RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

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

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

The opinion on the School's June 30, 2011 financial statements was qualified due to lack of sufficient audit evidence supporting the School's accounts payable. Additionally, the opinion was modified due to the School excluding, from its receivables on statement of net assets, certain accounts receivable due from the School's management company, the Institute of Management and Resources, Inc. We are unable to apply procedures to determine whether the net assets in the financial statements as of July 1, 2011, were fairly presented in conformity with accounting principles generally accepted in the United States of America. The School has also included, in accounts payable - IMR in the accompanying statement of net assets, certain payables that, in our opinion, are not true payables of the School. If these payables were removed, total liabilities would be decreased by $18,743. Additionally, beginning net assets would be increased by $18,743, for the year then ended.

The School has understated purchased services expenses in the accompanying statement of revenues, expenses and changes in net assets by $63,605. If these expenditures were booked properly, purchased services will be increased by $63,605. Additionally corresponding assets, liabilities, revenues or expenses line item will change by this amount. However, the exact line item misstated due to the understatement of purchased services expense could not be determined.

As discussed in Note 15 to the financial statements, the School has suffered recurring losses from operations and has a net asset deficiency. Note 15 describes management's plan regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, except for the effects of matters referred to in the third paragraph and effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the purchased services misstatement as described in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Richard Allen Academy II Community School, as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2013, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The federal awards receipts and expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The federal awards receipts and expenditures schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dave Yost

Dave Yost
Auditor of State

August 28, 2013

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

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

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

Financial Highlights

Key financial highlights for fiscal year 2012 are as follows:

- Total net assets increased by $167,998 in fiscal year 2012, which represents 65.6 percent increase over fiscal year 2011.

- Total assets increased by $151,610 which represents a 187.6 percent increase over prior year, primarily due to an increase in intergovernmental receivable. Total liabilities decreased by $16,388 or 4.9 percent.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets

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

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

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

Table1
Net Assets

	2011	2012	Incr/(decr)
Assets:			
Current Assets	$ 55,874	$218,622	$162,748
Non-Current Assets	24,960	13,822	(11,138)
Total Assets	80,834	232,444	151,610
Liabilities:			
Current Liabilities	337,066	320,678	(16,388)
Total Liabilities	337,066	320,678	(16,388)
Net Assets:			
Invested in Capital Assets, Net of Related Debt	16,004	13,822	(2,182)
Unrestricted	(272,236)	(102,056)	170,180
Total Net Assets	($256,232)	($88,234)	$167,998

As noted in Table 1 above, total net assets of the School increased by $167,998 during fiscal year 2012 resulting in an accumulated deficit of $88,234 at June 30, 2012.

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

Table 2
Change in Net Assets

	2011	2012	Incr/(decr)
Operating Revenues			
State Foundation	$3,005,637	$3,385,134	$379,497
Other Operating Revenues	153,419	119,764	(33,655)
Non-operating Revenues:			
Federal & State Grants	700,338	934,932	234,594
Total Revenues	3,859,394	4,439,830	580,436
Operating Expenses:			
Purchased Services	3,720,806	4,161,940	441,134
Sponsorship Fees	44,823	67,957	23,134
Audit Fees	50,217	24,126	(26,091)
Legal Services		11,426	11,426
Board Meeting Expenses	3,472	2,301	(1,171)
Depreciation	6,225	2,182	(4,043)
Other		1,900	1,900
Total Expenses	3,825,543	4,271,832	446,289
Change in Net Assets	33,851	167,998	134,147
Beginning Net Assets	(290,083)	(256,232)	33,851
Ending Net Assets	($ 256,232)	($ 88,234)	$167,998

Total revenues of the School increased by $580,436, or 15.0 percent, over the total revenues reported for the prior year. Revenue received through the state foundation program increased by $379,497 over the amount received in the prior year, due primarily to an increase in enrollment. Total expenses increased by $446,289 or 11.7 percent.

Capital Assets

At June 30, 2012 the capital assets of the School consisted of $599,539 of leasehold improvements, equipment and vehicles which were offset by $585,717 in accumulated depreciation resulting in net capital assets of $13,822. Current year depreciation was $2,182.

See note 6 to the basic financial statements for additional information on the School's capital assets.

Debt

At June 30, 2012, the debt obligations of the School consisted of notes payable of $12,500. Additional information related to the School's debt obligations can be found in note 11 to the basic financial statements.

Contacting the School

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

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RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2012

Assets:	
Current Assets:	
Cash and Equivalents	$11,037
Accounts Receivable - IMR	$18,743
Intergovernmental Receivable	179,886
Security Deposits	8,956
Total Current Assets	218,622
Non-Current Assets:	
Capital Assets, Net of Accumulated Depreciation	13,822
Total Non-Current Assets	13,822
Total Assets	232,444
Liabilities:	
Current Liabilities:	
Accounts Payable	76,799
Intergovernmental Payable	12,702
Contractual Amount Payable	218,677
Notes Payable	12,500
Total Current Liabilities	320,678
Net Assets:	
Invested in Capital Assets, Net of Related Debt	13,822
Unrestricted	(102,056)
Total Net Assets	($88,234)

See accompanying notes to the basic financial statements.

