Richard Allen Academy II Community School
Montgomery County, Ohio

Basic Financial Statements

June 30, 2008

(with Independent Auditors' Report)

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

Mary Taylor, CPA
Auditor of State

Board of Trustees
Richard Allen II Academy Community School
368 South Patterson Blvd
Dayton, Ohio 45402

We have reviewed the *Independent Auditors' Report* of the Richard Allen II Academy Community School, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Finding for Recovery Repaid Under Audit
In accordance with Section 3 of the management contract the School is a party to with the Institute of Management and Resources (IMR), monthly payments are made to IMR for health insurance for contractual employees as well as the ten percent management fee. While testing the monthly payments to IMR, a transfer of $77,095 was made from the School's bank account to the bank account of the Institute of Charter School Management and Resources (ICSMR); a corporation wholly owned by the Chief Operating Officer of the School. Prior to IMR, the School's management company was ICSMR. There was no management company invoice which supported this transfer or any other documentation. Management indicated this transfer was made by the School to ICSMR on behalf of Richard Allen Academy I (RAAI) and Richard Allen Preparatory (RAP) for obligations owed by those two schools, however, the liabilities were not obligations of Richard Allen Academy II, and thus should not have been paid by Richard Allen Academy II.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against the Institute of Charter School Management and Resources in the total amount of $77,095 in favor of Richard Allen Academy II. The Institute of Charter School Management and Resources repaid $77,095 on 1/14/10.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Richard Allen II Academy Community School is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 24, 2010

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INDEPENDENT AUDITORS' REPORT

Richard Allen Academy II Community School
368 South Patterson Blvd.
Dayton, Ohio 45402

We have audited the accompanying financial statements of the Richard Allen Academy II Community School (the School) as of and for the year ended June 30, 2008, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Richard Allen Academy II Community School as of June 30, 2008, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As shown in the accompanying financial statements, the School has incurred a working capital deficiency of $392,984, an operating loss of $194,672, and an accumulated net deficit of $310,427, that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in the notes to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2010, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
January 19, 2010

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, 2008. 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 2008 are as follows:

- Total net assets increased $2,162 during fiscal year 2008, which represents an increase of less than one percent over fiscal year 2007 net assets.

- Total assets increased $183,585 which represents an 89.2 percent increase from the prior year. The largest change was the increase in cash on hand during the year by approximately $180,000 with accounts receivable increasing by just over $77,095. Total liabilities increased by $181,423 consisting primarily of increases in intergovernmental payable, accounts payable and contractual commitment payable. The significant increase in intergovernmental payable resulted from the Ohio Department of Education (ODE) adjusting the results of an enrollment audit from a prior fiscal year. Contractual commitment payable represents the payments owed to two other Richard Allen Schools based on a contractual agreement.

- The $194,672 operating loss reported for fiscal year 2008 was $393,408 less than the restated operating loss reported for the prior year, a 66.9 percent increase.

Using this Financial Report

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

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes 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.

This statement 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 2008 compared with fiscal year 2007.

Table 1
Net Assets

	2008	Restated 2007	Change
Assets:			
Current assets	$ 294,578	$ 41,519	$ 253,059
Capital assets, Net	94,765	164,239	(69,474)
Total Assets	389,343	205,758	183,585
Liabilities:			
Current liabilities	687,562	483,012	204,550
Non-current liabilities	12,208	35,335	(23,127)
Total Liabilities	699,770	518,347	181,423
Net Assets:			
Invested in capital assets	51,050	98,464	(47,414)
Restricted	-	10,207	(10,207)
Unrestricted	(361,477)	(421,260)	59,783
Total Net Assets	$ (310,427)	$ (312,589)	$ 2,162

As noted in Table 1 above, total net assets of the School increased by $2,162 during fiscal year 2008 decreasing the accumulated deficit reported at June 30, 2008 to $310,427.

Total assets of the School increased by $183,585 or 89.2 percent. Cash on hand increased by approximately $180,000 compared from the prior year due to cash receipts exceeding cash disbursements. Total receivables reported as of June 30, 2008 were $72,623 higher than those reported one year prior due significantly to amounts owed to the School by the management company at year-end. The net book value of capital assets decreased by $69,474 due to current year depreciation expense.

The liabilities reported by the School at June 30, 2008 were $181,423 higher than the amount of the prior year. The majority of the increase related to increases in accounts payable, intergovernmental payable and contractual commitment payable. The $91,026 increase in intergovernmental payable resulted from the Ohio Department of Education (ODE) adjusting the results of an enrollment audit from a prior fiscal year and increased the amount the School must return. These funds will be withheld from the School's State foundation in future fiscal periods. The $259,038 contractual commitment payable represents the funding owed to two other Richard Allen Schools based on a contractual agreement to provide educational services to kindergarten students from the three Richard Allen Schools located in Dayton.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008, as well as revenue and expense comparisons to fiscal year 2007.

