813
National School Lunch Program	10.555	150,790	150,790
Total Child Nutrition Cluster		<u>190,603</u>	<u>190,603</u>
 Fresh Fruit and Vegetable Program	 10.582	 22,706	 22,706
 Total U.S. Department of Agriculture		 <u>213,309</u>	 <u>213,309</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	596,273	377,302
ARRA - Title I Grants to Local Educational Agencies	84.389	12,814	12,814
Total Title I, Part A Cluster		<u>609,087</u>	<u>390,116</u>
 Special Education Grants to States	 84.027	 115,126	 115,089
 Improving Teacher Quality State Grants	 84.367	 4,123	 5,415
 ARRA - State Fiscal Stabilization (SFSF) - Race to the Top Incentive Grants	 84.395		
Race to the Top		47,980	45,511
Race to the Top - Ohio Performance Assessment Pilot Program		3,101	651
Total ARRA - State Fiscal Stabilization (SFSF) - Race to the Top Incentive Grants		<u>51,081</u>	<u>46,162</u>
 Total U.S. Department of Education		 <u>779,417</u>	 <u>556,782</u>
 Total		 <u>\$992,726</u>	 <u>\$770,091</u>

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

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

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Richard Allen Academy II Community School (the School's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - CHILD NUTRITION CLUSTER**

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Richard Allen Academy II Community School, Montgomery County, (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated August 1, 2014 wherein we noted that we were unable to obtain sufficient audit evidence supporting the School's opening net position and ending net position.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

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

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. We consider finding 2013-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-002 described in the accompanying schedule of findings and questioned costs 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, opining 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 and questioned costs as items 2013-002 and 2013-003.

***Entity's Response to Findings***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

August 1, 2014





# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Governing Board:

### ***Report on Compliance for Each Major Federal Program***

We have audited the Richard Allen Academy II Community School's (the School) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the School's major federal programs for the year ended June 30, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings and questioned costs identifies the School's major federal programs.

### ***Management's Responsibility***

The School's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

### ***Auditor's Responsibility***

Our responsibility is to opine on the School's compliance for the School's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. 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 our audit provides a reasonable basis for our compliance opinion on the School's major program. However, our audit does not provide a legal determination of the School's compliance.

### ***Basis for Qualified Opinion on Title I, Part A Cluster***

As described in Findings 2013-004 through 2013-010 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding allowable costs/cost principles, cash management, matching, level of effort, earmarking, period of availability, reporting, special test provisions – highly qualified teachers as applicable to its Title I, Part A Cluster major federal programs. Compliance with these requirements is necessary, in our opinion, for the School to comply with the requirements applicable to these programs.

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Phone: 937-285-6677 or 800-443-9274 Fax: 937-285-6688

[www.ohioauditor.gov](http://www.ohioauditor.gov)

***Qualified Opinion on Title I, Part A Cluster***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Title I Cluster* paragraph, the Richard Allen Academy II Community School complied, in all material respects, with the requirements referred to above that could directly and materially affect its Title I, Part A Cluster for the year ended June 30, 2013.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings and questioned costs as items 2013-011 and 2013-012. These findings did not require us to modify our compliance opinion on the major federal program.

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

***Report on Internal Control Over Compliance***

The School's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School's internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-004 through 2013-010 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-011 to be a significant deficiency.

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

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

August 1, 2014

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**RICHARD ALLEN ACADEMY II  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2013**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I, Part A Cluster: Title I Grants to Local Educational Agencies (CFDA 84.010) ARRA- Title I Grants to Local Educational Agencies (CFDA 84.389)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2013-001**

**MATERIAL WEAKNESS**

At June 30, 2010, the School reported a \$33,080 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. During 2011, the School receipted \$14,337 of this receivable amount for school lunch receipts. However, there was no evidence that IMR actually repaid the remaining receivable amount of \$18,743 to the School during fiscal years 2011 and 2012 or netted the receivables against the payables due to IMR during either year. In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery was issued in the June 30, 2011 audit report which remains unpaid to date.

The School's 2012 financial statements initially excluded the \$18,743 in accounts receivable from IMR. On the final version of financial statements, the School agreed to present the accounts receivable on the June 30, 2012 statement of net assets by increasing the corresponding accounts payable to IMR. As noted above, there was no indication that the receivables were netted against payables during 2011 or 2012.