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

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

Operating Revenues:	
State Foundation	$3,385,134
Other Operating Revenues	119,764
Total Operating Revenues	3,504,898
Operating Expenses:	
Purchased Services	4,161,940
Sponsorship Fees	67,957
Audit Fees	24,126
Legal Services	11,426
Board Meeting Expenses	2,301
Depreciation	2,182
Other	1,900
Total Operating Expenses	4,271,832
Operating Loss	(766,934)
Non-Operating Revenues:	
Federal and State Grants	934,932
Total Non-Operating Revenues	934,932
Change in Net Assets	167,998
Net Assets at Beginning of Year	(256,232)
Net Assets at End of Year	($88,234)

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, 2012

Cash Flow from Operating Activities:	
Cash Received from State Foundation	$3,397,836
Cash Received from Other Operating Activities	119,764
Cash Payment for Goods and Services	(4,298,740)
Net Cash Used in Operating Activities	(781,140)
Cash Flow from Non-Capital Financing Activities:	
Cash Received from Federal and State Grants	775,069
Net Cash Provided by Non-Capital Financing Activities	775,069
Net Decrease in Cash and Cash Equivalents	(6,071)
Cash and Cash Equivalents, Beginning of Year	17,108
Cash and Cash Equivalents, End of Year	$11,037
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	($766,934)
Adjustment to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation	2,182
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	(29,090)
Increase in Intergovernmental Payable	12,702
Total Adjustments	(14,206)
Net Cash Used in Operating Activities	($781,140)

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

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

The School operates under a self-appointing five-member Board of Trustees (the 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 is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School's enrollment for 2012 was 479.49 FTEs or 24.58 FTEs greater than the previous year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

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

C. Budgetary Process

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

D. Cash

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates its cash in separate funds.

E. Estimates

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

F. Capital Assets and Depreciation

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

Depreciation of equipment and vehicles is computed using the straight-line method over estimated useful lives of five to fifteen years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated over the life of the lease agreement of five years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

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

H. Operating and Non-Operating Revenues and Expenses

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

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

I. Accrued Liabilities Payable

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

J. Federal Tax Exemption Status

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2012, the School had no restricted net assets.

3. DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the School's ending bank balance was $11,037. Federal depository insurance covered the entire bank balance, and was not exposed to custodial credit risk.

4. RECEIVABLES

All receivables are considered collectible in full due to the fiscal year guarantee of federal and state funds. Intergovernmental receivables are amounts owed to the School for Federal and State grants as well as ODE excess deductions for STRS and SERS.

5. RISK MANAGEMENT

A. Property and Liability

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

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

B. Employee Insurance Benefits

As part of the management agreement with the IMR (see note 8), insurance benefits are paid by the Institute.

6. CAPITAL ASSETS

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

Capital Assets	Beginning Balance	Additions	Deletions	Ending Balance
Leasehold Improvements	$339,078			$339,078
Equipment	149,361			149,361
Vehicles	111,100			111,100
Total	599,539			599,539
Less: accumulated depreciation	(583,535)	($2,182)		(585,717)
Capital Assets, net	$ 16,004	($2,182)		$ 13,822

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *"Employers/Audit Resources"*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were $21,291, $28,543, and $14,291, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under *"Publications".*

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

7. DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were $211,867, $206,039, and $229,699, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

8. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

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

8. POST-EMPLOYMENT BENEFITS (Continued)

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

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

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were $922, $3,456, and $514, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were $1,257, $1,837, and $850, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were $16,297, $15,849 and $17,669, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

9. MANAGEMENT COMPANY AGREEMENTS

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

The Management Agreement provides that IMR will perform functions reasonably required to manage the operation of the School; ensure students receive services which are in accordance with applicable educational standards; make every effort to ensure the School complies with the requirements of any applicable statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquire all necessary licenses and permits; maintain all student and financial records required by federal, state and local laws and regulations, as well as, protecting the confidentiality of those records; act as the School's agent in making deposits and disbursements promptly; provide for all expenses of operating the School, including lease payments for the school building, equipment and operating supplies needed in the operation of the School, from its management fee. IMR is responsible for hiring qualified teachers and all other employees which are subsequently contracted to operate the School. For fiscal year 2012, the expenses related to contractual employees totaled $1,661,915; $1,358,413 for payroll and $303,502 for benefits, respectively.

IMR receives a monthly management fee of 10 percent of the total operating revenues of the School from all sources excluding extraordinary items. IMR receives another 87 percent to cover the cost for any expenses it incurs on behalf of the School in order to provide District wide services; the District retains 3 percent of operating funds to cover audit, sponsorship, and Board of Directors expenses. Non-operating funds, federal and state funds pass through at 100 percent to the Management Company to cover approved expenditures on behalf of the schools. These expenses may 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 textbooks and supplies.

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

Direct:	
Salary and Wages	$1,358,413
Benefits	113,211
Food Service	58,553
Health Insurance	190,291
Property and Causality Insurance	25,239
Professional and Legal Services	6,924
Postage	276
Purchased Services	495,113
Rent	6,342
Repairs and Maintenance	17,919
Supplies	10,224
Telephone/Networking	22,871
Utility	103,169
Indirect:	
Overhead	779,734
Total Expenses	$3,188,279

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

10. CONTINGENCIES

A. State Funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. Discrepancies are adjusted in subsequent fiscal year funding. As a result of the fiscal-year end review, the school owed the Ohio Department of Education $12,702. This amount is reflected on the school's financial statements as intergovernmental payable.

B. Litigation

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

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

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

11. NOTES PAYABLE

At June 30, 2012, the School has outstanding notes payable to IMR in the amount of $12,500. 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 or by December 31, 2012. 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:

	Beginning Balance	Additions	Deletions	Ending Balance
Operating Loan – IMR	$12,500	$0	$0	$12,500

12. 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 2012 were $11,000.

13. RELATED PARTIES

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 for the portion of fiscal year 2012, 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 9. The School has a note payable due to IMR. See Note 15.

