RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Dave Yost • Auditor of State

RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the basic accompanying financial statements of the Richard Allen Preparatory Academy Community School, Montgomery County (the School) as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We were unable to obtain sufficient audit evidence supporting the School's accounts payable – IMR stated at $51,665.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the accounts payable – IMR as described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Richard Allen Preparatory Academy Community School, as of June 30, 2011, 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 October 26, 2012, 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.

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

Dave Yost

Dave Yost
Auditor of State

October 26, 2012

The discussion and analysis of Richard Allen Preparatory Academy Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2011. 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 2011 are as follows:

- Total net assets decreased by $42,784 in fiscal year 2011 which resulted in accumulated net assets surplus of $2,349 at June 30, 2011.

- Total assets decreased by $31,751 or 18.6 percent from the prior year. The decrease was primarily due to decrease in accounts receivable and intergovernmental receivable.

Using this Financial Report

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

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

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

Table 1 provides a summary of the School's net assets for fiscal year 2011 compared with fiscal year 2010.

Table 1: Net Assets

	2010	2011	incr/(decr)
Assets:			
Current assets	168,483	138,502	(29,981)
Capital assets, net	1,770	-	(1,770)
Total Assets	170,253	138,502	(31,751)
Liabilities:			
Current liabilities	125,120	136,153	11,033
Total Liabilities	125,120	136,153	11,033
Net Assets:			
Invested in capital assets	1,770	-	(1,770)
Unrestricted	43,363	2,349	(41,014)
Total Net Assets	45,133	2,349	(42,784)

As noted in Table 1 above, total net assets of the School decreased by $42,784 during fiscal year 2011 resulting in an ending net surplus of $2,349 at June 30, 2011. The primary reason for the decrease in net assets during fiscal year 2011 was decrease in receivables, and increase in accounts payable.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2011, as well as revenue and expense comparisons to fiscal year 2010.

Table 2: Change in Net Assets:

	2010	2011	incr/(decr)
Operating Revenues			
Foundation	1,362,856	1,472,873	110,017
Other	10,573	64,607	54,034
Nonoperating revenues			
State and Federal Grants	210,582	488,735	278,153
Total Revenues	1,584,011	2,026,215	442,204
Operating Expenses			
Purchased Services	1,509,422	1,997,856	488,434
Professional Services	22,858	66,623	43,765
Depreciation	1,339	1,770	431
Other	529	2,750	2,221
Total Expense	1,534,148	2,068,999	534,851
Change in net assets	49,863	(42,784)	(92,647)
Beginning net assets	(4,730)	45,133	49,863
Ending net assets	45,133	2,349	(42,784)

Total revenue increased by $442,204 or 27.9 percent, offset by an increase of $534,851 or 34.9 percent in total expenses, resulting in a decrease in net assets for the fiscal year.

Capital Assets

At June 30, 2011 capital assets of the School consisted of $78,786 in equipment which was offset by $78,786 in accumulated depreciation resulting in capital assets being fully depreciated. During the year the school did not record any capital asset additions. Current year depreciation expense was $1,770.

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

Debt

At June 30, 2011 the School had an outstanding notes payable balance of $28,100 to the Institute of Management and Resources, Inc. (IMR). The total balance is due by December 31, 2011 unless extended by both parties or payment is demanded by the management company. Please see note 15 to the basic financial statements for more detailed information on the School's debt.

Contacting the School

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

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RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2011

Assets:	
Current Assets:	
Cash and Cash Equivalents	$19,741
Accounts Receivable	9,422
Contractual Receivable	109,339
Total Assets	138,502
Liabilities:	
Current Liabilities:	
Accounts Payable - Vendor	44,852
Accounts Payable - IMR	51,665
Intergovernmental Payable	11,536
Notes Payable	28,100
Total Liabilities	136,153
Net Assets:	
Unrestricted	2,349
Total Net Assets	$2,349

See accompanying notes to the basic financial statements.

RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Operating Revenues:	
State Foundation	$1,472,873
Other Operating Revenues	64,607
Total Operating Revenues	1,537,480
Operating Expenses:	
Purchased Services	1,997,856
Professional Services	66,623
Other	2,750
Depreciation	1,770
Total Operating Expenses	2,068,999
Operating Loss	(531,519)
Non-Operating Revenues:	
Federal and State Grants	488,735
Total Non-Operating Revenues	488,735
Change in Net Assets	(42,784)
Net Assets Beginning of Year	45,133
Net Assets End of Year	$2,349

See accompanying notes to the basic financial statements.

RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from State Foundation	$1,484,409
Cash Received from Other Operating Activities	68,841
Cash Payments for Goods and Services	(2,003,948)
Cash Payments for Other Operating Expenses	(37,385)
Net Cash Used In Operating Activities	(488,083)
Cash Flows from Noncapital Financing Activities:	
Federal and State Grants	488,735
Net Cash Provided by Noncapital Financing Activities	488,735
Net Increase in Cash and Cash Equivalents	652
Cash and Cash Equivalents Beginning of Year	19,089
Cash and Cash Equivalents End of Year	19,741
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:	
Operating Loss	(531,519)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities:	
Changes in Assets and Liabilities:	
Depreciation	1,770
Decrease in Accounts Receivable	11,271
Decrease in Intergovernmental Receivable	19,362
Decrease in Accounts Payable	(503)
Increase in Intergovernmental Payable	11,536
Total Adjustments	43,436
Net Cash Used In Operating Activities	($488,083)

See accompanying notes to the basic financial statements.

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1. Description of the School and Reporting Entity:

Richard Allen Preparatory Academy 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 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 June 15, 2009 for the period of July 1, 2010 through June 30, 2011.

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 2011 was 220, an increase of 16 FTE's from fiscal year 2010.

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.

B. Measurement focus and basis of accounting

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

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

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

C. Budgetary process

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

D. Cash

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

E. Estimates

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

F. Capital assets and depreciation

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

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

G. Intergovernmental revenues

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

H. Operating and non-operating revenues and expenses

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

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

I. Accrued liabilities payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2011, including accounts payable and intergovernmental 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 when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

3. Deposits:

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 had a bank balance of $19,741. The entire bank balance was covered by federal depository insurance and therefore not considered to be subject to custodial credit risk.

4. Receivables:

All receivables are considered collectible in full.

Accounts Receivables – amounts owed to the School for the federal lunch reimbursement.

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

5. Capital Assets:

A summary of the School's capital assets at June 30, 2011, follows:

Capital Assets	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	78,786	-	-	78,786
Total	78,786	-	-	78,786
Less: accumulated depereciation	(77,016)	(1,770)	-	(78,786)
Capital Assets, net	1,770	(1,770)	-	(0)

6. 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 2011, 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 $1,223,000 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 the 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 9), insurance benefits are paid by the Institute.

7. Defined Benefit Pension Plans:

A. School Employees Retirement System

Plan Description – The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined 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 Employer/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate allocated to the Health Care and Medicare B Funds. The School's contributions to SERS for the years ended June 30, 2011, 2010, and 2009 were $16,337, $6,600, and $3,623, respectively, which equaled the required contributions 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, and multiple-employer public retirement system. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, 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 a 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. 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 services 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, 2011, 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 members and employer contributions.
The School's required contributions for pension obligations for the fiscal year ended June 30, 2011, 2010, and 2009 were $76,351, $57,293, and $29,117, respectively; which were equal to the required contributions for each year.

8. 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. Benefits 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 Employer/Audit Resources.

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 administered in accordance with Internal Revenue Code Section 401h. For 2011, 1.43 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 2011, 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, 2011, 2010, and 2009, were $1,978, $238, and $1,658, 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 2011, this actuarially required allocation was .76 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009, were $1,051, $392, and $299, 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 2011, 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, 2011, 2010, and 2009, were $5,873, $4,407, and $2,240, respectively; which were equal to the required contributions for each year.

9. Management Company Agreements:

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

The Management Agreement provides that IMR will perform functions reasonably required to manage the operation of the School; ensure students receive services which are in accordance with applicable educational standards; make every effort to ensure the School complies with the requirements of any applicable statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquire all necessary licenses and permits; maintain all student and financial records required by federal, state and local laws and regulations, as well as, protecting the confidentiality of those records; act as the School's agent in making deposits and disbursements promptly; provide for all expenses of operating the School, including lease payments for the school building, equipment and operating supplies needed in the operation of the School, from its management fee. IMR is responsible for hiring qualified teachers and all other employees which are subsequently contracted to operate the School. For fiscal year 2011, the expense related to contractual employees totaled $831,278; $729,688 for payroll and $101,590 for benefits, respectively.