The June 30, 2012 financial statements presented accounts receivable and an accounts payable for the unpaid \$18,743. The offsetting entry to the receivable should have been to beginning net position rather than accounts payable. The misstatement resulted in an understatement of beginning and ending net position and was material to the June 30, 2012 financial statements. As a result the opinion was modified for accounts payable and net position line items. During fiscal year 2013, the School reversed the above noted accounts payable amount with an offsetting entry to 2013 purchased services expenses. To properly correct the prior year's misstatement, beginning net position should have been adjusted instead of the purchased services line item.

In addition to the above noted error, the opinion to the 2012 financial statements was modified due to an understatement of \$63,605 to the purchased services expense line item. The corresponding misstatement to another financial statement line item could not be determined.

The effects on the fiscal year 2013 net position beginning of the year and end of the year of the \$63,605 error noted in preceding paragraph, although not reasonably determinable, is presumed to be material. The error noted in paragraph 2 resulted in a net understatement of beginning net position of \$18,743 and is material to the line item. The 2013 financial statements opinion has been appropriately modified to disclose the exceptions.

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. Failure to establish these procedures could result in inaccurate financial reporting of the School's activities.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

**FINDING NUMBER 2013-002**

**SIGNIFICANT DEFICIENCY/ NONCOMPLIANCE**

**Ohio Revised Code §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 following errors were noted which did not require adjustments to the financial statements; however, they were significant enough to warrant the attention of those charged with governance:

1. The School contracted with a management company, Institute of Management Resources (IMR) to perform functions reasonably required to manage the operation of the School. The School's management agreement stated that the School shall pay to IMR a management fee of ten percent (10%) of the total revenues of the School from all sources after deduction of STRS, SERS and audit adjustments. The School will pay to IMR eighty-seven percent (87%) of total revenues of the School from all sources after deduction of STRS, SERS and audit adjustments for school expense fees incurred on behalf of the School for school-wide operational services, i.e transportation, supplies, textbooks, rents, utilities, etc.

The 2013 accounts receivable - IMR included \$18,743 from the 2012 financial statements and current year addition to the receivable of \$265,175 for a total receivable balance at June 30, 2013 of 283,918. Based on the above stated contract language, an error was noted in the calculation of the 2013 addition to accounts receivable resulting in an overstatement of receivable balance by \$11,064 and understatement of purchased services expense of the same amount. The misstatement to accounts receivable - IMR was determined to be immaterial and did not require and audit adjustment; however, it was significant enough to warrant the attention of those charged with governance.

2. Cash payments made to suppliers of goods and services on the statement of cash flow was overstated by \$14,983, while cash received from federal and state grants was overstated by the same amount.

Procedures should be developed and implemented to provide for the 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.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

**FINDING NUMBER 2013-003**

**NONCOMPLIANCE**

**Ohio Rev. Code §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;

**FINDING NUMBER 2013-003  
 (Continued)**

During fiscal year 2013, Michelle Thomas served as President/CEO (renewed to serve as Director of the Corporation – Secretary as of March 15, 2013) of Institute of Management and Resources, Inc (the Management Company) and as Superintendent of the School. The Management Company's CFO, Felix O'Aku also served as the Treasurer of the Richard Allen Schools during fiscal year 2013. The School electronically transferred \$3,695,622 to the Management Company during fiscal year 2013. All electronic transfers were initiated by Treasurer, Felix O'Aku. On February 19, 2013, the School Board approved to hire Brian Adams as Treasurer effective July 1, 2013.

The school's administration and the management company were comingled and there were 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 §2921.42** as the management at the School have an interest in the affairs of the Management Company. 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 attending students.

A referral has been made to the Ohio Ethics Commission.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2013-004
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies (CFDA 84.010)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE / QUESTIONED COST AND MATERIAL WEAKNESS – CASH MANAGEMENT, PERIOD OF AVAILABILITY AND REPORTING**

**34 CFR 80.20 Section 6** states accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub-grant award documents, etc.

Additionally, **34 CFR Section 80.23 (a)** states that where a funding period is specified, a grantee may charge to the grant only allowable costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period. (b) A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The federal agency may extend this deadline at the request of the grantee. In Ohio, programs included in ODE's Consolidated Application have a project period starting with the application substantially approved date through June 30. ARRA expenditures were required to be obligated by September 30, 2012. All Title I grant expenditures were required to be liquidated by September 30, 2013. Any carryover to the subsequent school district fiscal year must be approved by ODE.



