RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Dave Yost • Auditor of State

RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

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INDEPENDENT AUDITOR'S REPORT

Richard Allen Preparatory Academy 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 Richard Allen Preparatory Academy Community School, Montgomery County, Ohio (the School), as of and for the fiscal year ended June 30, 2014, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Richard Allen Preparatory Academy Community School, Montgomery County as of June 30, 2014, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

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www.ohioauditor.gov

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. The School has suffered recurring losses from operations and has a net position deficiency. Note 19 describes management's plan regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Additionally, as discussed in Note 20 to the financial statements, the July 1, 2013 net position was restated. We did not modify our opinion regarding these matters.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2015, 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.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

June 5, 2015

Our discussion and analysis of Richard Allen Preparatory Academy Community School (the School) financial performance provides an overall review of the Schools' financial activities for the fiscal year ended June 30, 2014. 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

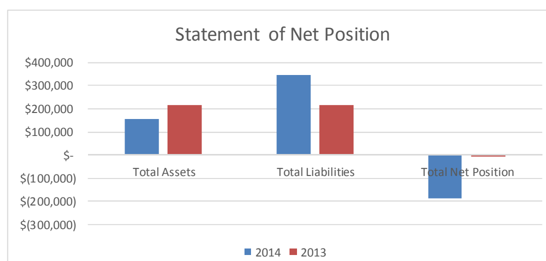
Key financial highlights for fiscal year 2014 are as follows:

- Total Net Position decreased $188,903 from 2013.
- Total liabilities increased $130,823, or 60.7%, while total assets decreased $58,080, or 27.1% from 2013.
- Total revenue increased from 1,638,247 in fiscal year 2013 to $1,865,449 in fiscal year 2014, a 14% increase from 2013.
- Total expenses increased from $1,674,067 in fiscal year 2013 to $2,054,352 in fiscal year 2014, a 22.7% increase from 2013.

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 2014. 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 2014. 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.

Table 1 provides a summary of the School's Net Position as of June 30, 2014 compared to the prior year.

(Table 1)
Statement of Net Position

	2014	Restated 2013
Assets:		
Current Assets	$156,221	$214,301
Liabilities:		
Current Liabilities	346,485	215,662
Net Position:		
Unrestricted	($190,264)	($1,361)

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal year 2014, 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.

Total assets decreased in 2014 due to the School writing off contractual receivable. Liabilities increased $130,823 and Net Position decreased by $188,903 in 2014. Liabilities increased primarily due to the School borrowing money to finance operations.

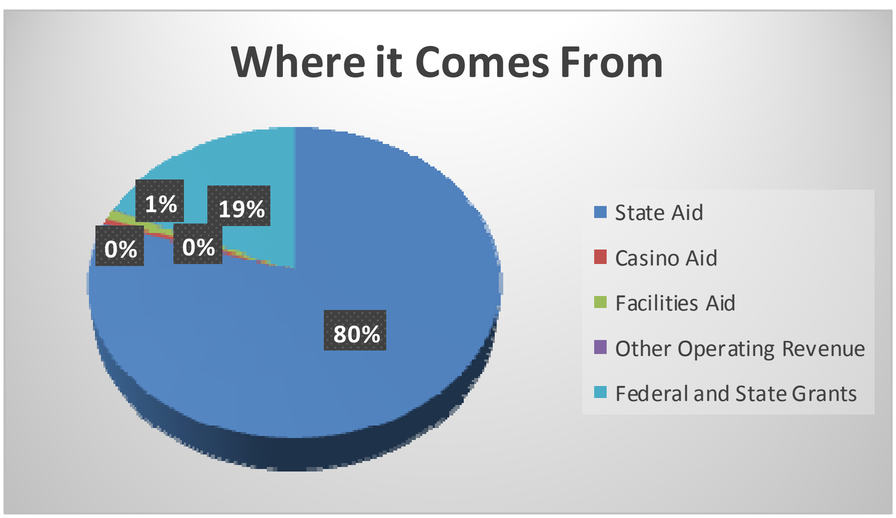


Table 2 shows change in Net Position for fiscal year 2014 compared with fiscal year 2013.