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

14. PURCHASED SERVICES

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

Management Services	$3,974,625
Certified Retirement	164,559
Non-Certified Retirement	22,756
	$4,161,940

15. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT

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

16. SUBSEQUENT EVENTS

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

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

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

16. SUBSEQUENT EVENTS (Continued)

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

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RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR ***Pass Through Grantor*** **Program Title**	**Federal CFDA Number**	**Receipts**	**Disbursements**
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	$42,598	$20,720
National School Lunch Program	10.555	152,088	73,976
Total Child Nutrition Cluster		194,686	94,696
Fresh Fruit and Vegetable Program	10.582	18,087	8,797
Total U.S. Department of Agriculture		212,773	103,493
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	203,794	274,026
ARRA - Title I Grants to Local Educational Agencies	84.389	56,259	47,998
Total Title I, Part A Cluster		260,053	322,024
Special Education Cluster (IDEA):			
Special Education Grants to States	84.027	102,355	61,693
ARRA - Special Education Grants to States	84.391	31,014	
Total Special Education Cluster (IDEA)		133,369	61,693
Educational Technology State Grants	84.318	552	224
Improving Teacher Quality State Grants	84.367	6,901	15,205
ARRA - State Fiscal Stabilization Fund (SFSF) - Race to the Top Incentive Grants	84.395	30,674	38,762
Education Jobs Fund	84.410	121,557	126,150
Total U.S. Department of Education		553,106	564,058
Total		$765,879	$667,551

The accompanying notes are an integral part of this schedule.

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports 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.

INDEPENDENT ACCOUNTANTS' 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 the financial statements of Richard Allen Academy II Community School, Montgomery County, Ohio (the School) as of and for the year ended June 30, 2012 which collectively comprise the School's basic financial statements and have issued our report thereon dated August 28, 2013, wherein we noted that we were unable to apply procedures to determine whether the net assets in the financial statements as of July 1, 2011, were fairly presented in conformity with accounting principles generally accepted in the United States of America and that the School has understated its purchased services expenses. We also noted that the School has an accumulated deficit of $88,234 as of June 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-003 described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

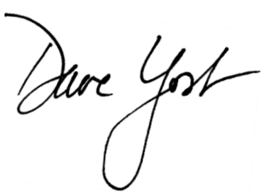
Compliance and Other Matters

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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2012-002 through 2012-005.

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

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

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



Dave Yost
Auditor of State

August 28, 2013

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM 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:

Compliance

We have audited the compliance of Richard Allen Academy II Community School, Montgomery County, Ohio (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Richard Allen Academy II Community School's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the School's major federal programs. The School's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the School's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to 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 that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with these requirements.

As described in findings 2012-006 through 2012-008 and findings 2012-010 through 2012-012 in the accompany schedule of findings and questioned costs, the School did not comply with requirements regarding allowable costs/cost principles, cash management, matching, level of effort, earmark, period of availability, reporting, special test provisions – ARRA separate accountability, special test provisions – ARRA presentation on the Schedule of Federal Awards Expenditures and the Data Collection Form, special test provisions – highly qualified teachers applicable to its Title I, Part A Cluster major federal program. As described in findings 2012-009 and 2012-010 in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding activities allowed or un-allowed, allowable costs/cost principles, period of availability and reporting provisions applicable to its Education Jobs Fund. Compliance with these requirements is necessary, in our opinion, for the School to comply with requirements applicable to these programs.

Additionally, as described in Findings 2012-011 and 2012-012, we were unable to obtain sufficient documentation supporting the School's compliance with the requirements of Education Jobs Fund major program regarding cash management and reporting nor were we able to satisfy ourselves as to the School's compliance with these requirements by other auditing procedures.

In our opinion, except for the noncompliance described in the third paragraph and except for the effects of the noncompliance described in the fourth paragraph, if any, as we might have determined had we been able to examine sufficient evidence regarding the School's compliance with the Education Jobs Fund cash management and reporting requirements, the Richard Allen Academy II Community School complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012.

The results of our auditing procedures also disclosed other instances of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists these instances as Finding 2012-013 and 2012-014.

Internal Control Over Compliance

The School's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining 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 significant deficiencies or material weaknesses and therefore, we cannot assure we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 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 compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-006 through 2012-013 to be material weaknesses.

The School's responses to the findings we identified 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.

We also noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the School's management in a separate letter dated August 28, 2013.

We intend this report solely for the information and use of management, the Board of Directors, the Community School's sponsor, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

August 28, 2013

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RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Qualified
(d)(1)(ii)	**Were there any material control weaknesses reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	Yes
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	Yes
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Qualified
(d)(1)(vi)	**Are there any reportable findings under § .510(a)?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Title I, Part A Cluster Title I Grants to Local Educational Agencies (84.010) ARRA – Title I Grants to Local Educational Agencies (84.389) Education Jobs Fund (84.410)
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

FINDING NUMBER 2012-001

MATERIAL WEAKNESS

At June 30, 2010, the School reported $33,080 in accounts receivable balance due from its management company, Institute of Management & Resources (IMR). This balance consisted of June 30, 2010 reconciling items for various revenues deposited by IMR in its bank account instead of the School's bank account during fiscal year 2010. 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 the management company during either year. Additionally, the School did not report any receivable due from the management company at June 30, 2012 on the original financial statements provided to the Auditor of State on December 4, 2012. In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery was issued in June 30, 2011 audit report which remains unpaid to date.

On August 12, 2013, the School agreed to present the accounts receivable on June 30, 2012 statement of net assets by increasing the corresponding accounts payable to IMR. As noted above, there was no indication that the receivables were netted against payables during 2011. The School overstated June 30, 2012 accounts payable by $18,743 and understated beginning net assets by the same amount. The misstatement amount is material to the beginning and ending net assets on financial statements and audit opinion has been appropriately modified to disclose the exception.

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

Official's Response: See pages 51 and 52.