IMR receives a monthly management fee of 10 percent of total revenues of the School from all sources after deductions of STRS, SERS, and audit adjustments. IMR receives 87 percent of the remaining 90 percent of operating revenues for any expenses it incurs on behalf of the School in order to provide district wide services. These expenses include but are not limited to district-wide management services provided by IMR employees in the area of instruction, transportation, financial and general business management and development as well as district-wide purchases of text books and supplies.

The Governing Board's intent, which was clarified in the Second Addendum to the Management Agreement, dated January 21, 2012 and retroactive to July 1, 2008, is that the Management Company should receive 10 percent of total revenues for management fees, another 87 percent of total revenues for expenses it incurs on behalf of the School. Accordingly, the School paid the Management Company 97 percent of its total revenues from all sources after deductions from STRS, SERS, and audit adjustments. This is the subject of an ongoing lawsuit (see Note 16 C).

For the fiscal year ended June 30, 2011, Institute of Management and Resources, Inc. (IMR) incurred the following expenses on behalf of the School.

Direct	
Salary & Wages	729,688
Audit Fees	26,535
Benefits	101,590
Food Service	7,480
Health Insurance	82,942
Property & Casualty Insurance, Workers Comp.	14,585
Professional & Legal Services	4,249
Postage	759
Purchased Services	197,953
Rent	16,500
Repairs & Maintenance	5,823
Supplies	1,380
Telephone/Networking	20,409
Utility	55,552
Indirect	
Overhead	262,273
Total Expenses	**1,527,718**

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. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2011, if applicable, cannot be determined at this time.

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. As a result of a review after fiscal year-end 2011, the School owed the Ohio Department of Education $11,536. This amount is reflected as an intergovernmental payable in the basic financial statements.

C. 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 2011 fiscal year. Accordingly, IMR has filed this action pursuant to R.C. 9.24, challenging the Auditor's interpretation of the management contract and enjoining the Attorney General from enforcing the finding. Because the Auditor and Attorney General are acting on behalf of the School statutorily, the School is an indispensable party to the litigation. The outcome of this case will have a material impact on financial statements of the School, the exact amount of which is not known at this time.

11. Operating Leases:

On March 6, 2010, the School entered into an operating lease agreement with St. Mary Development Corporation. The lease was originally between Richard Allen Academy II and St. Mary Development. The agreement was amended to include Richard Allen Preparatory, Inc. The terms of this agreement calls for monthly payments of $1,500 per month. The lease ended June 30, 2011, and extended through 2014.

12. Related Parties:

The Governing Board, Chief Executive Officer, and the Treasurer/CFO of Richard Allen Preparatory Academy Community School served during fiscal year 2011 in the same capacity for Richard Allen Academy III, Richard Allen Academy II, and Richard Allen Academy Community Schools, all of which are managed by the Institute of Management and Resources, Inc (IMR). The School pays IMR a management fee of 10 percent of the total revenue of the School from all sources after a deduction of SERS, STRS, and audit adjustments. The School pays IMR 87 percent of the remaining 90 percent for the School expense fee incurred on behalf of the School. See note 9 for additional information.

During fiscal year 2011, the School had $28,100 outstanding in operating loans from IMR. See Note 15 for additional information.

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's Superintendent is the daughter of the IMR/ICSMR CEO. The CEO's husband is the School's co-founder and sits on the School's board as a non-voting member.

13. Purchased Services

During the fiscal year ended June 30, 2011, purchased service expenses for services rendered were as follows:

Management Services	$1,896,266
Certified Retirement	82,224
Non-Certified Retirement	19,366
	$1,997,856

14. Non-Compliance

During the fiscal year 2011, the School did not pay the Management Company in accordance with the contract. The Governing Board's intent, which was clarified in the Second Addendum to the Management Agreement, dated January 21, 2012 and retroactive to July 1, 2008, is that the Management Company should receive 10 percent of total revenues for management fees, another 87 percent of total revenues for expenses it incurs on behalf of the School. Accordingly, the School paid the Management Company 97 percent of its total revenues from all sources after deductions for STRS, SERS, and audit adjustments. This is the subject of an ongoing lawsuit (see Note 16 C).