(Table 2)
Change in Net Position

	2014	2013
Operating Revenue:		
State Aid	$1,485,757	$1,214,281
Casino Aid	10,944	4,668
Facilities Aid	18,965	-
Other Operating Revenue	906	22,392
Non-Operating Revenue:		
Federal and State Grants	348,877	396,906
Total Revenues	1,865,449	1,638,247
Operating Expenses:		
Purchased Services	1,841,844	1,603,602
Sponsorship Fees	44,514	36,428
Legal	11,695	18,199
Auditing and Accounting	34,293	9,082
Board of Education	6,691	5,756
Miscellaneous	225	1,000
Non-Operating Expenses:		
Interest and Fiscal Charges	5,751	
Loss on Disposition of Assets	109,339	
Total Expenses	2,014,352	1,674,067
Change in Net Position	($188,903)	($35,820)

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 98% of all revenues for the School in fiscal year 2014. Revenues increased due to the increased foundation receipts.

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 2014, the School's capital assets are fully depreciated (see note 4).

Debt

At June 30, 2014, the School had $28,100 in notes payable. See Note 15.

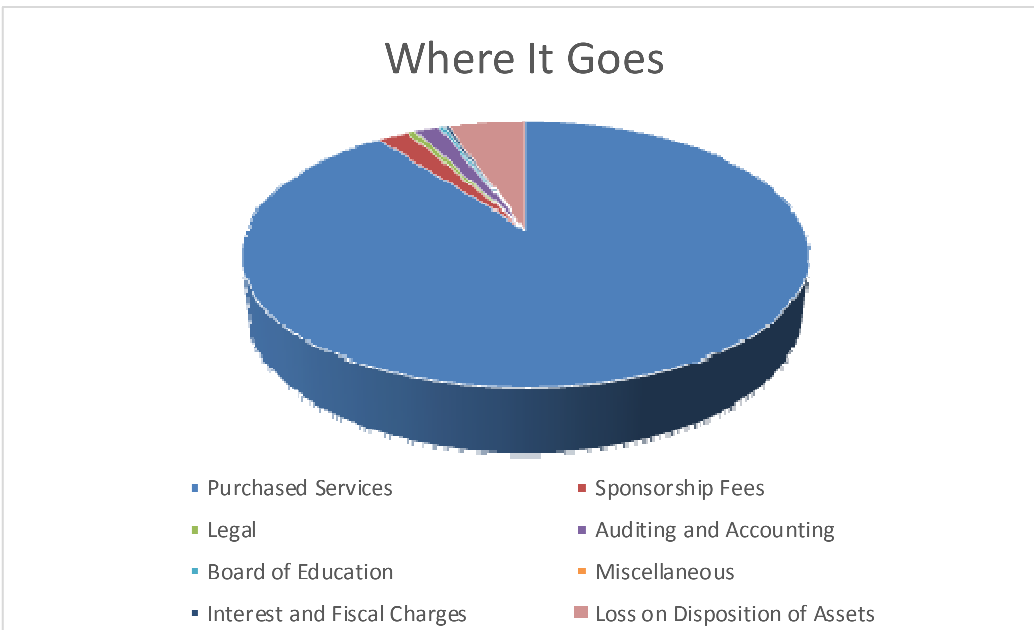
Additionally, the School borrowed, $200,700 from Charter School Capital that were discounted by $4,584. $130,129 of this line of credit was outstanding at June 30, 2014. See Note 18.

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 157 students as of November 2014. 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 Preparatory Academy Community School, 368 South Patterson Boulevard Dayton, Ohio 45402.



RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET POSITION
JUNE 30, 2014

Assets:	
Current Assets:	
Cash and Cash Equivalents	$464
Accounts Receivable-IMR	134,316
Intergovernmental Receivable	21,441
Total Assets	156,221
Liabilities:	
Current Liabilities:	
Accounts Payable-Vendor	15,869
Accounts Payable-IMR	84,882
Payroll Requirement Due	76,825
Accrued Contract Labor	10,680
Line of Credit	130,129
Notes Payable	28,100
Total Liabilities	346,485
Net Position:	
Unrestricted	(190,264)
Total Net Position	($190,264)

See accompanying notes to the basic financial statements.

RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY
STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Operating Revenues:	
State Foundation	$1,485,757
Casino Aid	10,944
Facilities Aid	18,965
Other Operating	906
Total Operating Revenues	1,516,572
Operating Expenses:	
Purchased Services	1,841,844
Sponsorship Fees	44,514
Legal	11,695
Auditing and Accounting	34,293
Board of Education	6,691
Miscellaneous	225
Total Operating Expenses	1,939,262
Operating Loss	(422,690)
Non-Operating Revenue/(Expenses):	
Federal and State Grants	348,877
Interest and Fiscal Charges	(5,751)
Loss on Disposition of Assets	(109,339)
Total Non-Operating Revenue/(Expenses)	233,787
Change in Net Position	(188,903)
Net Position Beginning of Year (Restated)	(1,361)
Net Position End of Year	($190,264)

See accompanying notes to the basic financial statements.

RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows From Operating Activities:	
Cash Received from State of Ohio	$1,515,666
Cash Received from Other Operating Activities	906
Cash Payments to Suppliers for Goods and Services	(2,036,493)
Net Cash Used For Operating Activities	(519,921)
Cash Flows From Non-Capital Financing Activities:	
Cash Received from Federal and State Grants	384,836
Cash Received from Line of Credit	195,846
Interest and Fiscal Charges	(4,568)
Cash Paid on Line of Credit	(66,900)
Net Cash Provided by Noncapital Financing Activities	509,214
Net Increase in Cash and Cash Equivalents	(10,707)
Cash and Cash Equivalents Beginning of Year	11,171
Cash and Cash Equivalents End of Year	$464
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($422,690)
Adjustments to Reconcile Operating Loss to Net: Cash Used for Operating Activities:	
Changes in Assets and Liabilities:	
Accounts Receivable	(84,473)
Intergovernmental Receivable	(13,453)
Accounts Payable	(695)
Net Cash Used For Operating Activities	($519,921)

Non-cash Transaction:

During fiscal year 2014, the School wrote off $109,339 in contractual receivable due from Richard Allen Academy II Community School. The write-off has been reported as loss on disposition of assets on the statement of revenues, expenses and changes in net position.

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE ENTITY

Richard Allen Preparatory Academy 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, 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 on June 29, 2012 for a two year period with the term ending June 30, 2014 (See note 17).

The School operates under a self-appointing ten-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 206 FTE students for fiscal year 2014 represents a decrease of 12 students 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.

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 demand deposit accounts. The School did not have any investments during fiscal year 2014.

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 to seven years for computer and equipment. Improvements to capital assets are depreciated over the remaining useful lives of the related fixed assets.

At the end of fiscal year 2014, the School's capital assets are fully depreciated (see note 4).

F. Intergovernmental Revenues

The School currently participates in the state foundation and 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2014 school year totaled $1,834,634.

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, 2014.

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. 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 are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School's Board 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. The School did not have any restricted net position at June 30, 2014.

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".

3. CASH AND CASH EQUIVALENTS (Continued)

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, 2014, the book amount of the School's deposits was $464 and the bank balance was $ $464.

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, 2014.

4. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2014, follows:

Capital Assets Being Depreciated:	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Computers & Equipment	$78,786			$78,786
Less Accumulated Depreciation	(78,786)			(78,786)
Total Capital Assets Being Depreciated Net	$0	$0	$0	$0

5. RECEIVABLES

At June 30, 2014, the school is due monies from IMR in the amount of $ 134,316 as well as a intergovernmental receivables in the amount of $ 21,441. Intergovernmental receivables consist of federal assistance (CCIP) which eligibility requirements have been met (earned) at June 30, 2014, but the cash was not received by year end and amounts overpaid to School Employees Retirement System (SERS) and State Teachers Retirement System (STRS).

6. CURRENT LIABILITIES

At June 30, 2014, the school had current liabilities totaling $346,485. $84,882 is due to IMR for operations during fiscal year 2014. $ 15,869 is due various vendors during the normal course of conducting operations and is listed under Accounts Payable-Vendor. $76,825 and $10,680 are listed as Payroll Requirement Due and Accrued Contract Labor respectively stemming from accrued expenses due IMR from prior fiscal years that have not been paid. Line of Credit in the amount of $130,129 is discussed under note 18. Notes payable in the amount of $28,100 is described under note 15.

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 2014, 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 $3,000,000 in the aggregate with no deductible. The WRM America also provides umbrella liability coverage of $5,000,000 per occurrence, as well as, in the aggregate.

7. RISK MANAGEMENT (Continued)

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.

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 under Employer/ Financial-Reports.