Table 2
Change in Net Assets

	2008	Restated 2007	Change
Operating Revenues:			
Foundation payments	$ 3,097,554	$ 3,069,381	$ 28,173
Miscellaneous revenue	63,305	57,937	5,368
Non-Operating Revenues:			
State and federal grants	300,823	429,442	(128,619)
Interest earnings	31	391	(360)
Total Revenues	3,461,713	3,557,151	(95,438)
Operating Expenses:			
Contractual employees	1,939,073	1,967,375	(28,302)
Management company fees	706,813	655,383	51,430
Building rental	150,501	132,501	18,000
Other purchased services	335,204	656,933	(321,729)
Materials and supplies	121,145	188,391	(67,246)
Depreciation	69,474	113,777	(44,303)
Other expenses	33,321	1,038	32,283
Non-Operating Expenses:			
Interst and fiscal charges	2,300	2,977	(677)
Contractual agreement expense	101,720	122,382	(20,662)
Loss on disposal of asset	-	60	(60)
Total Expenses	3,459,551	3,840,817	(381,266)
Change in Net Assets	2,162	(283,666)	285,828
Net Assets, Beginning of Year	(312,589)	(28,923)	(283,666)
Net Assets, End of Year	$ (310,427)	$ (312,589)	$ 2,162

Total revenues of the School decreased by $95,438, or 2.7 percent, over the total revenues reported for the prior year. The primary source of funding for the School is received through the State of Ohio's foundation funding program. The $28,173 increase in foundation revenue was due to increase in the per pupil funding amount which was offset some by the small decrease in students at the School for fiscal year 2008 compared with one year ago. In fiscal year 2007, the School received a $150,000 federal charter school grant which it did not receive in current fiscal year, which explains the decrease in federal and state grant funding.

Total expenses of the School reported for the fiscal year were $3,459,551 or 9.9 percent less than those reported for the previous fiscal year. Efforts by management to control operating costs as well as a small decrease in personnel resulted in lower expenses for 2008. Purchased services decreased as the School discontinued some on-going professional services contracts with outside vendors during the fiscal year as well as having less repair and maintenance expense associated with the upkeep of the building during fiscal year 2008.

Capital Assets

At June 30, 2008 the capital assets of the School consisted of $593,139 of leasehold improvements, equipment and vehicles which was offset by $506,374 in accumulated depreciation resulting in net capital assets of $86,765. The only capital asset activity for the year was depreciation expense of $69,474 being recorded.

See note 8 to the basic financial statements for additional information on the School's capital assets.

Debt

At June 30, 2008, the debt obligations of the School consisted of capital leases payable totaling $35,715, of which $23,507 is due within one year. Capital leases reported at year end include lease obligations for the purchase of two school buses. At year end, the School continues to owe the management company $12,500 for an operating loan received in the prior year.

Additional information related to the School's debt obligations can be found in notes 6 and 13 to the basic financial statements.

Contacting the School

This financial report is designed to provide a general overview of the finances of the 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.

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

Statement of Net Assets
June 30, 2008

Assets:	
Current assets:	
Cash	$ 200,253
Accounts receivable	77,095
Intergovernmental receivable	17,230
Total current assets	294,578
Noncurrent assets:	
Security deposit	8,000
Capital assets, net of accumulated depreciation	86,765
Total noncurrent assets	94,765
Total Assets	389,343
Liabilities:	
Current liabilities	
Accounts payable	196,209
Payroll requirement due	491
Accrued wages and benefits	88,209
Intergovernmental payable	107,608
Contractual amount payable	259,038
Notes payable	12,500
Capital leases payable	23,507
Total current liabilities	687,562
Long term portion of capital lease payable	12,208
Total Liabilities	699,770
Net Assets:	
Invested in capital assets, net of related debt	51,050
Unrestricted	(361,477)
Total net assets	$ (310,427)

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008

Operating Revenues:		
State foundation	$	3,097,554
Other operating revenues		63,305
Total operating revenues		3,160,859
Operating Expenses:		
Contractual employees		1,939,073
Purchased Services:		
Management company fee		706,813
Building rentals		150,501
Other		335,204
Materials and supplies		121,145
Depreciation		69,474
Other expenses		33,321
Total operating expenses		3,355,531
Operating Loss		(194,672)
Nonoperating revenues (expense):		
Federal grants		287,552
State grants		13,271
Interest income		31
Contractual agreement expense		(101,720)
Interest and fiscal charges		(2,300)
Total nonoperating revenues (expenses)		196,834
Change in net assets		2,162
Net assets, beginning of year (Deficit) - Restated		(312,589)
Net assets, end of year (Deficit)	$	(310,427)

See accompanying notes to the basic financial statements

RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL

Statement of Cash Flows
Year Ended June 30, 2008

Cash flows from operating activities:	
Cash received from State of Ohio - Foundation	$ 3,193,826
Cash received from other operating revenues	63,305
Cash payments for contracted personal services	(1,943,048)
Cash payments for contract services	(1,243,714)
Cash payments for supplies and materials	(121,145)
Cash payments for other expenses	(33,321)
Net cash used by operating activities	(84,097)
Cash flows from noncapital financing activities:	
Cash received from state and federal grants	302,862
Cash paid on contractual agreement	(14,000)
Net cash provided by noncapital financing activities	288,862
Cash flows from capital and related financing activities:	
Principal paid on capital leases	(22,060)
Interest paid on capital leases	(2,300)
Net cash used by capital and related financing activities	(24,360)
Cash flows from investing activities:	
Investment income	31
Net change in cash and cash equivalents	180,436
Cash and Cash Equivalents at beginning of year	19,817
Cash and Cash Equivalents at end of year	200,253