15. Notes Payable

At June 30, 2011, the School had a loan balance from the Institute of Management and Resources totaling $28,100. These notes were originally required to be repaid from operating revenue by December 31, 2011 unless extended by the two parties. The repayment of the notes has subsequently been extended until payment is required by IMR. The loans do not contain any provision for interest. A summary of the School's short-term debt obligations for the year is as follows:

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

16. Subsequent Events

A. 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.

B. On January 21, 2012, the Board of Directors and the Management Company amended the management contract to clarify the contract language, retroactive to July 1, 2008 to the effect that the School shall pay ninety seven percent (97%) of total revenues of the Academy from all sources, after applicable deductions, to the management company for management fee and purchased services.

C. 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 2011 fiscal year. Accordingly, IMR has filed this action pursuant to R.C. 9.24, challenging the Auditor's interpretation of the management contract and enjoining the Attorney General from enforcing the finding. Because the Auditor and Attorney General are acting on behalf of the School statutorily, the School is an indispensable party to the litigation. The outcome of this case will have a material impact on financial statements of the School, the exact amount of which is not known at this time.

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

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

To the Governing Board:

We have audited the financial statements of Richard Allen Preparatory Academy Community School, Montgomery County, (the School) as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 26, 2012, wherein we noted that we were unable to obtain sufficient audit evidence supporting the School's accounts payable – IMR. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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 finding 2011-004 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2011-003 and 2011-005 described in the accompanying schedule of findings to be significant deficiencies.

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Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-001 through 2011-006

We also noted certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated October 26, 2012.

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

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

Dave Yost
Auditor of State

October 26, 2012

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

FINDING NUMBER 2011-001

NONCOMPLIANCE

Ohio Rev. Code Section 3314.02(E)(2) states no person shall serve on the governing authorities of more than two start-up community schools at the same time. However, all members of the Board of Directors of the School were members of the Board of Directors for each of the other three Richard Allen Community Schools for the first three meetings of the fiscal year. At the final meeting of the fiscal year, there were three Directors that were still on the Board of Directors of more than two Richard Allen Community Schools.

The School should evaluate Board of Directors membership to require that any one individual serve on the Board of not more than two community schools at one time.

Official's Response: The Governing Board has taken action to ensure that no Governing Board member serves on more than two (2) start-up community school governing boards at the same time, in accordance with R.C. 331.02(E)(2).

FINDING NUMBER 2011-002

NONCOMPLIANCE/ FINDING FOR RECOVERY

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

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

Per Ohio Attorney General Opinion 82-006 retroactive approval of the management company contract is not permitted and the First Addendum to the Management Agreement would be binding up to January 21, 2012.

FINDING NUMBER 2011-002
(Continued)

During fiscal year 2011, the School paid $1,902,358 to IMR for management fees 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 fiscal year 2011. Additionally, the School paid $1,887 to Dayton Power and Light for utilities. According to the management company contract, utilities were to be paid out of 87% of the remaining 90% of revenues that were transferred to IMR. During fiscal year 2011 the School received $1,912,347 in "total revenues." 10%, or $191,234 of these revenues were due to the IMR for management fee. 87% of the remaining $1,721,113 amounting to $1,497,368 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 $1,688,602. The management company was overpaid $215,643 which includes $1,887 in expenses that should have been paid by the management company.

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 $215,643 is hereby issued against the Institute of Management and Resources, and in favor of Richard Allen Preparatory Community School.

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 $215,643 and in favor of the Richard Allen Preparatory Academy 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 documented and supported.

Official's Response: The Richard Allen Academies and the Institute of Management and Resources dispute the Auditor of State's interpretation of the management company contract. We believe the Auditor's interpretation to be in in direct conflict with the intent, agreement and course of performance of the parties. Accordingly, the Institute of Management Resources has filed a complaint in Common Pleas Court against both the Auditor of State and Attorney General seeking declaratory and injunctive relief with regard to this Finding 2011-002, as well as previous Findings for Recovery pertaining to the Auditor's improper contract interpretation. This litigation is currently ongoing.