**FINDING NUMBER 2013-004  
 (Continued)**

The Title I grant expenditures reported on project cash request (PCR) forms submitted to the Ohio Department of Education (ODE) for cash drawdowns did not agree to the School's actual grant expenditures. For the project cash request forms reviewed, the following variances were noted:

<u>Title I - PCR Date</u>	<u>PCR Expenditures</u>	<u>School's Actual Expenditures</u>	<u>Variance</u>
September 28, 2012	\$36,302	\$38,084	(\$1,782)
December 4, 2012	50,188	35,670	14,518
January 31, 2013	60,869	64,694	(3,825)
February 28, 2013	82,295	37,253	45,042
March 31, 2013	26,864	29,566	(2,702)
April 30, 2013	113,539	111,679	1,860
May 31, 2013	36,762	30,222	6,540
Total	<u>\$406,819</u>	<u>\$347,168</u>	<u>\$59,651</u>

The following expenditures were identified as being paid in the PCR support provided to ODE. However, documentation provided by the School indicated that the vendor was either paid after the end of the liquidation period (9/30/13) or no payment had been made:

<u>Check/ Card Number</u>	<u>Vendor</u>	<u>PCR Month Claimed As Paid</u>	<u>Amount Claimed As Paid</u>	<u>Amount Actually Paid In FY 13</u>	<u>Amount Actually Paid After 9/30/13</u>	<u>Amount Not Paid</u>
xxx-60001	Great Expectations	December	\$14,300	\$5,000		\$9,300
N/A	Follett Educational Services	March	15,156			15,156
11314	Follett Educational Services	March	4,863		\$4,863	
N/A	Buckeye Business Solutions	March	17,178			17,178
	Total		<u>\$51,497</u>	<u>\$5,000</u>	<u>\$4,863</u>	<u>\$41,634</u>

**34 CFR Section 80.20 (B)(7)** requires procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub-grantees must be followed whenever advance payment procedures are used. In addition, 34 CFR 80.21 (h)(2)(i) requires except for interest earned on advances of fund exempt under Intergovernmental Cooperation Act (et seq.) and the Indian Self-Determination Act ( 450), grantees and sub-grantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or sub-grantee may keep interest amounts up to \$100 per year for administrative expenses.

The following advance requests were not liquidated within 30 days of date of request:

<u>PCR Date</u>	<u>Advance Request</u>	<u>Amount Spent Within 30 Days</u>	<u>Amount Not Spent Within 30 Days</u>
September 28, 2012	\$26,274	\$18,951	\$7,323
February 28, 2013	64,870	37,253	27,617
March 31, 2013	82,295	29,566	52,729

In accordance with the foregoing facts and pursuant to OMB Circular A133 Section .510 (a)(3) a federal questioned cost in the amount of 59,651 is hereby issued for Title I Grants to Local Educational Agencies.

**FINDING NUMBER 2013-004  
 (Continued)**

Policies and procedures should be implemented to verify compliance with the cash management requirements for federal grants. Failure to do so could result in loss of federal grants.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

<b>Finding Number</b>	2013-005
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies (CFDA 84.010)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE / QUESTIONED COST AND MATERIAL WEAKNESS - REPORTING**

**34 CFR Section 80.20(b)(1)** states accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.

Ohio Department of Education (ODE) requires the School to prepare a final expenditure report (FER) that is to be submitted for each project immediately after all financial obligations have been liquidated. The report is due no later than 90 days after the end of the project period for programs operated through the CCIP.

The School's fiscal year 2013 Title I grant final expenditure report was not accurate based on the grant expenditures reported on the federal awards receipts and expenditures schedule and list of expenditures made after fiscal year end that was provided by the School's management company. Expenditures on the Title I FER were overstated by \$42,399. The following table details the variance by budget object code:

<b>Object Code</b>	<b>Title I Expenditures Paid During FY 13</b>	<b>Title I Expenditures Paid After 6/30/ And Before 9/30</b>	<b>Total Title I Expenditures</b>	<b>Amounts Reported on Final Expenditure Report</b>	<b>Variance</b>
Salaries (100)	\$305,354		\$305,354	\$298,884	(\$6,470)
Retirement Fringe Benefits (200)	40,480		40,480	40,480	
Purchased Services (400)	17,594	\$10,781	28,375	43,140	14,765
Supplies (500)	13,874		13,874	30,800	16,926
Capital Outlay (600)				17,178	17,178
<b>Total</b>	<b>\$377,302</b>	<b>\$10,781</b>	<b>\$388,083</b>	<b>\$430,482</b>	<b>\$42,399</b>

**FINDING NUMBER 2013-005  
 (Continued)**

In accordance with the foregoing facts and pursuant to OMB Circular A133 Section .510 (a)(3) a federal questioned cost in the amount of \$42,399 is hereby issued for Title I Grants to Local Educational Agencies. The \$42,399 questioned cost is part of the \$59,651 questioned cost issued in finding number 2012-004.