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, 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 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, 2014, 2013 and 2012 were $28,932, $23,778, and $11,920, 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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

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.

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, 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2013, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 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, 2014, 2013 and 2012 were $145,796, $181,097, and $108,018, respectively, of which 100% has been contributed.

9. POST-EMPLOYMENT BENEFITS

A. School Employee Retirement Systems

In addition to a cost-sharing multiple-employer defined pension plan the School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits 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 premium or the current premium. The Medicare Part B premium for calendar year 2010 was $99.90; SERS' reimbursement for retirees was $45.50.

9. POST-EMPLOYMENT BENEFITS (Continued)

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2013, the actuarial required allocation is .76 percent The School's contributions for the years ended June 30, 2014, 2013 and 2012 were $1,679, $1,343, and $704, respectively.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, 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 ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2014, the health care allocation is .16%. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year June 30, 2014, the minimum compensation level was established at $20,250. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contributions assigned to health care for the years ended June 30, 2014, 2013 and 2012 were $309, $290, $516, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' website www.ohsers.org under Employers/Financial-Reports.

9. POST-EMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

Plan Description – The School contributes to the cost sharing multiple employer defined benefit Health 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 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, 2014, 2013, and 2012 were $11,215, $13,931, and $8,309, 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.

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 statue, 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.

In October 2013, 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. The table on the next page shows the management company expenses for fiscal year 2014.

10. MANAGEMENT COMPANY AGREEMENTS (Continued)

Direct:	
Salary and Wages	$700,222
Benefits	6,368
Food Service	10,399
Health Insurance	77,115
Property, Causality Insurance and Workers Compensation	21,741
Professional and Legal Services	120
Purchased Services	133,830
Rent	21,000
Repairs and Maintenance	8,481
Supplies	5,814
Telephone/Networking	3,914
Utility	40,717
Indirect:	
Overhead	227,186
Total Expenses	$1,256,907

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, 2013 through June 30, 2014, purchased service expenses were for the following services:

Management Services	$1,640,907
Certified Retirement	167,565
Non-Certified Retirement	33,372
Total	$1,841,844

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 recovery issued by the Auditor in favor of the School.

13. PENDING LITIGATION (Continued)

Institute of Management and Resources, Inc. v. Dave Yost, et al.
Montgomery County, Ohio Court of Common Please: 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. The parties unsuccessful in resolving the dispute. 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 Preparatory Academy Community School served in the same capacity for the Richard Allen Academy I, Richard Allen Academy II, and Richard Allen Academy III Community Schools for the fiscal year 2014, all of which are managed by the Institute of Management and Resources, Inc (IMR). Total compensation to Board members was $4,400. Richard Allen Academy Community School shares its Superintendent and the Treasurer/CFO with the other three Richard Allen Schools named above. The Superintendent is also the corporate Secretary for IMR. The Treasurer/CFO is not an employee of IMR (nor has no other affiliation with IMR) and has a separate contract with the Board.

The School pays IMR a management fee of ninety-four percent (94%) of the state revenue of the School. The School pays IMR another one hundred percent (100%) of grant. See Note 10. The School has a note payable due to IMR. (See Note 15).

15. NOTES PAYABLE

At June 30, 2014, the School had a loan balance from the Institute of Management and Resources totaling $28,100. These notes were originally required to be repaid from operating revenue by December 31, 2012 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 the School's short-term debt obligations for the year is as follows:

Note Payable	Beginning Balance	Additions	Deletions	Ending Balance
Operating Loan - IMR	$28,100	$0	$0	$28,100

16. 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, 2014.

16. CONTINGENCIES (Continued)

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. The FTE calculation concluded that the School was overpaid $134 during 2014.

17. 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, 2014 totaled $44,514.

18. LINE OF CREDIT

In April 2014, the school entered into an agreement with Charter School Capital to borrow against its future foundation payments. The amount borrowed was $200,700 including Bond Discounts of $4,584 amortizable over the life of the agreement and program fees of $4,586. The terms of the loan are 3 equal installments at $66,900 payable in June, July, and August 2014. Below is the summary of the obligation:

Description	Outstanding Balance June 30, 2013	Additions	Deletions	Ending Balance June 30, 2014
Line of Credit		$200,700	($66,900)	$133,800
Discount		(4,584)	1,183	(3,401)
Net Line of Credit	$0	$196,116	($65,717)	$130,399

19. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT

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

20. PRIOR PERIOD ADJUSTMENT

The School adjusted beginning net position to write-off accounts payable – IMR, report payroll requirement due and accrued contract labor.