FINDING NUMBER 2011-003

NONCOMPLIANCE FINDING FOR RECOVERY AND SIGNIFICANT DEFICIENCY

At June 30, 2010, the School reported $5,320 in reconciling items that were due from its management company, Institute of Management & Resources (IMR). These reconciling items consisted of various revenues deposited by IMR in its bank account instead of the School's bank account during fiscal year 2010. There was no evidence that IMR actually repaid these reconciling items to the School during fiscal year 2011 or netted them against the payables due to the management company. However, the School did not report any receivable due from the management company or carried forward these reconciling items at June 30, 2011. Additionally, we could not determine the adjusting entry used to remove the reconciling items of $5,320 from the bank reconciliation. Normally beginning equity should have been affected; however, beginning equity amounts tied to prior year's audited financial statements. The misstatement amount was not material and did not require an audit adjustment.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due, but not collected is hereby issued against the Institute of Management & Resources, Inc., and in favor of Richard Allen Preparatory Community School, in the amount of $5,320.

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, supervised public funds. 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 $5,320 and in favor of the Richard Allen Preparatory Academy Community School.

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. Elimination of accounts receivable should be supported by payments on the receivable or evidence that the receivable is uncollectible.

Official's Response: Accounts receivable as well as accounts payable reconciliations were provided to the auditors explaining the netting of the balance of accounts receivable against accounts payable. Supporting documentations along with explanations were provided showing how the calculations were derived. When an entity carries both a receivable and a payable from the same vendor on its book, it is an allowable transaction to net (off set) those two transactions (customarily referred to as inter-company transaction, and that is what was done here – offsetting what the management company owes the school (accounts receivable) against what the school owes the management company (accounts payable).

The Richard Allen Schools agree that elimination of accounts receivable should be supported by payments on the receivable or evidence that the receivable is uncollectible; alternatively, netting of accounts receivable is a legal transaction which is what was done here and supported by documents which have been submitted to the Auditors.

Auditor of State's Conclusion: The Academy did not provide any sufficient documentary evidence to support that receivables were netted against the payables. Therefore, a finding for recovery has been issued.

FINDING NUMBER 2011-004

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, 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 and two different versions of the financial statements were provided for audit.

The School’s Financial Report for 2011 lacked sufficient underlying support to opine on some line items and contained errors which resulted in reclassifications and adjustments to correctly report the financial activity during and at the end of the period as follows:

Statement of Net Assets

- The accounts receivable balance of $9,423 was improperly classified. This was related to a federal lunch reimbursement and should have been classified as intergovernmental receivable. The corresponding revenue related to this receivable was also incorrectly booked as other revenue instead of federal and state grants. The financial statements did not require and adjustment to properly reflect receivable and revenue amounts and have been reported to the management in the summary of unadjusted differences.
- The School did not book the fiscal year 2011 FTE adjustment in the amount of $11,536. This should have been booked to intergovernmental payable and reduction of state foundation. The financial statements were adjusted to correct this error.
- The School's original fiscal year 2011 financial statements reported accounts payable – IMR in the amount of $123,896 and there were no accounts payable - vendor reported. The School then provided updated financial statements that reported accounts payable - vendor in the amount of $44,852 and accounts payable – IMR in the amount of 99,567. The School could not provide invoices to support the accounts payable – IMR line item. Due to the lack of appropriate supporting documentation for the accounts payable, an opinion cannot be rendered on this line item.

  Additionally, the School's ability to pay significant liabilities is questionable. The School historically has had low cash balances, including $19,741 at June 30, 2011. Based on the School's interpretation of the management contract, nearly all of the School's revenue was turned over to the management company for payment of the School's expenses over the last two years. If this practice continues, the School would never accumulate sufficient funds to pay all liabilities.

Statement of Revenues, Expenses and Changes in Net Assets:

- Due to an incorrect interpretation of the management company agreement, the management purchased services line item was overstated by $47,902. The financial statements were adjusted to correct this error. This resulted in a corresponding overstatement of accounts payable. Additionally, we have issued a separate finding for recovery related to the School's payments to its management company. The $47,902 error included here does not include overpayments to the management company reported as finding for recovery.

FINDING NUMBER 2011-004
(Continued)

- Purchased services expenses in the amount of $101,590 were incorrectly classified as retirement benefits. Professional services expenses in the amount of $66,623 were incorrectly classified as sponsorship fees and audit fees. Other expenses in the amount of $2,750 were incorrectly classified as board meeting expenses. The financial statements were modified to correct these errors.
- State grant revenue in the amount of $11,363 was incorrectly reported as state foundation. The proper classification for such revenue is federal and state grants. The financial statements were not adjusted for this error. The error has been reported to the management in the summary of unadjusted differences.
- SFSF revenue in the amount of $123,763 was posted to the financial statements incorrectly as state stabilization stimulus fund. This should have been presented as federal and state grants. The financial statements were adjusted to correct this error.