FINDING NUMBER 2012-002

NONCOMPLIANCE AND MATERIAL WEAKNESS

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

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

The School's Finance Report for 2012 lacked sufficient underlying support and contained the errors noted below:

FINDING NUMBER 2012-002
(Continued)

Statement of Net Assets:

- The Audit Opinion on the 2011 financial statements was qualified relative to the Accounts Payable line item. The Accounts Payable amount from fiscal year 2011 was used as the beginning balance to compute the fiscal year 2012 Accounts Payable amount. The accounts payable amount is not material for the fiscal year 2012 and does not warrant a modification to the audit opinion. The underlying support requested for accounts payable from the School listed payables to the Ohio Auditor of State, Ulmer & Berne LLP and the School's management company, Institute of Management and Resources, Inc. The payable to Ohio Auditor of State showed a year end adjustment of $5,891 that was not supported by confirmation obtained directly from the billing system, the Ulmer & Berne payable amount did not agree to the amounts reported by the law firm in the legal letter and the management company's payable included beginning balances that were qualified on in prior year's report. The School should verify that all its financial statement amounts are properly supported by underlying supporting documentation.
- Intergovernmental Payables were understated by $5,018 due to the School not recording an intergovernmental payable related to STRS. The financial statements were not adjusted for this error.
- No opinion could be provided for beginning net assets due to modification of opinion in prior audit report.

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

- Purchased Services was understated $68,623. $5,018 of this amount was due to the School not recording the above noted payable related to STRS. The corresponding misstatement for remaining $63,605 could not be determined and required an opinion modification. The School's financial system did not provide detail of underlying transactions to track both sides of a transaction. This makes tracking down an error in the financial statements almost impossible. The financial statements were not adjusted for this error.

In addition to the items above, there are other doubts regarding the Accounts Payable to the management company. The First Addendum to the management company agreement between the School and the Institute of Management and Resources, Inc. (IMR) effective July 1, 2009 required to the School to pay “eighty-seven percent (87%) of the remaining 90%” of revenue of the School from all sources to the IMR for school expense fees incurred on behalf of the School for district wide operational services, i.e., transportation, supplies, textbook, rents, utilities, etc. At the inception of the first addendum, the School transferred its various accounts payable related to district wide operational services to the IMR and has been reporting the payable as due to the management company instead of specific vendor on its financial statements. Given the age of these liabilities, it would be expected that the outside vendors would have either pursued legal action to obtain payment or written the amounts off as uncollectible and stopped the pursuit of payment. Additionally, the School historically has had a low cash balance, including just $11,037 at June 30, 2012. Based on IMR's interpretation of the management contract and the new management company contract as discussed in finding number 2012-004, nearly all of the School's revenue was turned over to IMR for payment of the School's expenses over the last two years. If this practice continues, the School may never have the funds to pay these liabilities even if they are legitimate obligations.

In addition to lack of detailed support, the trials did not present detailed activity to arrive at the financial statement amounts.

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

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

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

Official's Response: See pages 51 and 52.

FINDING NUMBER 2012-003

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

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

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

- The management company incorrectly reported retirement expenditures in the amount of $255,724 that were made by the School as management company expenditures. A correction was made to correctly remove the expenditures from the footnote.
- Various receipts and expenditure adjustments in amount of $93,416 were either corrected on the applicable schedules in the AUP report or did not materially impact the schedules.
- Various expenditures totaling $68,581 were not properly allocated between schools, improperly included in expenditures, or not allowable and have been corrected on the applicable schedules.

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

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

Official's Response: See pages 51 and 52.

FINDING NUMBER 2012-004

NONCOMPLIANCE/ FINDING FOR RECOVERY

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

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

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

Between July 1, 2011 and January 21, 2012, the School paid $2,271,208 to IMR for management fee and school related expenses. Other than the IMR contract, there was no support, such as billing statements or support for amounts paid and transferred to IMR for this period during fiscal year 2012. Fiscal year 2012 revenues up to January 21, 2012, amount to $2,300,546. 10% or $230,055 of these revenues were due to the IMR for management fee. 87% of the remaining $2,070,491 amounting to $1,801,327 was due to IMR for "School Expense Fees." Based on the management agreement, total payment to IMR for management company and school expense fees should have been $2,031,382. The management company was overpaid $239,826.

From January 22, 2012 to June 30, 2012, the School paid $1,662,101 to IMR for management fees and school related expenses. There were no billing statements or support for amounts paid and transferred to IMR during this period. The School received $1,714,862 in "total revenues" between January 21, 2012 and June 30, 2012. 10% or $171,486 of these revenues were due to the IMR for management fee. 87% or $1,491,930 of these revenues were also due to IMR for "School Expense Fees." Based on the management agreement, total payment to IMR for management company and school expense fees should have been $1,663,416. The management company was underpaid $1,315.

In accordance with the forgoing facts, and pursuant to **Ohio Revised Code Section 117.28**, a finding for recovery for public money illegally expended in the amount of $238,511 is hereby issued against the Institute of Management and Resources, Inc., and in favor of Richard Allen Academy II Community School.

FINDING NUMBER 2012-004
(Continued)

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

Felix O'Aku, Treasurer, authorized bank transfers resulting in the improper payment. Accordingly, a Finding for Recovery is hereby jointly and severally issued against Felix O'Aku and his bonding company the Ohio Casualty Insurance Company in the amount of $238,511 and in favor of the Richard Allen Academy II Community School.

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

Official's Response: See pages 51 and 52.

FINDING NUMBER 2012-005

NONCOMPLIANCE

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

(1) Authorize, or employ the authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest;
(4) Have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected;

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

FINDING NUMBER 2012-005
(Continued)

The School also employed the Management Company's CFO, Felix O'Aku as its Treasurer. The School electronically transferred $3,933,309 to its management company during fiscal year 2012. All electronic transfers were initiated by Treasurer, Felix O'Aku. The management company was overpaid $238,511 during the fiscal year and a finding for recovery has been issued against the management company and in favor of the School.

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

A referral has been made to the Ohio Ethics Commission.

