KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Dave Yost • Auditor of State

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY

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INDEPENDENT AUDITOR'S REPORT

Klepinger Community School
Montgomery County
3650 Klepinger Road
Dayton, Ohio 45416

To the Governing Board:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Klepinger Community School, Montgomery County as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2014, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

April 30, 2014

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

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

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

Financial Highlights

Key financial highlights for 2013 are as follows:

- In total, net position was $15 at June 30, 2013.

- The School had operating revenues of $3,428,668, operating expenses of $4,321,060 and non-operating revenues of $897,380 for fiscal year 2013.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The s*tatement of net position* and s*tatement of revenues, expenses and changes in net position* provide information about the activities of the School, including all short-term and long-term financial resources and obligations.

Reporting the School's Financial Activities

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the *financial position* of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The table below provides a summary of the School's net position for fiscal years 2013 and 2012.

Net Position

	2013	2012
Assets		
Current assets	$ 308,204	$ 91,453
Total assets	308,204	91,453
Liabilities		
Current liabilities	308,189	96,426
Total liabilities	308,189	96,426
Net Position		
Unrestricted	15	(4,973)
Total net position (deficit)	$ 15	$ (4,973)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the School's net position totaled $15 compared to a deficit of $4,973 at June 30, 2012.

The School reported intergovernmental receivables for grants at June 30, 2013 and 2012, in the amount of $306,668 and $65,015, respectively.

The School had accounts and intergovernmental payables of $308,189 and $96,426 for fiscal years 2013 and 2012, respectively, due to Imagine Schools, Inc. and other vendors. Included in intergovernmental payables reported at June 30, 2012, is an amount of $28,280 due to the Ohio Department of Education as a result of the full-time equivalency (FTE) review for fiscal year 2012. The fiscal year 2013 FTE review has not been completed as of the date of this report (see Note 12.B for detail).

The table below shows the changes in net position for fiscal years 2013 and 2012.

Change in Net Position

	2013	2012
Operating Revenues:		
Sales	$ -	$ 400
State foundation	3,428,668	3,451,642
Total operating revenue	3,428,668	3,452,042
Operating Expenses:		
Sponsorship fees	102,013	106,298
Management fees	3,432,387	3,272,400
Legal	33,032	24,130
Professional services	20,442	20,505
Operating lease payments	723,389	702,320
Other	9,797	8,978
Total operating expenses	4,321,060	4,134,631
Non-operating Revenues:		
Federal and state grants	888,379	679,319
Other non-operating revenue	9,001	-
Total non-operating revenues	897,380	679,319
Change in net position	4,988	(3,270)
Net position (deficit) at beginning of year	(4,973)	(1,703)
Net position (deficit) at end of year	$ 15	$ (4,973)

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the State foundation and from Federal entitlement programs. The School received less State foundation revenue due to decreased student enrollment of 471 students in fiscal year 2012 to 461 students in fiscal year 2013. Sales revenue of $400 was reported for student lunch receipts in fiscal year 2012. The School received Federal grant monies through the Child Nutrition Breakfast & Lunch, Title I, and Title VI-B programs during fiscal year 2013. The School received its first payment of $9,001 in tax revenue from casino profits in January 2013, which is reported as other non-operating revenue.

Debt

The School had no debt obligations outstanding at June 30, 2013, or June 30, 2012.

Capital Assets

The School had no capital assets over the threshold to report at June 30, 2013, or June 30, 2012.

Restrictions and Other Limitations

The future stability of the School is not without challenges. The School does not receive any funds from taxes. The primary source of funding is the State foundation program. An economic slowdown in the State could result in budgetary cuts to education, which would have a negative impact on the School.

Current Financial Related Activities

The School is sponsored by St. Aloysius Orphanage. The School is reliant upon State foundation monies and Federal Sub-Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and Federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Robert Lotz, Treasurer, Charter School Specialists, 3650 Klepinger Road, Dayton, Ohio 45416-1919.