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	(194,672)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	69,474
Change in assets and liabilities:	
Accounts receivable	(77,095)
Intergovernmental receivable, related to operating activities	2,433
Accounts payable	25,899
Payroll requirement payable	14,652
Accrued wages and benefits	(9,018)
Compensated absences	(6,796)
Intergovernmental payable	91,026
Net cash used by operating activities	$ (84,097)

See accompanying notes to the basic financial statements

1. Description of the School and Reporting Entity:

Richard Allen Academy II Community School (the School) is a state 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, Ohio Department of Education 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. In addition all employees of the School are IMR employee's and are subsequently contracted to the School. The School is responsible for reimbursing IMR for the payroll and benefits of the employees assigned to the School. (See note 11 for additional detail on the contractual relationship between IMR and the School).

The School was approved for operation under an initial contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2002 through June 30, 2008, however the School was notified by the Board of Education it would no longer be its Sponsor after the 2004-2005 school year. In June 2005, the School entered into a one-year Sponsor Contract with St. Aloysius Orphanage; however, on April 1, 2006 the Board, with the approval of St. Aloysius, assigned the Sponsor Contract to KIDS Count of Dayton, Inc. and extended the terms of the Contract through June 30, 2009.

The School operates under a self-appointing ten-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 2008 was 465; an decrease of 7 students compared with 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 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.

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 an 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 $500 for computers and $1,000 for all other items. 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.

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, interest revenue and interest expense comprise the non-operating revenues and expenses 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, 2008, including:

Payroll Requirement Payable – amounts owed to IMR at year-end for contractual labor, instructional and allocated management personnel, for pay periods ending before year-end which the School did not have enough cash available to make payment.

Accrued contract labor payable – salary reimbursements to IMR made after year-end which were for services employees rendered in fiscal year 2008. Teaching personnel are paid in 24 equal installments, ending with the last pay period in July, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2008 for all salary payments made to teaching personnel during the month of July 2008.

Intergovernmental payable – amounts owed to other governmental entities, including payment for the employer's share of the retirement contribution and other related payroll taxes, associated with services rendered during fiscal year 2008, but were not paid until the subsequent fiscal year.

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 consist of capital assets, net of accumulated depreciation less any outstanding capital related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Restatement of Net Assets and Change in Accounting Principles:

A. Restatement of Net Assets

During fiscal year 2008, the School discovered that certain liabilities were not properly reported in prior periods. Amounts owed to two other Richard Allen schools under a contractual agreement with the School totaled $171,318 at June 30, 2007 but were not recorded by the School. In addition, liabilities associated with amounts owed to the School's management company (Institute of Management and Resources) for payroll requirement and certain accounts payables, totaling $14,671, were not recorded in the prior year as well.

As a result of these corrections of prior errors, net assets reported at June 30, 2007 were overstated by $185,989. Therefore, the net deficit reported at July 1, 2007 was restated from the $126,600 previously reported to $312,589.

B. Change in Accounting Principles

For the fiscal year ended June 30, 2008, the School has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Post Employment Benefits Other than Pensions". This standard establishes the reporting disclosure requirements for governments related to benefits offered to employees after employment ends other than pensions. For the School, these changes only affect the required disclosures related to the health care benefits offered through the multi-employer, cost-sharing state retirement system and have no effect on the financial statement amounts.

4. 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 carrying amount of the School's deposits was $200,253 and the bank balance was $166,924. Federal depository insurance covered $100,000 and the remaining $66,924 was exposed to custodial credit risk as it was uninsured and collateralized with securities held by the pledging institution's trust department but not in the name of the School.

5. Receivables:

All intergovernmental receivables are considered collectible in full due to the stable condition of State programs, and the fiscal year guarantee of federal funds. The intergovernmental receivables at June 30, 2008 consisted of amounts due related to the National School Lunch Program ($16,834) and the Title V Grant program ($396).

6. Capital Leases Payable:

In prior fiscal years, the acquired two school buses through capital lease agreements. The terms of the agreements provides an option to purchase the vehicle. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one, which transfers benefits and risks of ownership to the lessee. The capital assets acquired by leases have been capitalized as vehicles in the amount of $111,100, which is equal to the present value of the minimum lease payments at the time of acquisition. At the time of acquisition, a corresponding liability was recorded. Principal payments on these lease agreements during fiscal year 2008 totaled $22,060.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2008.