Official's Response: See pages 51 and 52.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2012-006
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) ARRA - Title I Grants to Local Educational Agencies (84.389)
Federal Award Number / Year	2011 and 2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

MATERIAL WEAKNESS/ NONCOMPLIANCE AND QUESTIONED COST – ALLOWABLE COSTS/COST PRINCIPLES & PERIOD OF AVAILABILITY

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

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Be adequately documented.
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

FINDING NUMBER 2012-006
(Continued)

Additionally, **34 CFR Section 80.23** 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, 2011. All Title I grant expenditures were required to be liquidated by September 30, 2011. Any carryover to the subsequent school district fiscal year must be approved by ODE. Additionally, any budget revisions contain a substantially approved date which coincides with the date the revision request was submitted to ODE. Activities may not commence from that budget revision prior to the substantially approved date. For Richard Allen II Academy, the substantially approved date was July 1, 2011.

The following payroll-related expenditures were deemed unallowable to the 2012 Title I Grant in accordance with 2 CFR Appendix A Part C:

Table 1

Employee	Amount	Reason Why Unallowable
Carole Bernardino	$ 330	Federal and state unemployment tax charges
Heather Gilbert	351	Federal and state unemployment tax charges
Krista Henkle	351	Federal and state unemployment tax charges
Christina White	351	Federal and state unemployment tax charges
Leonita White	351	Federal and state unemployment tax charges
Total	$1,734	

Federal and state unemployment tax charges were indirect cost that were not given consistent accounting treatment or applied uniformly to both federal awards and local monies.

The following payroll expenditures made on July 15, 2011 and July 20, 2011 were determined to be unallowable because they relate to 2011 contracts charged to the 2012 Title I grant:

Table II

Employee	Gross Wages	Medicare	STRS (14%)	Total Unallowable
Heather Gilbert	$2,583	$ 35	$ 362	$ 2,980
Krista Henkle	3,750	51	525	4,326
Christina White	3,417	49	478	3,944
Total	$9,750	$135	$1,365	$11,250

The following fringe benefits expenditures were determined to be unallowable because they relate to July 15, 2011 and July 20, 2011 payroll noted in Table II charged to the 2012 Title I grant:

Table III

Benefit Type	Amount
Medical Insurance	$569
Dental Insurance	27

FINDING NUMBER 2012-006
(Continued)

The following non-payroll expenditures were deemed unallowable to the FY12 Title I Grant in accordance with 34 CFR Section 80.23:

Table IV

Check Number	Amount	Reason why Unallowable	ARRA	
N/A	$ 219	As of 10/1/2012 no check had been issued	No	
N/A	18,167	As of 10/1/2012 no check had been issued	No	
9681	715	Expenditure paid on 10/25/2011	Yes	@
9684	7,142	Expenditure paid on 10/17/2011	Yes	@
9684	7,142	Expenditure paid on 10/17/2011	Yes	@
9787	18,150	Expenditure paid on 11/23/2011	Yes	#
	$51,535			

N/A – These expenditures were reported as Title I expenditures, however there were no actual payments made out to a vendor.

@ - These expenditures were reported as questioned costs in the 2011 audit report as finding number 2011-006 and will be excluded from the 2012 questioned cost amount.
\# - Audit finding 2011-006 reported $16,500 of this amount as questioned cost. The 2012 federal schedule report $18,150 in ARRA - Title I expenditures, an increase of $2,000 from prior year. Additional amount will be reported as 2012 questioned cost.

Total questioned cost from Table IV for 2012 report is $20,386 which includes $2,000 in ARRA money.

Following is the summary of total unallowable cost:

From	CFDA 84.010	CFDA 84.389	Total
Table I	$ 1,734		$ 1,734
Table II	11,250		11,250
Table III	596		596
Table IV	18,386	$2,000	20,386
Total	31,966	$2,000	33,966

In accordance with the foregoing facts and pursuant to OMB Circular A133 Section .510 (a)(3) a federal questioned cost in the amount of $33,966 which includes $2,000 in ARRA Title I grant is hereby issued. Policies and procedures should be established and implemented to establish controls that would detect and prevent any noncompliance with the federal awards. Failure to do so could result in loss of grant revenue.

Official's Response: See pages 51 and 52.

Finding Number	2012-007
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) ARRA - Title I Grants to Local Educational Agencies (84.389)
Federal Award Number / Year	2011 and 2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE AND MATERIAL WEAKNESS – MATCHING, LEVEL OF EFFORT, EARMARK

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.

Subparts (d) (1) & (2) further explain, in determining an LEA's compliance with paragraph (a) of this section, the SEA shall consider only the LEA's expenses from State and local funds for free public education. These include expenses for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenses to cover deficits for food services and student body activities. The SEA may not consider the following expenses in determining an LEA's compliance with the requirements in paragraph (a) of this section:

- Any expenses for community services, capital outlay, debt service or supplemental expenses made as a result of a Presidentially-declared disaster; or
- Any expenses made from funds provided by the Federal Government.

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 will be required to submit the EMIS data necessary for the expenditure reports per deadlines established by EMIS procedures available on ODE's website.

Review of the Inclusion Report noted six general fund expenditure line items which the School could not provide the underlying support to tie the expenditures to the School's accounting system:

FINDING NUMBER 2012-007
(Continued)

Fund/Function/OBJ	Amount Per Inclusion Report
001-1110-211-2012	$ 164,559
001-1110-221-2012	22,756
001-1110-415-2012	3,103,981
001-1110-418-2012	7,614
001-2419-440-2012	68,292
001-2560-420-2012	28,118
	$3,395,320

Additionally, the support for two out of seven non-general fund line items did not agree to the amount reported in the Inclusion Report. The following variances were noted:

Fund/Function/OBJ	Amount Per Inclusion Report	Amount Per Support	Variance
516-1110-415-2012	$ 61,693	$103,960	($42,267)
572-1110-415-2012	$296,487	$322,024	($25,537)

The School should establish and implement policies and procedures to verify that all expenditures are reported correctly to the ODE. Failure to do so could result in erroneous maintenance of effort calculations and noncompliance at state level.

Official's Response: See pages 51 and 52.