June 30, 2013 Net Position	($19,469)
Write-off accounts payable - IMR	105,613
Report Payroll Requirement Due	(76,825)
Report Accrued Contract Labor	(10,680)
Restated Balance	($1,361)

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

Richard Allen Preparatory Academy 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 Richard Allen Preparatory Academy Community School, Montgomery County, (the School) as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the School's basic financial statements and have issued our report thereon dated June 5, 2015 wherein we noted that the School's July 1, 2013 net position was restated. We also noted that the School is a going concern.

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 we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2014-002 through 2013-004 described in the accompanying schedule of findings to be material weaknesses.

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 as items 2014-001 through 2014-003.

Schools Response to Findings

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

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

June 5, 2015

SCHEDULE OF FINDINGS
JUNE 30, 2014

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

FINDING NUMBER 2014-001

NONCOMPLIANCE

Ohio Rev. Code §2921.42 (A), states, in part, 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;

During fiscal year 2014, Michelle Thomas served as Secretary of Institute of Management and Resources, Inc (the Management Company) and as Superintendent of the School. The School electronically transferred $1,234,438 to the Management Company during fiscal year 2014.

The School's administration and the Management Company were commingled and there were instances where the Management Company benefitted 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 has 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.

Official's Response:

See page 29

FINDING NUMBER 2014-002

NONCOMPLIANCE AND MATERIAL WEAKNESS

Section 10. Fees a. Continuing Fee of the Management Company agreement states that out of the School's Total State Aid received per the Ohio Department of Education (ODE), the Governing Authority shall pay a monthly management and operation fee (the Continuing Fee) to Institute of Management and Resources, Inc. (the EMO) as follows: The EMO shall receive ninety-four percent (94%) of the Total State Aid received by the Governing Authority for the entire time period of this Agreement. The remaining six percent (6%) of Total State Aid shall be retained by the Governing Authority.

Additionally, Section b. Payment of Costs (1) states that except as provided in division (b)(2) of this Section, all costs incurred in providing the necessary educational services, lease of school facility, and EMO fees (Operational expenses) shall be paid from the Continuing Fee. Operational fees shall include, but shall not be limited to, compensation of all personnel, curriculum materials, textbooks, library books, computer and other equipment (excluding Governing Authority-titled equipment), software, supplies, building payments, maintenance, and capital improvements required in providing the necessary services.

FINDING NUMBER 2014-002
(Continued)

Employer contributions to State Teachers Retirement System were automatically deducted from the State Foundation receipts each month. At fiscal year end, the total of payments made as part of foundation deductions exceeded the amount due to the retirement system by $11,226 based on actual wages thus resulting in a credit balance. This credit balance was not posted to the accounting system. As 94% of all state receipts were due to the Management Company, the resulting account payable to the Management Company of $10,553 was also not recorded. Audit adjustments were made to properly present the intergovernmental receivable and corresponding payable due to the Management Company.

Additionally, employer contributions to School Employees Retirement System (SERS) were automatically deducted from the State Foundation receipts each month. At fiscal year end, the total of payments made as part of foundation deductions exceeded the amount due to the retirement system by $2,452 based on actual wages thus resulting in a credit balance. As 94% of all state receipts are due to the Management Company, the resulting account payable to the Management Company of $2,305 was not recorded. Additionally, the school elected to apply the overpayment of employer contributions against the $1,084 balance owed for employee contributions instead of receiving a refund back from SERS. The employee's share of the retirement contributions was the Management Company's responsibility. By electing to apply SERS credit to employee contributions, the School ended up paying the employee contributions. That misstatement was determined to be immaterial and no audit adjustment was required.

In order for the School to receive its share of State receipts, the Management Company should submit employee contributions directly to SERS or the Management Company should refund the School its share of the state receipts that were applied towards employee portion of SERS liability. Failure to do so could result in over payments to the Management Company and potential finding for recoveries in future audits.

In addition, the School should account for all receivables due from overpayment of SERS/STRS contributions. Failure to properly record all overpayment as intergovernmental receivables and accounts payable could result in misstated financial statements.