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2013

Assets:	
Current assets:	
Cash	$ 1,536
Receivables:	
Intergovernmental	306,668
Total assets	308,204
Liabilities:	
Current liabilities:	
Accounts payable	307,963
Intergovernmental payable	226
Total liabilities	308,189
Net position:	
Unrestricted	15
Total net position	$ 15

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Operating revenues:	
State foundation revenue	$ 3,428,668
Total operating revenues	3,428,668
Operating expenses:	
Sponsorship payments	102,013
Management fees	3,432,387
Legal	33,032
Professional services	20,442
Lease payments	723,389
Other	9,797
Total operating expenses	4,321,060
Operating loss	(892,392)
Non-operating revenues:	
Federal and State grants	888,379
Other non-operating revenue	9,001
Total non-operating revenues	897,380
Change in net position	4,988
Net position (deficit) at beginning of year	(4,973)
Net position at end of year	$ 15

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY, OHIO

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

Cash flows from operating activities:		
Cash received from State foundation.	$	3,400,388
Cash payments for purchased services - management fees		(3,140,947)
Cash payments for sponsorship fees		(102,013)
Cash payments for legal fees		(34,868)
Cash payments for professional services		(44,777)
Cash payments for lease		(723,389)
Cash payments for other expenses		(9,571)
Net cash used in operating activities		(655,177)
Cash flows from noncapital financing activities:		
Cash received from Federal and State grants.		646,726
Cash received from other non-operating revenue . . .		9,001
Net cash provided by noncapital financing activities.		655,727
Net increase in cash		550
Cash at beginning of year		986
Cash at end of year.	$	1,536
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss.	$	(892,392)
Changes in assets and liabilities:		
Decrease in accounts receivable		25,452
Increase in accounts payable.		264,152
(Decrease) in intergovernmental payable		(52,389)
Net cash used in operating activities	$	(655,177)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Klepinger Community School (the "School") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School specializes in providing students in grades K-8 with a safe and secure learning community that will equip children to achieve academic excellence and personal growth. The focus is on students residing in the Dayton City 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 was approved under contract with The St. Aloysius Orphanage (the "Sponsor") commencing on April 10, 2008 and ending on June 30, 2010. On June 28, 2010 the contract was renewed commencing on July 1, 2010 and ending on June 30, 2013. On May 28, 2013 the contract was renewed for a term of one year commencing on July 1, 2013 and ending on June 30, 2014. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration.

The School operates under the direction of a Governing Board which must contain at least five Directors who are not owners or employees, or relatives of owners or employees, of any for-profit company that operates or manages the School. The Governing Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers. The Governing Board controls the School's intructional/support facility staffed by employees of the management company who provide services to 461 students.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The School uses a single enterprise presentation. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

B. Measurement Focus

Enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School are included on the statement of Net Position. The statement of revenues, expenses and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the School finances meet its cash flow needs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recognized in the financial records and reported on the financial statements. The School's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

The contract between the School and its Sponsor prescribes an annual budget requirement in addition to preparing a 5-year forecast, which is to be updated on an annual basis. Chapter 5705.39 of the Ohio Revised Code also requires the School to prepare a 5-year forecast, update it annually and submit it to the Superintendent of Public Instruction at the Ohio Department of Education.

E. Cash

Cash received by the School is reflected as "cash" on the statement of net position. Unless otherwise noted, all monies received by the School are pooled and deposited in a central bank account as demand deposits. The School did not have any investments during fiscal year 2013.

F. Capital Assets

Capital assets are capitalized at cost or estimated historical cost and updated for additions and deletions during the year. The School has established a capitalization threshold of $5,000. The School does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

The School had no capital assets over the threshold to report at June 30, 2013.

G. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Intergovernmental Revenues

The School currently participates in the State Foundation Program, Special Education, and the Parity Aid Program. Revenue received from these programs is recognized as operating revenues. Amounts awarded under these programs for the 2013 school year totaled $3,428,668.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. Federal and State grant revenue received during fiscal year 2013 was $888,379.

I. Accrued Liabilities and Long-Term Obligations

All payables and other accrued liabilities are reported on the statement of net position.