	Fiscal Year	Lease Payments
	2009	$ 24,754
	2010	12,558
Total Mimimum Lease Payments		37,312
Less: Amount Representing Interest		(1,597)
Present Value of Minimum Lease Payments		$ 35,715

7. Risk Management:

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 2008, the School contracted with the Indiana Insurance Company for business personal property, director and officer liability and general liability insurance. Business personal property coverage carries a $1,000 deductible and has a $2,100,000 blanket business income limit. 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 Indiana Insurance Company also provides umbrella liability coverage of $4,000,000 per occurrence, as well as, in the aggregate. Business auto coverage is provided by through Indiana Insurance Company carrying a $1,000 deductible and $1,000,000 limit.

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.

Employee insurance benefits – As part of the management agreement with the IMR (see note 11), insurance benefits are paid by the Institute and reimbursed monthly by the School.

8. Capital Assets:

A summary of the School's capital assets at June 30, 2008, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Leasehold improvements	$ 332,678	$ -	$ -	$ 332,678
Equipment	149,361	-	-	149,361
Vehicles	111,100	-	-	111,100
Total	593,139	-	-	593,139
Less: accumulated depreciation on:				
Leasehold improvements	(289,008)	(26,075)	-	(315,083)
Equipment	(98,056)	(21,179)	-	(119,235)
Vehicles	(49,836)	(22,220)	-	(72,056)
Total	(436,900)	(69,474)	-	(506,374)
Net capital assets	$ 156,239	$ (69,474)	$ -	$ 86,765

9. 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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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 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 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2008, 2007, and 2006 were $9,784, $5,712, and $9,749 respectively; which were equal to the required contributions for each year.

B. State Teachers Retirement System

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (888) 227-7877 or by visiting STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. e 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.

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 the fiscal year ended June 30, 2008, plan members were required to contribute the statutory maximum of 10.0 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 for the fiscal year ended June 30, 2008, 2007, and 2006 were $196,704, $210,667, and $144,578 respectively; which were equal to the required contributions for each year.

10. Post employment Benefits

A. School Employees Retirement System

Plan Description - The School participates in two cost-sharing multiple employer defined OPEB 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 and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS 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 Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was $35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were $2,921, $1,776, and $3,151 respectively; which were equal to the required contributions for each year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contributions to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007 and 2006 were $461, $269, and $459 respectively; which were equal to the required contributions for each year.

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, 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, 2008, 2007, and 2006 were $14,050, $16,205, and $11,121 respectively; which were equal to the required contributions for each year.

11. Management Company Agreements:

For the period July 1, 2006 through August 31, 2006, the School was a party to a management agreement with the Institute of Charter School Management and Resources, Inc. (ICSMR), which is an educational consulting and management company. Effective September 1, 2006, the School ended the agreement with ICSMR and 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 includes a termination date of June 30, 2015. The terms and duties contained within each of the respective agreements are virtually identical.

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. The School reimburses IMR every pay-period for the gross payroll expense of the contract employees working at the School and monthly for the related cost of the benefits offered to these employees. For fiscal year 2008, the expense related to contractual employees totaled $1,939,073; $1,594,169 for payroll and $344,904 for benefits, respectively.

IMR receives a monthly management fee of 10% of the total operating revenues of the School from all sources excluding extraordinary items. IMR charges the School for any expenses it incurs on behalf of the School in order to provide District wide services. 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. During fiscal year 2008, the School reported expenses totaling $384,845 for professional, accounting and legal, management and other services to its management companies.

The table below shows the management company expenses for fiscal year 2008.

Management Company Expense:	
Direct Expenses:	
Contract employees - salaries	$ 1,594,169
Contract employees - benefits	344,904
Management company fee	321,968
Indirect Expenses:	
Adminstration expense allocation	384,845
Total Expenses	$ 2,645,886

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.

12. Contingencies:

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts, which may be disallowed, if any, are not presently determinable. However, in the opinion of the School, any such disallowed claims will not have a material adverse effect on the financial position of the School.

B. State funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review of fiscal year 2008 determined that School owed back $2,526 of foundation revenue received during the year. In addition, a subsequent review by ODE resulted in the School owing back an additional $91,313 of state foundation revenue received in previous fiscal years. Both of these amounts are included within the intergovernmental payable amount on the financial statements and will be withheld from future foundation settlements.

13. Notes Payable

In the prior fiscal year, the School received two loans for operating purposes from the Institute of Management and Resources totaling $12,500. These notes were originally required to be repaid from operating revenue by December 31, 2007 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, 2009.

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	$ -	$ -	$ 12,500

14. Operating Leases:

The School leases its facilities from St. Joseph Catholic Church under an original three-year lease agreement beginning July 1, 2002 through June 30, 2005. The period of the loan was subsequently amended to cover the period July 1, 2005 through June 30, 2010 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 2008 were $11,042. The terms of the lease are not expected to change significantly in future years.

In addition, the School leases certain educational space from J&A Educational Properties. The monthly lease payments during fiscal year 2008 were $1,500. The terms of the lease are not expected to change significantly in future years.

Total rental payments paid by the School during fiscal year 2008 were $150,501.