Finding Number	2012-008
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) ARRA - Title I Grants to Local Educational Agencies (84.389)
Federal Award Number / Year	2011 and 2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE AND MATERIAL WEAKNESS – SPECIAL TESTS AND 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.

FINDING NUMBER 2012-008
(Continued)

(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 II teachers and paraprofessionals, the School did not meet the 100% highly qualified teacher requirement (HQT). Two out of the 21 employees did not meet the HQT requirement.

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 pages 51 and 52.

Finding Number	2012-09
CFDA Title and Number	Education Jobs Fund (84.410)
Federal Award Number / Year	2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

MATERIAL WEAKNESS/ NONCOMPLIANCE AND QUESTIONED COST – ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/COST PRINCIPLES & PERIOD OF AVAILABILITY

Question 3 in U.S. Department of Education's Updated Guidance Concerning the Applicability of the Education Jobs Fund Program to Charter Schools dated October 15, 2010 states that a charter school that is an LEA may not use Ed Jobs funds to pay for contractual school-level services provided by individuals who are not employees of the charter school or another LEA. Thus, a charter school LEA generally may not use Ed Jobs funds to pay for the compensation and benefits of employees of a charter management organization or an educational management organization who provide school-level educational and related services in the charter school.

There may be limited circumstances; however, where a charter school maintains a sufficient level of control over a contract employee that the individual would be considered an "employee" of the charter school under a common-law agency test. This determination would have to be made based on the specific facts and circumstances of the relationship of the contract employee to the charter school. The courts have relied on a number of factors in determining whether an individual is an employee under a common-law agency test, including: (1) authority to hire and fire employees, promulgate work rules and assignments, and set conditions of employment, including compensation, benefits, and hours; (2) day-to-day supervision of employees, including employee discipline; and (3) control of employee records, such as payroll, insurance and taxes. If a charter school LEA determines that a contract employee is an employee of the charter school under a common-law agency test and uses Ed Jobs funds to support that individual, the Department recommends that the charter school LEA document clearly the basis for that determination, including obtaining a certification from the school's attorney that the common-law agency test has been met.

FINDING NUMBER 2012-009
(Continued)

2 C.F.R. 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.

Additionally **2 CFR Part 225, Appendix A, paragraph B.6** states that ‘‘Cognizant agency’’ means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under 2CFR part 225 on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies.

In Ohio, the Secretary of the U.S. Department of Education has delegated this authority to the Ohio Department of Education’s Office of Federal and State Grants Management. All districts recovering indirect costs must have a plan on file with the ODE and an approved indirect cost recovery rate (ICRP).

Also, **34CFR Section 80.23** 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, Education Jobs Fund has a project period starting with the application substantially approved date through September 30, 2012. Additionally, any budget revisions contain a substantially approved date which coincides with the date the revision request was submitted to ODE. Activities may not commence from that budget revision prior to the substantially approved date. For Richard Allen II Academy, the substantially approved date was November 16, 2011.

For Education Jobs Fund, the School charged salaries of five employees to the grant starting July 15, 2011, which was well before the substantially approved date. The salaries of these employees were allocated amongst all four Richard Allen Community Schools, with Richard Allen II Community School paying $126,150 or 72.9% of the salaries and benefits. The salaries and benefits were allocated between Richard Allen Academies like indirect cost. However, there was no indication that the ICRP was approved by ODE. There no were time sheets or other form of time and effort logs to substantiate hours worked by an employee at each School.

Additionally, all employees charging the grant were management company employees and there was no indication of the School clearly documenting the basis for that determining that an individual was an employee of the School under a common-law agency test, including obtaining a certification from the school’s attorney that the common-law agency test has been met.

FINDING NUMBER 2012-009
(Continued)

In accordance with the foregoing facts and pursuant to OMB Circular A133 Section .510 (a)(3) a federal questioned cost in amount of $126,150 is hereby issued. Policies and procedures should be established and implemented to establish controls that would detect and prevent any noncompliance with the federal awards. Failure to do so could result in loss of grant revenue.

Official's Response: See pages 51 and 52.

Finding Number	2012-010
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) ARRA - Title I Grants to Local Educational Agencies (84.389) Education Jobs Fund (84.410)
Federal Award Number / Year	2011 and 2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE AND MATERIAL WEAKNESS – REPORTING, SPECIAL TEST PROVISIONS ARRA – SEPARATE ACCOUNTABILITY & SPECIAL TEST PROVISIONS ARRA – PRESENTATION ON SEFA AND DCF

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 sched ule 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.

(5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program.

FINDING NUMBER 2012-010
(Continued)

(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.

Additionally, 2 CFR Section 176.210 states, in part, that:

(a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds.
(b) For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

The School provided three different versions of the schedule for the audit and each version contained various errors. All three versions of the schedule did not include CFDA numbers, cluster, federal agency, pass through entity, and notes to the schedule. ARRA expenditures were not identified separately on the first two versions of the federal schedule and there was no indication that the School was tracking its ARRA grants separately in accordance with the requirements of 2 CFR Section 176.210. The federal schedule has been adjusted to correctly report these items.

The School prepared its federal schedule on cash basis. However, $31,270 in Title I Grants to Local Educational Agencies expenditures were not made during fiscal year 2012. Additionally, underlying supporting documentation for Education Jobs Fund expenditures was $15,995 less than the amount reported on the federal schedule. These misstatements were significant enough to warrant the attention of those charged with governance. However, they were not material and the accompanying federal schedule has not been adjusted to correctly report federal expenditures.

Additionally, the School had reported $12,357 in ARRA - Title I expenditures and $28,100 in Title I expenditures on its 2011 federal schedule. During the management company AUP engagement, the firm conducting the AUP discovered that the expenditures were made during fiscal year 2012 and should not be reported on the 2011 federal schedule. The 2011 federal schedule was adjusted to correctly reflect 2011 cash basis expenditures. The 2012 federal schedule did not report the above mentioned expenditures for Title I, Part A Cluster. The federal schedule was not adjusted to reflect these expenditures.