Statement of Cash Flows:

- Within cash flows from operating activities, cash received from the State of Ohio and cash payments for purchased services were both understated by $101,590. The financial statements were adjusted to correct this error.
- Cash payments to vendor services and other operating revenue amounts could not be tied to the underlying accounting records. Both line items were overstated by $7,170 and 13,656 respectively on the statement of cash flows. Amounts were determined to be immaterial and were not corrected on the financial statements.

In addition, there were minor footing errors in the financial statements and there were several errors and omissions in the management's discussion & analysis (MD&A) and the notes to the basic financial statements that required corrections. Also, the School provided a trial balance that did not have journal entries (reversing entries and accrual entries) to calculate the financial statements.

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

The School should also consider utilizing software like one offered by MDECA for accounting. Such software is specifically designed for Schools and utilize Ohio Department of Education recommended USAS to better capture accounting information. This software will not capture information on accrual basis of accounting. However, it will allow the School to segregate its activity in funds and help the School properly track its federal expenditures. Additionally this software will provide data integrity that the current software does not as the School was able to go back one year after the fiscal year end to make changes in the system and generate a new set of financial reports.

Official's Response: As stated in the Official Response to Finding Number 2011-002, the Richard Allen Schools dispute the Auditor's interpretation of the management agreement with IMR. Accordingly, the Schools do not believe that there was an overstatement of the management purchased services line item. Since the conclusion of this audit period, the Schools have implemented procedures requiring invoices in order to properly support accounts payable.

With regard to the Auditor's suggested software, the Schools use a state-of-the–art fund accounting system "Sage 100 Fund Accounting Software. The MDECA accounting Software is cash basis and therefore not suited to produced GAAP basis reports as our current Software; however, the management Company has agreed to evaluate the Grants Module of the MDECA Software and present a recommendation to the board.

FINDING NUMBER 2011-004
(Continued)

In addition, The Richard Allen Schools are considering engaging additional financial professionals in order to address the internal control concerns raised by the Auditors in this report. The Schools have asked the Ohio Department of Education for its insight and recommendations.

Auditor of State's Conclusion: As the finding states overstatement to purchased services line item does not include overpayments to the management company that have been reported as a finding for recovery in finding number 2011-002. The amounts reported as overpayments in this finding are based on expenditures in excess of Academy's interpretation of the contract.

FINDING NUMBER 2011-005

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

Ohio Rev. 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 report obtained from an independent accountant noted that credit card purchases and reimbursements were incorrectly reported in the purchased services line item by the management company. Such charges should be categorized appropriately as indicated in Appendix A of Auditor of State Audit Bulletin 2004-009. The Management Company reported $197,953 in the purchased services expenditures which was approximately 13% of the total expenditures made by the management company on behalf of the School.

Additionally, the management company reported benefit expenses paid by the management company on behalf of the School to be $101,590. The 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. Retirement benefits are excluded from the calculation of payments made to the management company and were reported by the School as part of purchased service expenditures. The management company did not make these expenditures on behalf of the School and should not have reported these on their note.

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 Bulletin 2004-009. Failure to do so could result in opinion modifications in the future.

Official's Response: Since the conclusion of this audit period, the Schools have implemented procedures requiring invoices in order to properly support accounts payable as well as management company expenditures made on behalf of the Schools.

FINDING NUMBER 2011-006

NONCOMPLIANCE

34 CFR Section 76.702 states that a state and a sub-grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds. Additionally, **34 CFR Section 76.730** states that a state and sub-grantee shall keep records that fully show:

(a) the amount of funds under the grant or sub-grant;
(b) How the state of sub-grantee uses the funds;
(c) The total cost of the project;
(d) The share of that cost provided from other sources; and
(e) Other records to facilitate an effective audit.