Policies and procedures should be established and implemented to verify that the final expenditure report discloses accurate and complete financial activity of the grant. Failure to file accurate final expenditure reports for all grants could result in a future loss of federal grant revenue.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

<b>Finding Number</b>	2013-006
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies (CFDA 84.010) ARRA - Title I Grants to Local Educational Agencies (CFDA 84.389)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE AND MATERIAL WEAKNESS - REPORTING**

**Office of Management and Budget (OMB) Circular A-133 Subpart C, § .310(b) Schedule of Expenditures of Federal awards**, states that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately.

At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.

**FINDING NUMBER 2013-006  
 (Continued)**

- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

The initial version of the Schedule Federal Awards Receipts and Expenditures provided for audit included accruals reported as expenditures. This error was identified by the accounting firm performing agreed upon procedures over the management company. Adjustments were required to the federal schedule to correctly report expenditures on cash basis.

In addition to the above noted error that required an adjustment, the school reported \$12,814 in ARRA - Title I Grants to Local Educational Agencies expenditures on its federal awards receipts and expenditures schedule. \$4,700 of this ARRA - Title I Grants to Local Educational Agencies expenditure was related to fiscal year 2012 expenditures and should not have been reported in the accompanying schedule. The federal awards receipts and expenditures schedule was not adjusted to exclude these expenditures.

To reduce the risk of inaccurate reporting of federal revenues and expenditures and noncompliance with OMB Circular A-133, Subpart C, §\_\_.310(b), due care should be taken in the preparation of the Federal Awards Receipts and Expenditures Schedule. The Schedule should be reviewed after preparation and agreed to the underlying accounting records of the Management Company for accuracy.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

<b>Finding Number</b>	2013-007
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies (CFDA 84.010)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE AND MATERIAL WEAKNESS - LEVEL OF EFFORT/ MAINTENANCE OF EFFORT (SUPPLEMENT NOT SUPPLANT) & EARMARKING**

**34 CFR Section 299.5(a)** stipulates that a Local Educational Agency (LEA) receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the State Educational Agency (SEA) finds that either the combined fiscal effort per student or the aggregate expenses of State and local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenses for the second preceding fiscal year. This is commonly referred to as maintenance of effort requirement.

**FINDING NUMBER 2013-007  
 (Continued)**

The Ohio Department of Education (ODE) performs the maintenance of effort computation for all Ohio LEA's, including community schools. ODE uses the Expenditure Flow Model (EFM) to report per-pupil spending for Ohio's schools to capture LEA expenditure data necessary for the maintenance of effort computation. The purpose of the EFM is to categorize and report expenses directly related to the education of students. Pursuant to Ohio Administrative Code Section 3301-19-03, the LEA expenditure flow reports shall be derived from data collected electronically – including financial records that utilize the data coding structure of the uniform school accounting system (USAS) available on the auditor of state's website – through the education management information system (EMIS) or any other reporting system designated for data collection by the superintendent of public instruction. All city, exempted village, local, and joint vocational Schools, educational service centers, and community schools are required to submit the EMIS data necessary for the expenditure reports per deadlines established by EMIS procedures available on ODE's website

During 2013, the School incorrectly reported the student Full Time Enrollment (FTE) numbers which were utilized by ODE in its maintenance of effort calculation. The School reported six and a half hour of daily instructional time when actual instructional hours were six per day. This resulted in an understatement of FTE for every student reported during 2013.