15. Other Purchased Services:

During the fiscal year ended June 30, 2008, other purchased service expenses for services rendered by various vendors were as follows:

Professional and technical services	$ 75,152
Property services	97,679
Travel and meetings	6,893
Communications	27,523
Advertising	7,035
Utilities	100,316
Food Service	16,519
Other	4,087
Total other purchased services	$ 335,204

16. Contractual Agreement with Related Party:

On July 1, 2006, the School entered into an "Educational Cooperative Contract" agreement with Richard Allen Academy I (RAAI) and Richard Allen Preparatory (RAP) Community Schools under which the School would provide housing and instructional education to the kindergarten students of the RAAI and RAP. The terms of the agreement entitles the School to retain 80 percent of the funding received from the State of Ohio related to kindergarten students for the services provided and the remaining 20 percent to be allocated equally between RAAI and RAP. The agreement may be terminated by any party upon 90 days written notice of termination to the other party or immediately in the event there is a loss of funding, or upon discovery of non-compliance with any federal or state laws, rules or regulations.

The Board of Directors approved the School's participation in the agreement which was approved retroactive to the beginning of fiscal year 2006. During fiscal year 2008, the 20 percent of kindergarten fund required by the contract to be allocated to RAAI and RAP totaled $101,720 of which $14,000 was paid during the year and the remaining $87,720 was accrued as part of the contractual amount payable.

17. Related Parties:

The Board, Chief Executive Officer, and Chief Fiscal Officer of Richard Allen II Community School serve in the same capacity for Richard Allen Academy Community School, Richard Allen Academy Preparatory Community School, and Richard Allen Academy III Community Schools, all of which are managed by the Institute of Management and Resources, Inc. (IMR). IMR receives 10 percent of the School's state funding as a management company fee. See Note 11. At June 30, 2008 the School owed IMR $21,213 which includes the $12,500 for operating loans provided in the previous fiscal year, $491 of payroll requirement payable and $8,222 for unpaid management fees which is included within accounts payable.

The Institute of Charter School Management Resources, Inc. (ICSMR), a corporation wholly owned by the Chief Operating 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. At June 30, 2008 the School owed ICSMR $8,972 for maintenance service provided but remaining unpaid.

The School is a party to a contractual agreement with two other Richard Allen Schools, Richard Allen Academy I (RAAI) and Richard Allen Preparatory (RAP), in which the School agreed to provide housing and educational services to the kindergarten students of the two other schools. The agreement calls for the School to retain 80 percent of the state funding related to kindergarten students and the School is to allocate the other 20 percent to RAAI and RAP. During fiscal year 2008, the School paid RAAI and RAP $7,000 each under the terms of the contract. At June 30, 2008, the School owes an additional $259,038 which to the schools under the terms of the contract but has not been paid. This amount is reported in the statement of net assets as contractual amount payable.

18. Management's Plan Regarding Accumulated Deficit:

As shown in the accompanying financial statements, the School had an accumulated deficit of $310,427 as of June 30, 2008 which is primarily due to contractual amount payable of $259,038, accounts payable of $196,209 and intergovernmental payable of $107,608.

To address the financial condition of the School, the management company has sought and obtained approval from the Board of Directors of IMR to forgive a substantial portion of the amounts owed to it by the School. Additionally, the School has implemented cash management strategies that will allow it to reduce accounts payable balances substantially in the coming fiscal year.

Management is confident the steps noted above as well as additional efforts directed towards increasing student enrollment, which would provide additional State funding, will enable the School to return to financial stability.

<u>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*</u>

Richard Allen Academy II Community School
368 South Patterson Blvd.
Dayton, Ohio 45402

We have audited the financial statements of the Richard Allen Academy II Community School (the School), as of and for the year ended June 30, 2008, and have issued our report thereon dated January 19, 2010, wherein we noted the School has incurred a working capital deficiency of $392,984, an operating loss of $194,672, and an accumulated net deficit of $310,427 for the year ended June 30, 2008, that raises substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the School's internal control over financial reporting. Accordingly, we do not express an opinion 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompany schedule of findings and responses as items 2008-002 through 2008-010.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies identified above, we consider items 2008-003, 2008-004, 2008-005 2008-006 and 2008-007 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2008-001.

We noted certain additional matters that we reported to management of the School in a separate letter dated January 19, 2010.

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

This report is intended solely for the information of and use by the Board, management of School, and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
January 19, 2010

Finding Number 2008-001

Effective September 1, 2006, the School became a party to a management contract with the Institute of Management and Resources (IMR) to provide educational services and management support.

Section 2.6(b) of the management contract states “within 120 days after the close of the fiscal year, a balance sheet and related statement of revenue and expenses showing the results of the School’s operations during the fiscal year, both audited by an independent certified public accounting firm chosen by the School, with the approval of the Institute, which approval shall not be unreasonably withheld”.

The financial statements of the School were not compiled until February 2009 which did not permit an audit to be completed within the 120 days after the close of the fiscal year as required by the management contract provision.

The School should monitor the performance of IMR to ensure all provisions of the management contract are adhered to.