Official's Response:

See page 30

FINDING NUMBER 2014-003

NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Revised Code Section 3314.03 (B)(5) requires and **AOS Bulletin 2000-005** provides guidance indicating 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 that required adjustment to the financial statements:

- The School wrote off accounts payable - IMR by reporting loss on disposition of assets/liabilities on the statement of revenues, expenses and changes in fund balances instead of increasing opening equity.
- On the statement of cash flows, operating activity was overstated by $91,231 and non-capital financing activity was understated by the same amount.
- The School reported loan receipts and payments on the statement of cash flows under cash flow from capital financing activities. The loan proceeds were used to meet the operating requirements of the School and should have been reported under non-capital financing activities.

FINDING NUMBER 2014-003
(Continued)

- 2013 accounts receivable - IMR included $5,320 from the 2012 financial statements and current year addition to the receivable of $70,755 for a total receivable balance at June 30, 2013 of 76,075. An error was noted in the calculation of the 2013 addition to accounts receivable resulting in an overstatement of receivable balance by $26,232 and understatement of purchased services expense of the same amount. The error was adjusted and reflected on the 2013 audited financial statements. The 2014 financial statements did not properly account for this adjustment and Accounts Receivable - IMR and Beginning Net Position were overstated by $26,232.
- The 2014 draft statements reported an overpayment of $112,458 during fiscal year 2014 to the Management Company that was added to the $76,075 in prior year accounts receivable reported above. The actual overpayment to Management Company was $84,473. Accounts Receivable - IMR and purchased services expenditures were improperly overstated by $27,985
- The School classified $9,435 in Race to the Top federal receipts as other operating revenues on the statement of revenues, expenses and changes in net position.

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 Management's Discussion and Analysis 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:

Seep age 30

FINDING NUMBER 2014-004

MATERIAL WEAKNESS

In April 2014 the School entered into an agreement with Charter School Capital, Inc. to borrow money by collateralizing its state foundation revenues. The face value of School's borrowing was $200,700 that was discounted by $4,854. Additionally, Charter School Capital charged the School a program fee of $5,018. There was a $450 refundable application fees that was credited back to the School when the loan was issued.

The School reported the net proceeds of $191,278 as a "Line of Credit" liability on note 18 of the accompanying financial statements. The School made one payment on the loan in amount of $66,900 in June 2014 leaving an ending balance of $124,378 that was presented on the Statement of Net Position.

The School should have booked the gross proceeds of $200,700 as line of credit liability when the funds were borrowed. The School should have reported the $4,854 discount as a contra liability on the notes to the financial statements and $4,568 in program fees less the refunded application fees should have been reported as interest and fiscal charges on the statement of revenues, expenses and changes in net position. $1,183 in discount should have been amortized with the first June payment. The Line of Credit liability on the accompanying financial statements was understated by $5,751 and interest and fiscal charges expenses were understated by the same amount on the statement of revenues, expenses and changes in net position.

The misstatement was determined to be material and accompanying financial statements have been adjusted to correct the error. Policies and procedures should be established and implemented to verify that the School correctly books and reports its debt activity. Failure to do so could result in material misstatements on the financial statements.

Official's Response:
See page 30

RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2013-001	Opinion modification due to lack of audit support	Yes	
2013-002	Ohio Rev Code §3314.03(B)(5) and AOS Bulletin 2000-005 – financial statement misstatements	No	Repeated as finding number 2014-003
2013-003	Ohio Rev. Code § 2921.42(A) – conflict of interest	No	Repeated as finding number 2014-001

OFFICIAL RESPONSES
JUNE 30, 2014

FINDING 2014-001

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.

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. Finding for Recoveries against IMR have been issued in the previous audit reports as listed below:

Finding Number/ Description	Richard Allen	Richard Allen II	Richard Allen III	Richard Allen Prep	Status
Special Audit Report					
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				
2011 Financial Audit					
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
2012 Financial Audit					
2012-004 Contract Overpayment	30,360	238,511	69,145	114,265	Unpaid
Total Finding for Recoveries	$325,815	$799,086	$399,130	$465,868	

Overpayments made to the Management Company during fiscal year 2013 and 2014 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 2014-002

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

FINDING 2014-003

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

FINDING 2014-004

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

Dave Yost · Auditor of State

RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 30, 2015

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