J. Operating Revenues and Expenses

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

K. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

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

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

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

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

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

NOTE 4 - DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. The School does not have a deposit policy for custodial credit risk. At June 30, 2013, the carrying amount of the School's deposits and the bank balance was $1,536. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

NOTE 5 - RECEIVABLES/PAYABLES

Receivables at June 30, 2013, consisted of intergovernmental receivables arising from grants and entitlements. All receivables are considered collectible in full. A summary of the intergovernmental receivables follows:

Intergovernmental receivables:	Amount
Title VI-B	$ 7,315
Title I - School Improvement	48,363
Title I	243,411
Title II-A	7,579
Total intergovernmental receivables	$ 306,668

Under the terms of the operating contract with Imagine Schools, Inc. (see Note 9.B for detail), the School has recorded accounts payable to Imagine Schools, Inc. in the amount of $306,668, for 100 percent of any State and Federal grant monies uncollected or unpaid as of June 30, 2013.

NOTE 6 - PENSION PLANS

The School has contracted with Imagine Schools, Inc. (See Note 9.B) to provide employee services and to pay those employees. However, these contract services do not relieve the School of the obligation for remitting pension contributions. The retirement systems consider the School as the Employer-of-Record and the School ultimately responsible for remitting retirement contributions to the systems noted below:

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were $24,209, $16,688 and $14,931, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

NOTE 6 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

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

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

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

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were $158,791, $131,631 and $131,112, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011. Contributions to the DC and Combined Plans for fiscal year 2013 were $12,117 made by the School and $8,655 made by the plan members.

NOTE 7 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - Imagine Schools, Inc., on behalf of the School, participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2013 was $104.90 for most participants, but could be as high as $335.70 per month depending on their income and the SERS' reimbursement to retirees was $45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *"Employers/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 is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was $20,525.

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

The School's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were $296, $723 and $1,808, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were $1,368, $986 and $961, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

NOTE 7 - POSTEMPLOYMENT BENEFITS - (Continued)

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were $12,215, $10,125 and $10,086, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

NOTE 8 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the School maintained the following general liability, automobile liability, excess/umbrella liability, employer's liability, and personal property liability through Philadelphia Indemnity Insurance Co.; and workers compensation and employers' liability through Twin City Fire Insurance Co.

Coverage	Limits of Coverage
General liability:	
Each occurrence	$ 1,000,000
General aggregate	3,000,000
Medical expenses	10,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	100,000
Products - aggregate	3,000,000
Automobile liability:	
Combined single limit - each accident	1,000,000
Excess/umbrella liability:	
Each occurrence	15,000,000
Aggregate	15,000,000
Retention	10,000

NOTE 8 - RISK MANAGEMENT - (Continued)

Coverage - (Continued)	Limits of Coverage
Personal property liability:	
Limit	$500,000
Workers compensation and employers' liability:	
Each accident	1,000,000
Disease - each employee	1,000,000
Disease - policy limit	1,000,000

Settled claims have not exceeded commercial coverage in the past three years. There was no significant reduction in coverage from the prior fiscal year.

NOTE 9 - CONTRACTS

A. Sponsor Contract

The School entered into a sponsorship contract commencing on April 10, 2008 and ending on June 30, 2010 with St. Aloysius Orphanage (the "Sponsor") for its establishment. On June 28, 2010 the contract was renewed commencing on July 1, 2010 and ending on June 30, 2013. The Sponsor shall carry out the responsibilities established by law, including:

- Monitor the School's compliance with the laws applicable to the School and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the School on at least an annual basis;
- Provide reasonable technical assistance to the School in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the School);
- Take steps to intervene in the School's operation to correct problems in the School's overall performance, declare the School to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the School pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Establish and/or require a plan of action to be undertaken if the School experiences financial difficulties or losses before the end of the school year; and
- Abide by the requirements of its contract with the Ohio Department of Education, even should those requirements affect the School.

The School paid the Sponsor $102,013 for services during fiscal year 2013.