The School should review its procedures for reporting accurate enrollment and attendance information to ODE and better monitor the information that is used by the EMIS coordinator for required reporting. Failure to do so could result in erroneous maintenance of effort calculations, non-compliance at the state level and could affect future funding of the Title I program.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

<b>Finding Number</b>	2013-008
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies (CFDA 84.010) ARRA - Title I Grants to Local Educational Agencies (CFDA 84.389)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE AND MATERIAL WEAKNESS – ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/ COST PRINCIPLES, CASH MANAGEMENT, ELIGIBILITY, LEVEL OF EFFORT/ MAINTENANCE OF EFFORT (SUPPLEMENT NOT SUPPLANT) & EARMARKING, PERIOD OF AVAILABILITY, PROCUREMENT SUSPENSION & DEBARMENT, REPORTING, SPECIAL TEST PROVISIONS – SCHOOLWIDE PROGRAM (LEAs), SPECIAL TEST PROVISIONS – HIGHLY QUALIFIED TEACHERS**

**OMB Circular A-133 Subpart C Section .300(b)** requires the auditee to maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

**FINDING NUMBER 2013-008  
 (Continued)**

The School spent \$390,116 in Title I, Part A Cluster funding during fiscal year 2013. The School did not have appropriate controls in place and operating effectively over payroll expenditures to prevent and detect material noncompliance. Lack of controls resulted in expenditures that were deemed unallowable per 2 CFR Section 225. These issues have been reported in finding 2013-009. Additionally, lack of controls was noted for the following compliance requirements in the Title I program:

1. Activities Allowed or Unallowed
2. Allowable Costs/Cost Principles
3. Cash Management
4. Eligibility
5. Level of Effort / Maintenance of Effort (Supplement, not Supplant) & Earmarking
6. Period of Availability
7. Procurement Suspension & Debarment
8. Reporting
9. Special Test Provisions - Schoolwide Program (LEAs)
10. Special tests and Provisions - Highly Qualified Teacher Status

Appropriate controls should be developed and implemented at the School level to verify that controls will be able to prevent and detect any material non-compliance over federal programs. Failure to do so increases the likelihood of unallowable expenditures and material non-compliance with program requirements will be undetected.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

<b>Finding Number</b>	2013-009
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies (CFDA 84.010) ARRA - Title I Grants to Local Educational Agencies (CFDA 84.389)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE / QUESTIONED COST AND MATERIAL WEAKNESS – ALLOWABLE COSTS/  
 COST PRINCIPLES**

**2 CFR Part 225 Appendix A Part C** provides the following guidelines for expenditure to be allowable under federal expenditures:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Be adequately documented.
- Not to be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

**FINDING NUMBER 2013-009  
 (Continued)**

Additionally, **2 CFR Part 225, Attachment B, Section 8(h)(3)** states where employees are expected to work solely on a single Federal award or cost objective, charges for their salary and wages will be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Furthermore, Section 8(h)(4) provides that; ...Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix...Such documentary support will be required where employees work on:

- (a) More than one Federal award
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or,
- (e) An unallowable activity and a direct or indirect cost activity.

The following payroll expenditures made during fiscal year 2013 were not properly supported by adequate documentation to show time was spent on Title I activities:

<u>Employee</u>	<u>Gross Wages</u>
Valeria Kerley	\$6,467
Sharon Jefferson	7,000
Annie Orr	1,528
Total	<u>\$14,995</u>

The School claimed Title I ARRA expenditures for Lori Lockhart and Krista Henkle for the period of April 1, 2012 through July 31, 2012. It was discovered that the April 1, 2012 - June 30, 2012 salaries and benefits were previously included in 2012 Title I expenditures; therefore, only July 2012 wages would be allowable to charge against the remaining 2013 ARRA budget. Additionally, Lori Lockhart was not identified as a Title I teacher during 2012 or 2013 and no documentation was provided substantiating her pay as chargeable to the Title I ARRA. The following table summarizes the total unallowable and allowable salaries and benefits for the Title I ARRA program:

	<u>Claimed</u>	<u>Allowed</u>	<u>Unallowable</u>
Salaries	\$9,000	\$3,804	\$5,196
Benefits	3,814	816	2,998
	<u>\$12,814</u>	<u>\$4,620</u>	<u>\$8,194</u>

In accordance with the foregoing facts and pursuant to OMB Circular A133 Section .510 (a)(3) a federal questioned cost in the amount of \$23,189, which includes \$8,194 in ARRA Title I grant, is hereby issued. Policies and procedures should be implemented to establish controls that would detect and prevent any noncompliance with the federal awards. Failure to do so could result in a loss of future grant revenue.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

<b>Finding Number</b>	2013-010
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies (CFDA 84.010) ARRA - Title I Grants to Local Educational Agencies (CFDA 84.389)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE AND MATERIAL WEAKNESS - SPECIAL TEST PROVISIONS – HIGHLY QUALIFIED TEACHERS**