> <u>Managements Response to Comments:</u> *Section 2.6(b) of the management contract has been amended to be in accordance with ORC Section 117.38.*

Finding Number 2008-002

Section 3 of the management contract entered into with the Institute of Management and Resources (IMR), effective September 1, 2006 states that the School shall pay to IMR a management fee of ten percent of the total operating revenues of the School from all sources excluding extraordinary items received or obtained by the School. This fee is to be paid no later than the tenth day of the next month, and final adjustment to reflect actual revenue earned during the month shall be made by each party within 30 days of the end of the month.

As written, the wording in the current management agreement is vague, at best, at what constitutes the base revenues for which the ten percent management fee is calculated. While the agreement calls for the exclusion of “extraordinary items” received or obtained by the School from the base revenue, the agreement provides no clarification of what should be interpreted as “extraordinary items”. Lack of clarity leaves the decision-making to the financial officer who is employed by IMR. In addition, the agreement does not address subsequent repayment of revenues received in prior years, such as adjustments to State Foundation revenues by the Ohio Department of Education, and the effect these adjustments have on determining current management fees.

To ensure the management fee is consistently calculated using the appropriate base revenue amount, the School should consider amending the current management contract with IMR to provide additional clarification of what revenues should be included in the revenue base and how certain revenue adjustments should be handled when calculating the monthly management fee.

> <u>Managements Response to Comments:</u> *The Board of Directors amended the management contract so that the language is in accordance with the intent of the agreement and clarification of what revenues should be included in the base. The revisions will include the process for adjustments and calculations of the management fees.*

Finding Number 2008-003

Included within the cash balance of the School is an allocation of an account used to pool funds from all four Richard Allen Schools received for school lunches which is used to pay the cost of providing school lunches in all four schools. The School's position in this account is based on the amount of lunchroom receipts less the allocated share of the cost to provide the lunches. The food service costs are allocated equally to each school, not based on the number of students or lunches served, which results in schools with fewer students reporting cash deficits positions that are offset by the positive position of other schools. The following table shows each of the four schools reported position in the school lunch account at June 30, 2008:

School	Cash Position in Lunchroom Account
Richard Allen Academy I	$ (32,724)
Richard Allen Academy II	42,957
Richard Allen Academy III	(3,493)
Richard Allen Preparatory	(3,365)
Reconciled Account Balance	$ 3,375

While all four of the Richard Allen Schools are managed and operated by the same management company, all four schools are considered distinct entities and should be accounted for as such. By combining funds into one central account and allocating costs in an inequitable manner the risk is increased that the actual cash position of the School is being artificially inflated due to the deficits reported by the other schools.

The cash reconciliation process is a primary internal control used by management to ensure financial accounts are accurate. The School should discontinue the practice of pooling lunchroom receipts with the other Richard Allen Schools and report only the financial activity which occurs during the period.

> *Managements Response to Comments:* *The management company has noted the deficiencies reported above and has implemented controls to resolve those in the coming fiscal years.*

Finding Number 2008-004

Management is responsible for designing and implementing internal controls over financial reporting which provides reasonable assurance of the integrity of the financial reporting process, the safeguarding of assets and compliance with applicable laws, regulations and contracts.

Audit adjustments were necessary to correct various errors, including:

- Prior period adjustments necessary to record certain liabilities which were not included in the fiscal year 2007 financial statements, including recognizing $14,671 of accounts payable and payroll payments due to the management company as well as recognizing $171,318 owed by the School to two other Richard Allen schools under a contractual agreement.
- Current year audit adjustments to increase intergovernmental receivables by $17,230; reduce accrued wages by $97,119; increasing intergovernmental payable by $93,839; recognizing amount due under contractual agreements totaling $87,720; and numerous reclassification adjustments to report cash receipts and cash disbursements in the appropriate financial statement account.

In addition, several other less significant adjustments were posted to the financial statements and numerous corrections to the notes to the financial statements as well as the MD&A were necessary for the year ended June 30, 2008.

The School should design and implement an adequate internal control environment which will provide reasonable assurance that financial accounts as well as financial reports produced are accurate and can be produced in a timely manner. Any such environment should include reconciling the various financial accounts maintained within the general ledger to supporting documents and making any necessary adjustments on a timely basis. Review of these account reconciliations should be performed by the appropriate level of management to ensure all issues are appropriately addressed and resolved.

The School should consider acquiring assistance from outside accounting personnel to prepare and/or review the annual GAAP financial statements prior to presenting them for audit to increase the accuracy and reliability of the financial statements, notes and MD&A.

> *Managements Response to Comments:* *Management has taken steps to address the finding noted above; among those steps are hiring of qualified accounting staff – a new treasurer and a new accounting manager both of whom are CPAs.*

Finding Number 2008-005

The Schools utilizes a commercial accounting system for recording the day to day financial transactions. Included in the system are several accounts which attempt to capture information on the accrual basis of accounting. Based on our review of the general ledger, it does not appear these accounts are being accurately updated or corrected on a timely basis throughout the year. During the current audit it was noted the general ledger was not properly closed at the end of fiscal year 2007 which caused significant difficulties with the beginning balances contained within the various accounts. Furthermore it was noted that a significant number of correcting entries were posted throughout the general ledger which could indicate financial personnel are not familiar with or have adequate experience in posting accrual based entries. Finally, many issues with account balances within the general ledger which were noted in prior audits have not been addressed to date.