We also noted similar errors in several non-major programs.

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 Schedule of Federal Awards Receipts and Expenditures. The Schedule should be reviewed after preparation and agreed to the underlying accounting records of the School for accuracy.

Official's Response: See pages 51 and 52.

Finding Number	2012-011
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) ARRA - Title I Grants to Local Educational Agencies (84.389) Education Jobs Fund (84.410)
Federal Award Number / Year	2011 and 2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE AND MATERIAL WEAKNESS – CASH MANAGEMENT & 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.

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. Additionally, the School could not provide supporting documentation for the expenditure amounts that were reported on project cash request forms before January 2012. The PCR's submitted to ODE beginning January 2012, had support attached, however the support submitted with the PCR's was not reliable (i.e. client prepared spreadsheets) instead of printouts from the School's accounting system. For the project cash request forms reviewed, the following variances were noted:

Title 1 - PCR Date	PCR Expenditures	Academy's Actual Expenditures	Variance
June 30, 2011	$254,199	$211,623	$42,576
January 31, 2012	107,276	107,661	(385)
February 29, 2012	143,933	131,263	12,670
May 31, 2012	232,861	204,754	28,107
November 14, 2011	81,380	73,199	8,181

Note: November 14, 2011 request is for ARRA – Title I funds.

For the Education Jobs Fund, the School charged salaries of five employees to the grant. The salaries of these employees were allocated amongst all four Richard Allen Community Schools, with Richard Allen II Community School paying 72.9% of the salaries and benefits.

There was no underlying support such as time sheets to support allocation between four Richard Allen Academies. Additionally, there was no underlying documentation to show allocation by pay period for payroll and fringe benefits to the Richard Allen II Community School. Due to lack of underlying support, we were unable to ascertain whether the School complied with compliance requirements as it relates to cash management.

A federal questioned cost has been issued in finding number 2012-013 for the portion of unsupported expenditure at the end of the grant period related to Title I Grants to Local Educational Agencies and finding number 2012-010 for 100% of Education Jobs Fund expenditures.

Policies and procedures should be established and implemented to verify that cash requests submitted to ODE are accurate. Failure to do so could result in loss of grant revenues. Supporting reports or other documentation should be available to show how the Academy arrived at the expenditure amounts that are shown on the PCR.

Official's Response: See pages 51 and 52.

Finding Number	2012-012
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) ARRA - Title I Grants to Local Educational Agencies (84.389) Education Jobs Fund (84.410)
Federal Award Number / Year	2011 and 2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE 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 2012 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 $25,956. Additionally, actual expenditures for supplies exceeded amounts reported on FER by $3,331. The management company's accounting system was not able to distinguish between amounts charged to federal programs and general fund.

Additionally, the Education Jobs Fund's final expenditure report could not be tied to underlying accounting records as the School allocated payroll expenditures between four Richard Allen Academies and the allocation percentage could not be substantiated through time and effort logs or similar documentation.

In accordance with the foregoing facts and pursuant to OMB Circular A133 Section .510 (a)(3) a federal questioned cost in amount of $25,956 is hereby issued for Title I Grants to Local Educational Agencies. Additionally, a federal questioned cost for 100% of the grant expenditures was issued for the Education Jobs Fund in finding number 2012-010

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 pages 51 and 52.

Finding Number	2012-013
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) ARRA - Title I Grants to Local Educational Agencies (84.389) Education Jobs Fund (84.410)
Federal Award Number / Year	2011 and 2012
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

NONCOMPLIANCE AND MATERIAL WEAKNESS – ACTIVITIES ALLOWED OR UNALLOWED, ALLOWABLE COSTS/ COST PRINCIPLES, CASH MANAGEMENT, MATCHING, LEVEL OF EFFORT, EARMARK, PERIOD OF AVAILABILITY, PROCUREMENT SUSPENSION AND DEBARMENT, REPORTING, SPECIAL TEST PROVISIONS – ARRA – SEPARATE ACCOUNTABILITY, PRESENTATION ON SEFA AND DCF, 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.

Title I

The School spent $322,024 of Title I, Par A Cluster funding during fiscal year 2012. $197,531 or 61% of these expenditures were related to payroll cash disbursements. However, the School did not have appropriate controls in place and operating effectively over these federal expenditures to prevent and detect material noncompliance. The lack of controls resulted in expenditures that were outside the period of availability and other expenditures that were deemed unallowable per 2 CFR Section 225 (formerly circular A-87). Also, the School did not have appropriate controls in place and operating effectively over non-payroll expenditures to prevent and detect material noncompliance. This lack of controls resulted in expenditures that were outside the period of availability. These issues have been reported as finding 2012-007. Additionally, the lack of controls was noted for the following compliance requirements in the Title I program:

- Cash Management
- Level of Effort / Maintenance of Effort (Supplement, not Supplant) & Earmarking
- Reporting
- Special Tests and Provisions – Separate Accountability for ARRA Funding
- Special Tests and Provisions - All Awards with ARRA Funding - Presentation on SEFA & DCF
- Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals

Ed Jobs

The School spent $126,150 in Ed Jobs money during fiscal year 2012. The whole amount was related to payroll cash disbursements. However, the School did not have appropriate controls in place and operating effectively over these federal expenditures to prevent and detect material noncompliance. The lack of controls resulted in 100% of the grant expenditures being deemed unallowable per October 15, 2010, U.S. Department of Education's Updated Guidance Concerning the Applicability of the Education Jobs Fund Program to Charter Schools. See finding number 2012-010. Additionally, the lack of appropriate controls was noted for the following compliance requirements:

- Cash Management
- Reporting

FINDING NUMBER 2012-013
(Continued)

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 pages 51 and 52.