**34 CFR Section 200.55** in part states that:

- (a) Newly hired teachers in Title I programs.
  - (1) An LEA must ensure that all teachers hired after the first day of the 2002–2003 school year who teach core academic subjects in a program supported with funds under subpart A of this part are highly qualified as defined in § 200.56.
  - (2) For the purpose of paragraph (a)(1) of this section, a teacher teaching in a program supported with funds under subpart A of this part is—
    - (i) A teacher in a targeted assisted school who is paid with funds under subpart A of this part;
    - (ii) A teacher in a school-wide program school; or
    - (iii) A teacher employed by an LEA with funds under subpart A of this part to provide services to eligible private school students under § 200.62.
- (b) All teachers of core academic subjects.
  - (1) Not later than the end of the 2005–2006 school year, each State that receives funds under subpart A of this part, and each LEA in that State, must ensure that all public elementary and secondary school teachers in the State who teach core academic subjects, including teachers employed by an LEA to provide services to eligible private school students under § 200.62, are highly qualified as defined in § 200.56.

Per review of the Highly Qualified documentation for the Richard Allen Academy II Community School seven out of 32 teachers and paraprofessionals at the School did not meet the highly qualified teacher requirement (HQT) and HQT documentation was not on file for another four employees.

The School should develop and implement policies and procedures to verify that required individuals meet and maintain the highly qualified teacher requirements. This will provide for the School hiring the most qualified teaching staff.

**Official’s Response:**

See Officials’ Responses and Corrective Action Plan beginning on page 48.



<b>Finding Number</b>	2013-011
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies (CFDA 84.010)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY – ELIGIBILITY, SPECIAL TEST PROVISIONS – SCHOOL-WIDE PROGRAM (LEAs)**

**34 CFR Section 200.25(b)(1)** states that a school may operate a school-wide program if—

- (i) The school's LEA determines that the school serves an eligible attendance area or is a participating school under section 1113 of the ESEA; and
- (ii) For the initial year of the school-wide program—
  - (A) The school serves a school attendance area in which not less than 40 percent of the children are from low-income families; or
  - (B) Not less than 40 percent of the children enrolled in the school are from low-income families.

The School completed a building eligibility document to determine if Richard Allen Academy II Community School was eligible for a school-wide program. The School could not provide underlying support for its calculation of low income students and adjusted enrollment figures reported to Ohio Department of Education on the building eligibility form. The Ohio Department of Education's interactive local report card (ILRC) Power User Report was used to verify the accuracy of building eligibility figures. Variances were noted between building eligibility figures and ILRC report. Total enrollment and low income students per the ILRC report was 485 and 331, respectively, showing 68.25% of the students were low income. On building eligibility report the School reported enrollment of 483 and low income students of 402, respectively. The percentage of low income students per the building eligibility report was 83.23%. The variances between two reports were significant; however, it did not affect the School's eligibility status as a school-wide program.

Policies and procedures should be established and implemented to verify that accurate numbers are being reported to the Ohio Department of Education. Additionally, underlying support should be kept on file to support the figures submitted to the ODE. Failure to do so could result in future questioned cost and loss of grant revenue.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

<b>Finding Number</b>	2013-012
<b>CFDA Title and Number</b>	Title I Grants to Local Educational Agencies (CFDA 84.010) ARRA - Title I Grants to Local Educational Agencies (CFDA 84.389)
<b>Federal Award Number / Year</b>	2013
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**NONCOMPLIANCE**

**OMB Circular A-133 §\_\_\_.320(a)**, states, in part that the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

The Auditor of State provided the School with its fiscal year 2011 report on January 23, 2013. However, the auditee has not certified or submitted the data collection form to the federal audit clearinghouse as of July 21, 2014. Additionally, the fiscal year 2012 data collection form was not filed with the federal audit clearinghouse until October 24, 2013.

Title I, Part A Cluster and ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants were the major programs audited as part of the 2011 audit. Title I, Part A Cluster and Education Jobs Fund were major programs audited as part of the 2012 audit. The Compliance opinion was qualified for both major federal programs during each audit.

The Data Collection Form allows the federal grantor agencies to monitor compliance with the grant requirements at the local level. Policies and procedures should be established and implemented to verify that the data collection form is submitted to the federal audit clearinghouse within the prescribed time period. Failure to do so could result in loss of grant revenues at the School level.