The School does not use the system to produce its annual GAAP financial statements; instead the School utilizes a manual process to produce a GAAP trial balance from which the financial statements are produced.

Due to the complexity of maintaining an accrual basis accounting system and the difficulties maintaining accurate and reliable financial information within an accrual system with limited personnel, the School should consider moving to a cash basis general ledger where receipts are recorded when received and expenditures are recorded when disbursements are made. Such a system is available through the School's A-Site, the Metropolitan Dayton Educational Cooperative Association (MDECA). The USAS system available through MDECA was designed by the State of Ohio specifically for schools and utilizes the required chart of accounts.

Whatever decision is made, it is the responsibility of the School to accurately update the general ledger accounts when the appropriate transactions are made.

> *Managements Response to Comments:* *Management has taken steps to address the finding noted above; among those steps are hiring of qualified accounting staff – a new treasurer and a new accounting manager both of whom are CPAs.*

Finding Number 2008-006

For fiscal year 2008 the School reported a small increase in net assets; however the reported accumulated deficit reported as of June 30, 2008 was $310,427. The continuing and magnitude of the accumulated deficit indicates the School's finances are not properly monitored and appropriate adjustments to the financial practices are not being implemented. Financial monitoring controls should include regular review of budget to actual information, detailed revenue and expenditure reports, projection of amounts for the remainder of the year based on current activity, monthly bank reconciliation and month end cash position reports. As a result of the cash flow issues encountered by the School during the current and previous fiscal years, the outstanding obligations owed to various vendors at year-end were significant. As a result the School continues to pay late fees for over-due amounts.

The School should develop and institute an effective monitoring process for how the School is managed financially, including necessary adjustment of budget amounts if necessary. In addition, Board of Directors should be provided monthly financial reports which would enable members to more effectively determine the financial condition of the School on an on-going basis rather than waiting for the quarterly meetings to occur. Once management is able to become current with all vendors, the appropriate fiscal procedures should be implemented and complied with to ensure obligations are not made without the necessary funds being available.

To ensure the financial viability of the School on the long-term basis, the Board of Directors should evaluate the current management company contract. A significant portion of the School's resources are used to satisfy the 10 percent management fee, in addition to reimbursing the management company for its allocation of the payroll of management company personnel. Any significant improvement in the future financial condition of the School will be contingent upon reducing expenses and/or increasing resources available to reduce the liabilities of the School.

> *Managements Response to Comments:* *Management is aware of the findings noted above and has put in place processes to bring over-due vendor balances to current status. Some of the processes put in place include daily cash reconciliations, monthly reconciliation of vendor account balances, and working with vendors to resolve over-ninety-days outstanding balances.*

Finding Number 2008-007

In accordance with Section 3 of the management contract the School is a party to with the Institute of Management and Resources (IMR), monthly payments are made to IMR for health insurance for contractual employees as well as the ten percent management fee. While testing the monthly payments to IMR, a transfer of $77,095 from the School's bank account to the bank account of the Institute of Charter School Management (ICSMR); a corporation wholly owned by the Chief Operating Officer of the School. Prior to IMR, the School's management company was ICSMR. There was no management company invoice which supported this transfer or any other documentation. Management indicated this transfer was made by the School to ICSMR on behalf of Richard Allen Academy I (RAAI) and Richard Allen Preparatory (RAP) for obligations owed by those two schools. At the time of the transfer, the School owed money to both RAAI and RAP under a contractual obligation; however, there were no entries noted in the general ledger of either of school that indicated relief of liabilities owed to ICSMR. Further investigation of the explanation, indicated that only $34,177 of obligations to ICSMR by RAAI and RAP could be substantiated by valid obligations which had not been subsequently paid by RAAI and RAP to ICSMR.

No provisions were made within these financial statements to offset the transfer amount against the obligations owed to ICSMR by RAAI and RAP. As each school is a separate, distinct entity, all accounting transactions should be posted gross to the general ledger of each school, i.e. payments to one school should be posted to that school's general ledger and then used to pay obligations owed to different parties.

Based on the information reviewed and subsequently provided by management, the $77,095 transfer from the School to ICSMR could not be substantiated to any obligation to ICSMR on the School's general ledger. If the outstanding obligations to ICSMR by RAAI and RAP are netted against the amount owed to these two entities by the School, $42,918 of the transfer amount cannot be accounted for.

Managements Response to Comments: *Management acknowledges that the general ledger accounting for the $77,095 transfer was not consistent with the substance of the underlying transaction. At 6/30/08, the School owed the management company approximately $41,056. To comply with the "distinct entity" concept, the management company will record the following transactions:*

- *Reimburse the School the $77,095 on January 14, 2010*
- *Settle the School's payable obligation to Richard Allen Academy I and Richard Allen Preparatory Schools, as well as IMR.*

The above transactions will reflect the accurate accounting for these transactions.