The School received a significant amount of federal grant money during fiscal year 2011. The Treasurer prepared three different versions of the federal receipts and expenditures schedule, all with different expenditure amounts and all containing errors. The first version of the federal schedule had total federal expenditures of $487,527; however, this schedule excluded one federal program. The first-revised federal schedule showed $564,789 in federal expenditures and the School was subject to a single audit. However, it was determined that this schedule incorrectly included certain fiscal year 2012 expenditures. The third and final schedule showed $477,734 in federal expenditures. Various insignificant variances were noted between the amount reported on this schedule and the supporting documentation provided by the School.

The School is responsible for compiling the Federal Awards Receipts and Expenditure Schedule and the accompanying notes. The School is also responsible for establishing and maintaining internal control sufficient to reasonably assure compliance with laws and regulations relating to federal award programs and controls related to preparing the Federal Awards Receipts and Expenditures Schedule. The management's company's current accounting system does not allow the management company to track federal expenditures properly. The School should consider revising its management company contract to add federal compliance and reporting requirements.

Failure to properly track federal grant expenditures and prepare an accurate federal schedule could result in problems in determining the School's eligibility for a federal single audit. Additionally, the inability of the accounting system to properly track federal expenditures could lead to the School charging unallowable expenditures to a federal grant and lack of proper supporting documentation for the project cash requests and final expenditure reports submitted to the Ohio Department of Education. Finally, the lack of controls over reporting and tracking of federal expenditures could lead to questioned cost in future audits and loss of grant revenues.

Official's Response: The Richard Allen Schools regularly review and revise their policies and procedures with regard to federal reporting requirements in order to ensure the accuracy of any and all reports submitted. Many of these issues have been addressed since the conclusion of the audit period. The Schools are considering engaging additional financial professionals in order to address the federal award compliance concerns raised by the Auditors in this report. The Schools have asked the Department of Education for its insight and recommendations.

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RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2010-001	Ohio Rev. Code Section 3314.02(E)(2) – Board Membership	No	Repeated as finding 2011-001
2010-002	Finding for Recovery - Ohio Rev. Code Section 3314.025 Noncompliance - Board Member Pay – Dixie Allen	Yes	Fully repaid on January 11, 2012
2010-003	Finding for Recovery - Ohio Rev. Code Section 3314.025 Noncompliance - Board Member Pay – Gary Persons	Yes	Fully repaid on January 11, 2012
2010-004	Finding for Recovery - Ohio Rev. Code Section 3314.025 Noncompliance - Board Member Pay – Johnny Davis	Yes	Fully repaid on January 11, 2012
2010-005	Finding for Recovery - Ohio Rev. Code Section 3314.025 Noncompliance - Board Member Pay – Lonnie Norwood	Yes	Fully repaid on January 11, 2012
2010-006	Finding for Recovery - Ohio Rev. Code Section 3314.025 Noncompliance - Board Member Pay – Michael McCormick	Yes	Fully repaid on January 11, 2012
2010-007	Finding for Recovery - Ohio Rev. Code Section 3314.025 Noncompliance - Board Member Pay – Wanda Mills	Yes	Fully repaid on January 11, 2012
2010-008	Finding for Recovery - Ohio Rev. Code Section 3314.025 Noncompliance - Board Member Pay – Laquetta Cortner	Yes	Fully repaid on January 11, 2012
2010-009	Finding for Recovery - Ohio Rev. Code Section 3314.025 Noncompliance- Board Member Pay – Mia Wortham-Spells	Yes	Fully repaid on January 11, 2012
2010-010	State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) – Improper Expenditures	No	Reduced to management letter comment
2010-011	Overpayment of Management Company	No	Repeated as finding 2011-002
2010-012	Ohio Rev. Code Section 3314.03 (B)(5) and AOS Bulleton 2000-05 – Financial Report Errors	No	Repeated as finding 2011-004
2010-013	Cash Reconciliation	No	Partially corrected, repeated as management letter recommendation
2010-014	Accounting for all Financial Activity	Yes	
2010-015	Food Service Activity	Yes	

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedures

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Richard Allen Preparatory Academy Community School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated November 18, 2011, we noted the Board adopted an anti-harassment policy on January 12, 2010. However, this policy did not include all matters required by Ohio Rev. Code 3313.666
2. The Board amended the policy on March 29, 2011. We read the amended policy, noting it now includes all the requirements listed in Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

October 26, 2012

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RICHARD ALLEN PREPARATORY ACADEMY COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 28, 2013