**Official's Response:**

See Officials' Responses and Corrective Action Plan beginning on page 48.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .315 (b)  
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2012-001	Opinion modification for beginning and ending net assets.	No	Repeated as Finding Number 2013-001
2012-002	Ohio Rev. Code § 3314.03 (B)(5) and AoS Bulletin 2000-005 – Financial statement misstatements	No	Partially corrected. Included with Finding Number 2013-002
2012-003	Ohio Rev. Code § 3314.024 and AOS Bulletin 2004-009 – Management Company Footnote	No	Repeated in Management Letter
2012-004	Finding for Recovery in amount of \$238,511 against Institute of Management and Resources for Over-payment of management fees.	No	Finding has not been repaid
2012-005	Ohio Rev. Code Section 2921.42 (A) – School management interest in affairs of management company	No	Repeated as Finding Number 2013-003
2012-006	2 CFR Part 225 Appendix A Part C – Allowable federal expenditures; 34 CFR Section 80.23 – Period of availability for federal expenditures	No	Repeated as Finding Number 2013-009
2012-007	34 CFR Section 299.5(a) – maintenance of effort	No	Repeated as Finding Number 2013-007
2012-008	34 CFR Section 200.55 – highly qualified teachers	No	Repeated as Finding Number 2013-010
2012-009	Education Jobs Fund activities allowed or un-allowed and allowable costs	N/A	Finding is no longer applicable as the School did not get any Education Jobs Fund grant during 2013
2012-010	OMB Circular A-133 Subpart C, section .310(b) – schedule of federal expenditures of federal awards	No	Repeated as Finding Number 2013-006
2012-011	34 CFR 80.20 section 6 – cash management and reporting	No	Repeated as Finding Number 2013-004
2012-012	34 CFR section 80.20(b)(1) – final expenditure report	No	Repeated as Finding Number 2013-005
2012-013	OMB Circular A-133 Subpart C Section .300(b) – Federal internal controls	No	Repeated as Finding Number 2013-008
2012-014	OMB Circular A-133 section .320(a) – data collection form and reporting package submission	No	Repeated as Finding Number 2013-012

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

**OFFICIAL RESPONSES / CORRECTIVE ACTION PLAN  
JUNE 30, 2013**

**FINDING 2013-001**

**Official Response:** The school is committed to producing accurate financial statements. It is reviewing this matter and will work to correct this deficiency.

**FINDING 2013-002**

**Official Response:** The school is committed to producing accurate financial statements. It is reviewing this matter and will work to correct this deficiency.

**FINDING 2013-003**

**Official Response:** We believe the Auditor of State has treated the Richard Allen Schools less favorably than other community schools with regard to the relationship between the Schools and their management company. The Auditors have been provided with documentation, including Dr. Thomas' employment contract with IMR and the relevant board meeting minutes/resolutions to establish that Dr. Thomas, along with all administrators, teachers and staff at the Richard Allen Schools, are employed solely by IMR. The Governing Board of the Richard Allen Schools has taken action to give Dr. Thomas the title of Superintendent in order to recognize her role as the lead administrator of the Schools. However, this audit report fails to mention that Dr. Thomas also holds the title of Principal of both Richard Allen Academy and Richard Allen Academy II.

Dr. Thomas is but one of three administrators designated as principals by the Governing Board; all of whom are IMR employees providing services to the Schools pursuant to the Management Agreements between IMR and the Governing Boards. Neither Dr. Thomas, nor any of the other administrators, teachers or staff that make the Richard Allen Schools run on a day-to-day basis receive any compensation from the Schools. The Auditors have also been informed by the Ohio Attorney General's Constitutional section that their research has revealed no legal prohibitions regarding Dr. Thomas' relationship with IMR and the Schools. However, the Auditors have refused to remove this finding and the corresponding Ethics Commission referral.

This is also a common structure amongst community school management companies in Ohio and the schools that they operate. For instance, Constellation Schools, an Ohio limited liability company, operates 21 schools throughout the State. Constellation lists Richard Lukich as its Board Chairman and Thomas Babb as a board member. Mr. Babb is listed on each school's most recent audit report as the schools' treasurer/CFO, which is known under ORC 3314.011 as a designated fiscal officer and is more commonly referred to as a school treasurer. Mr. Lukich is listed as the incorporator of both Constellation Schools LLC and many, if not all, of the schools that Constellation operates. However, no findings for recovery have been issued against any of the Constellation schools regarding these relationships, nor have any Ethics Commission referrals been made. Other community school operators through the State, such as White Hat Management, employ similar structures. Documentation to support these contentions has been provided to the Dayton Regional Auditors.