NOTE 9 - CONTRACTS - (Continued)

B. Management Contract

The School entered into a management contract with Imagine Schools, Inc. for management consulting services. Imagine Schools, Inc. is required to provide the following services:

- Personnel & human resources administration
- Program of instruction
- Purchasing & contracts
- Budgeting, financial reporting and audit preparation
- Compliance issues
- Curriculum research and development
- Marketing and publicity
- Equipment and facilities
- Grant preparation and management

For the services listed above, the School is required to pay a fee to Imagine Schools, Inc. The fee is equal to approximately 90 percent of the total per pupil allowance received from the State of Ohio and 100 percent of State and/or Federal grant funds received by the School for the creation and operation of its school. Payments to Imagine Schools, Inc. amounted to $3,432,387 during fiscal year 2013.

C. Service Contract

The School entered into a service contract for a period of twenty-four months, commencing on July 1, 2012 and ending on June 30, 2014, with Charter School Specialists, LLC (CSS), to provide fiscal services. The School paid CSS $20,442 during fiscal year 2013 for these services.

NOTE 10 - MANAGEMENT COMPANY EXPENSES

For the fiscal year ended June 30, 2013, Imagine Schools, Inc. and its affiliates incurred the following expenses (reported on cash-basis) on behalf of the School:

Expenses	2013
Direct Expenses:	
Salaries and wages	$ 1,281,530
Employees' benefits	294,707
Purchased services	932,928
Supplies and materials	107,409
Capital outlay	26,315
Other direct costs	59,927
Indirect Expenses	422,050
Total expenses	$ 3,124,866

NOTE 10 - MANAGEMENT COMPANY EXPENSES - (Continued)

Overhead charges included in other direct costs are assigned to the School based on a percentage of revenue. These charges represent the indirect cost of services in the operation of the School. Such services include, but are not limited to, facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

NOTE 11 - OPERATING LEASE

The School entered into a lease agreement on October 1, 2008, with Schoolhouse Finance, LLC to lease classroom space for the School. The term of the lease commenced September 1, 2008, and shall continue through June 30, 2023. Thereafter the lease shall automatically extend for two additional five year terms, unless written notice of intent not to extend is delivered by either party at least one hundred eighty days prior to the end of the then current lease term. The School shall pay to Schoolhouse Finance, LLC $696,960 in annual base rent payable in advance in monthly installments of one-twelfth each on the fifteenth day of each month of the term. The base rent shall escalate annually on July 1 at a rate equal to the greater of the increase in the overall Consumer Price Index All-Urban Consumers, all items less food and energy, and three percent.

On March 12, 2009, an amendment was made to the lease that lowered the annual base rent payable to $642,721. The School made $723,389 in payments to Schoolhouse Finance, LLC during fiscal year 2013.

NOTE 12- CONTINGENCIES

A. Grants

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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2013.

B. State Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The fiscal year 2013 review has not been completed as of the date of this report; however, the School does not anticipate a material impact on the financial statements as a result of the review.

C. Litigation

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

NOTE 13 - FEDERAL TAX STATUS

The School was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization on May 11, 2010. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

NOTE 14 - JOINTLY GOVERNED ORGANIZATION

Miami Valley Educational Computer Association

The School is a participant in the Miami Valley Educational Computer Association (MVECA), which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, Highland, and Madison Counties and Cities of Springfield, Wilmington, Washington Court House, Xenia, and Hillsboro. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts. The governing board of MVECA consists of three Superintendents and three Treasurers of member school districts, with three of the four Superintendents and all three Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fourth Superintendent is from the Greene County Career Center. Imagine Schools, Inc., on behalf of the School, paid MVECA for services provided during the year. Financial information can be obtained from Thor Sage, who serves as Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

NOTE 15 - RELATED PARTY TRANSACTIONS

Schoolhouse Finance, LLC operates as a subsidiary of Imagine Schools, Inc.