Finding Number	2012-014
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) ARRA - Title I Grants to Local Educational Agencies (84.389)
Federal Award Number / Year	2011
Federal Agency	United States Department of Education
Pass-Through Agency	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 School had not certified or submitted the data collection form to the federal audit clearinghouse as of August 28, 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. The Compliance opinion was qualified for both major federal programs and there were seven federal findings in the audit report.

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 pages 51 and 52.

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2011-001	Ohio Rev. Code Section 3314.02(E)(2) – Governing Board members serving on Board for more than two schools.	Yes	
2011-002	Finding for Recovery in amount of $282,388 against Institute of Management and Resources for overpayment of management fees.	No	Finding has not been repaid.
2011-003	Finding for Recovery in amount of $18,743 against Institute of Management and Resources for unpaid receivables. Financial statement opinion was also modified.	No	Finding has not been repaid. Material weakness repeated as finding 2012-001, reduced to significant deficiency.
2011-004	Ohio Rev. Code Section 3314.03 (B)(5) and AoS Bulletin 2000-005 – Financial statement misstatements	No	Repeated as Findings Number 2012-002
2011-005	Ohio Rev. Code Section 3314.024 and AoS Bulletin 2004-009 – Management Company Footnote	No	Repeated as Finding Number 2012-003
2011-006	2 CFR Part 225 Appendix A Part C, Attachment B, Section 8(h)(3) and Section 215.28 – federal noncompliance and questioned cost	No	Repeated as Finding 2012-007
2011-007	OMB Circular A-133 Subpart C Section .300(b) – controls over major federal programs	No	Repeated as Findings 2012-014
2011-008	American Recovery and Reinvestment Act of 2009 (ARRA), Section 1512 (c)(D) – Reporting requirements	N/A	Finding no longer valid.
2011-009	34 CFR 80.20 Section 6 – Federal Cash Management	No	Repeated as Finding 2012-012
2011-010	34 CFR Section 80.20 (b)(1) – Final Expenditure Report	No	Repeated as Finding 2012-013
2011-011	34 CFR Section 200.55 – Highly Qualified Teachers and Paraprofessionals	No	Repeated as Finding 2012-009
2011-012	Noncompliance and Significant Deficiency – OBM Circular A-133 Subpart C, §__.310(b) – Federal Awards Receipts and Expenditures Schedule	No	Repeated as Finding 2012-011

Finding 2012-001
The School's position that receivables were netted against payables (decreased receivable and decreased payables) remains unchanged from the 2011 audit. In 2012, the Auditors and the School agreed to reverse the original entry with which the receivable were netted against the payables as a condition of resolving the 2011 finding for recovery (2011-003) and the resulting opinion qualification. The agreed upon reversal (increase receivable and increase payables) was made as an adjusting entry in the 2012 audit, the finding for recovery was resolved, but qualification was removed for only the receivable. It appears now that the Auditors seem to be accepting only one side of a double-sided entry and rejecting the other; specifically, they are accepting the increase in receivable and rejecting the increase in payable. The School is open to any suggestions from the Auditors as to what would be required for the other side of the entry to be deemed acceptable.

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

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

Finding 2012-003
The School and management company have entered into a new management agreement effective October 1, 2013. That agreement requires the management company to report all expenditures made on behalf of the School to the Governing Board on a regular basis.

Finding 2012-004
The School disputes the Auditor of State's interpretation of the management agreement fee language in effect from July 1, 2011 through January 21, 2012. Accordingly, both IMR and the School have formally contested the related findings or recovery in accordance with ORC 9.24. That case, *Institute of Management and Resources, Inc. v. Dave Yost, et al*., Case No. 2013 CV 000682, is currently pending in the Franklin County Court of Common Pleas before Judge Guy L. Reece II.

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

Finding 2012-005
At the time both the School and management company were founded, community school officials were specifically exempted from the provisions of ORC 2921.42 via ORC 3314.03. The amendment to that law did not take effect until July 1, 2006. Since that time, Jeanette Harris has resigned as CEO of IMR and CEO of the Richard Allen Schools. Reverend Harris was an emeritus member of the Governing Board, which was an honorary title bestowed upon him by the voting Governing Board members in recognition of his contributions to the Schools as a founder thereof. Although the emeritus Board position was ceremonial and non-voting, Reverend Harris resigned from the same in 2011 order to avoid any appearance of impropriety.

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

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

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

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

Finding 2012-006 through 2012-014

On June 19, 2013, the Ohio Department of Education (ODE) Office of Grants Management issued its final Subrecipient Monitoring Report with regard to the Richard Allen Academies' use of selected Federal funds, including Title I, Title IIA, Special Education and Race to the Top grants, and Internal controls for FY 2012. The purpose of the review was to determine whether the Richard Allen Academies: (1) used Federal funds in accordance with applicable laws, regulations, and guidance; and (2) reported data that was accurate, reliable, complete, and in compliance with the Education Department General Administrative Regulations (EDGAR) 34 CFR sections 80.40 and 80.41 requirements. The scope of ODE's review covered information reported on the Final Expenditure Reports (FER) and Project Cash Requests (PCR) which included expenditures that were reimbursed within Fiscal years 2012 and 2013. Based on its Subrecipient Monitoring review, ODE determined that the Academies "generally used Federal funds in accordance with applicable laws, regulations, and guidance." In addition, no findings or recommendations were issued.

The Subrecipient Monitoring report was provided to the Auditors in advance of the release of the 2012 audit report. To obtain a copy of the Subrecipient Monitoring report, contact Lois M., Sunderland, MBA, External Audit Supervisor, Office of Federal and State Grants Management at (614) 387-7714 or (614) 752-1483.

Auditor of State's Conclusion: 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. 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 2012-006 through 2012-014. We did not rely on the results of Subrecipient monitoring report as the scope of these reviews are different from an audit.

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 6, 2013

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