We are dismayed by the disparate treatment that our schools have received from the Auditor of State, and are only left to assume what the basis for this discriminatory animus might be.

**AOS Position:** The Richard Allen Schools and the Schools' management company, Institute of Management and Resources (IMR) are managed by the same group of individuals. Findings for Recovery against IMR have been issued in the past three audit reports as listed below:

<u>Finding Number/ Description</u>	<u>Richard Allen</u>	<u>Richard Allen II</u>	<u>Richard Allen III</u>	<u>Richard Allen Prep</u>	<u>Status</u>
<b>Special Audit Report</b>					
Scholarship Fund	\$7,845				Repaid
Overpayment of Contract	27,511	\$134,109	\$127,794	\$118,826	Unpaid
Payroll and Benefits Billed	49,313	111,297	44,014	10,434	Unpaid
Former Superintendent	5,815	14,038	5,815	1,380	Unpaid
ODE TANF Funds	20,400				
<b>2011 Financial Audit</b>					
2011-002 Contract					
Overpayment	82,939	282,388	142,997	215,643	Unpaid
2011-003 Accounts					
Receivable	101,632	18,743	9,365	5,320	Unpaid
<b>2012 Financial Audit</b>					
2012-004 Contract					
Overpayment	30,360	238,511	69,145	114,265	Unpaid
Total Findings for Recovery	<u>\$325,815</u>	<u>\$799,086</u>	<u>\$399,130</u>	<u>\$465,868</u>	

Additionally, overpayments made to the Management Company during fiscal year 2013 have been reported as accounts receivable – IMR by the Schools.

The Ohio Attorney General's Office looked at the issue and concluded that it did not find any authority prohibiting the dual role. However, it concluded that it is up to the Ohio Ethics Commission to make the final determination and the research was not comprehensive.

Similar findings have been reported in prior audits. Since the finding has not been corrected it has been repeated in accordance with requirements in AU-C 265.

**FINDING 2013-004**

**Official Response:** The school is committed to compliance with State and Federal Regulations. The Board has hired its own Treasurer to ensure independence from the Management Company. The Treasurer will perform an internal audit on these programs moving forward to ensure compliance with appropriate procedures.

**FINDING 2013-005**

**Official Response:** The school is committed to compliance with State and Federal Regulations. The Board has hired its own Treasurer to ensure independence from the Management Company. The Treasurer will perform an internal audit on these programs moving forward to ensure compliance with appropriate procedures.

**FINDING 2013-006**

**Official Response:** The school is committed to compliance with State and Federal Regulations. The Board has hired its own Treasurer to ensure independence from the Management Company. The Treasurer will perform an internal audit on these programs moving forward to ensure compliance with appropriate procedures.

**FINDING 2013-007**

**Official Response:** The school is committed to compliance with State and Federal Regulations. The Board has hired its own Treasurer to ensure independence from the Management Company. The Treasurer will perform an internal audit on these programs moving forward to ensure compliance with appropriate procedures.

**FINDING 2013-008**

**Official Response:** The school is committed to compliance with State and Federal Regulations. The Board has hired its own Treasurer to ensure independence from the Management Company. The Treasurer will perform an internal audit on these programs moving forward to ensure compliance with appropriate procedures.

**FINDING 2013-009**

**Official Response:** The school is committed to compliance with State and Federal Regulations. The Board has hired its own Treasurer to ensure independence from the Management Company. The Treasurer will perform an internal audit on these programs moving forward to ensure compliance with appropriate procedures.

**FINDING 2013-010**

**Official Response:** The school is committed to compliance with State and Federal Regulations. The Board has hired its own Treasurer to ensure independence from the Management Company. The Treasurer will perform an internal audit on these programs moving forward to ensure compliance with appropriate procedures.

**FINDING 2013-011**

**Official Response:** The school is committed to compliance with State and Federal Regulations. The Board has hired its own Treasurer to ensure independence from the Management Company. The Treasurer will perform an internal audit on these programs moving forward to ensure compliance with appropriate procedures.

**FINDING 2013-012**

**Official Response:** The school is committed to compliance with State and Federal Regulations. The Board has hired its own Treasurer to ensure independence from the Management Company. The Treasurer will perform an internal audit on these programs moving forward to ensure compliance with appropriate procedures.

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# Dave Yost • Auditor of State

**RICHARD ALLEN ACADEMY 2 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  
SEPTEMBER 25, 2014**