Finding Number 2008-008

During the fiscal year and subsequent to year end, several notices were issued by the School Employees Retirement System (SERS) of Ohio and State Teachers Retirement System (STRS) of Ohio which noted the School was delinquent in remitting its employee contributions for several months. Failure to remit employee withholding contributions within the required timeframe could indicate the School is using the employee's withholding amounts to cover other operating expenses when cash is short. In addition, failure to remit required contributions timely could result in penalties and interest to be added to the required contributions thereby increasing expenses the School incurs.

The School should implement appropriate procedures to ensure all required remittance of employee withholding pension contributions are made to the appropriate retirement system by the date established following the reporting period to avoid penalties associated with late filings.

Managements Response to Comments: *Management recognizes those lapses which were primarily due to timing of cash flows; efforts are under way to bring SERS and STRS payments current in the coming fiscal years.*

Finding Number 2008-009

Several instances were noted during our testing of the School's disbursements where purchase requisitions or purchase orders were not properly completed, or could not be provided, as required by the School's purchasing policies and procedures. In addition, the documentation for several items could not be provided timely by School personnel, which indicates the manner in which financial documents are filed by the School does not permit an employee to readily access the information. Lack of following purchasing policies and procedures increases the risk that inappropriate expenditures may occur and not be detected on a timely basis. Lack of organization in which financial records are filed and stored, also hinders an employee's ability to access the records in a timely basis and increases the risk that certain reviews or follow-ups may not occur. One purchase reviewed showed that an employee purchased and was reimbursed by the School for the purchase of alcohol. While the amount of the reimbursement was only $13.90, the purchase of alcohol is deemed an improper use of public funds and reimbursement for alcohol purchases should not occur.

The School should ensure all purchases follow the adopted policies and procedures including the proper completion of purchase requisitions and purchase orders prior to any obligations being incurred by the School. In addition, all documentation related to purchases of the School should be maintained in a central location and filed in a manner (such as by check number) which would allow an employee easy access to the documents to perform required reviews and/or follow-ups on disbursements.

> *Managements Response to Comments:* *To address the above issues, management has mandated strict adherence to company policy regarding all transactions; in addition, a new filing system has been established that management believes will allow timely access to information when needed.*

Finding Number 2008-010

A key component of a sound system of internal control is the tone set by the governing board and management. One manner in which the Board of Directors can direct School personnel is through the adoption and implementation of policies. Our review of the Schools policies and procedures adopted indicates that additional policies and amendments to current policies could enhance the internal controls at the School. Specifically we noted the School does not have a formal policy related to following:

- Employee travel which prohibits the personal use of frequent flyer miles earned through travel paid by the School;
- Public records or record retention policy which should be distributed to all employees;
- Current credit card usage policy was established through Board of Director's minutes but never formalized into a policy which has adequate procedures to ensure compliance.

In addition, we noted the School adopted an anti-bullying policy on October 30, 2006 which prohibits any form or harassment or bullying behavior; however the policy as it is currently written does not address all the requirements noted in Section 3313.666(A) of the Ohio Revised Code.

The Board of Director's should review all policies and procedures in place to determine if they meet current laws or recommendations to ensure the proper framework is established for the internal control system at the School.

> *Managements Response to Comments:* *Management will address the above issues by including the frequent flyer miles clause in the existing travel policy, distributing records retention policy to all employees, and formalizing the credit card usage policy. Management will update the anti-bullying policy to address all the requirements noted in Section 3313.666(A) of the Ohio Revised Code.*

Finding 2007-001

The School did not file its GAAP financial report with the Auditor of State's Office within the timeframe established by Ohio Rev. Code Section 117.38

Status: Corrected – School filed report within timeframe of extension granted.

Finding 2007-002

The School did not have financial statements completed in time to meet the requirements of the management company contract with IMR which requires audited financial statements to be completed within 120 days after the close of the fiscal year.

Status: Not corrected – see finding 2008-001

Finding 2007-003

The management contract between the School and the Institute of Charter School Management and Resources, Inc. did not contain specific information regarding what should be interpreted as "extraordinary items" which are to be excluded from the calculation of monthly management fee.

Status: Not corrected – see finding 2008-002

Finding 2007-004

Minimal documentation maintained regarding the nature of services to be provided for employees to whom stipend payments were made.

Status: Corrected – no issue noted during fiscal year 2008.

Finding 2007-005

The accumulated deficit and decrease in net assets reported for fiscal year 2007 indicated the School's finances were not being properly monitored and adjusted during the year.

Status: Not corrected – see finding 2008-006

Finding 2007-006

The School's general ledger was not being maintained properly and was not used to prepare the annual GAAP financial statements.

Status: Not corrected – see finding 2008-005.

Finding 2007-007

Audit adjustments were necessary to correct the amounts reported in the fiscal year 2007 financial statements amounts.

Status: Not corrected – see finding 2008-004.

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At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success

Mary Taylor, CPA
Auditor of State

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
APRIL 6, 2010

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