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KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY

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

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Cash Receipts	Cash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	$100,647	$100,647
National School Lunch Program	10.555	184,346	184,346
Total Child Nutrition Cluster		284,993	284,993
Total United States Department of Agriculture		284,993	284,993
UNITED STATES DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	193,025	423,068
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	5,889	
Total Title I Cluster		198,914	423,068
Special Education_Grants to States	84.027	131,526	126,436
Improving Teacher Quality State Grants	84.367		8,400
Education Jobs Fund	84.410	24,335	24,335
Total United States Department of Education		354,775	582,239
Total Federal Financial Assistance		$639,768	$867,232

The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this statement.

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the School to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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

Klepinger Community School
Montgomery County
3650 Klepinger Road
Dayton, Ohio 45416

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Klepinger Community School, Montgomery County, (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 30, 2014.

Internal Control Over Financial Reporting

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

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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

Dave Yost
Auditor of State

Columbus, Ohio

April 30, 2014

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

Klepinger Community School
Montgomery County
3650 Klepinger Rd
Dayton, Ohio 45416

To the Governing Board:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the School's compliance for each of the School's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the School's major programs. However, our audit does not provide a legal determination of the School's compliance.

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies and Special Education Grants to States

As described in finding 2013-002 in the accompanying schedule of findings, the School did not comply with requirements regarding level of effort applicable to its Title I Grants to Local Educational Agencies and Special Education Grants to State's major federal programs. Compliance with this requirement is necessary, in our opinion, for the School to comply with requirements applicable to these programs.

Qualified Opinion on Title I Grants to Local Educational Agencies and Special Education Grants to States

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Title I Grants to Local Educational Agencies and Special Education Grants to States paragraph, Klepinger Community School complied, in all material respects, with the requirements referred to above that could directly and materially affect its Title I Grants to Local Educational Agencies and Special Education Grants to States major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2013-001. This finding did not require us to modify our compliance opinion on each major federal program.

The School's response to our noncompliance finding is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as items 2013-001 to 2013-002 to be material weaknesses.

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

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

Dave Yost
Auditor of State

Columbus, Ohio

April 30, 2014

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KLEPINGER COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material control weaknesses reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	Yes
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Qualified
(d)(1)(vi)	**Are there any reportable findings under § .510(a)?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Title I Grants to Local Educational Agencies: CFDA #84.010 Special Education Grants to States: CFDA #84.027
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

None.

3. FINDINGS FOR FEDERAL AWARDS

1. NONCOMPLIANCE AND MATERIAL WEAKNESS – REPORTING

Finding Number	2013-001
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) Special Education Grants to States (84.027)
Federal Award Number / Year	2012 and 2013
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Office of Management and Budget (OMB) Circular A-133 Subpart C Section _310(b) Schedule of Expenditures of Federal Awards states that the auditee shall prepare a schedule of expenditures of federal awards (the Schedule) for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately.

At a minimum, the Schedule shall;

1. List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
2. For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
3. Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
4. Include notes that describe the significant accounting policies used in preparing the schedule.
5. To the extent practical, pass-through entities should identify in the schedule, the total amount provided to sub-recipients from each Federal program.
6. Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash-assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

The School's fiscal year 2013 Schedule, which was presented on the cash basis of accounting, had variances between the reported federal expenditures and the actual federal expenditures as noted:

- Title 1 Grants to Local Educational Agencies was understated by $224,155. The School reported $198,913 and the actual amount was $423,068.
- Special Education – Grants to States was overstated by $5,090. The School reported $131,526 and the actual amount was $126,436.
- Improving Teacher Quality was understated by $8,400. The School reported $0 and the actual amount was $8,400.

The School's Schedule was adjusted to correct the above errors.

FINDING NUMBER 2013-001
(Continued)

To reduce the risk of inaccurate reporting of federal expenditures and noncompliance with OMB Circular A-133, Subpart C, Section__.310(b), due care should be taken in the preparation of the Schedule of Federal Awards Receipts and Expenditures. The Schedule should be reviewed after preparation and agreed to the underlying records for accuracy. The School's management company spends federal funding on behalf of the School. For Schedule purposes, funds are not considered to be spent until actually expended by the management company.

Officials' Response:

This comment should be removed. It concerns the accounting treatment of certain federal expenditures that occurred prior to June 30, 2013 for which federal reimbursement was sought after June 30. Consequently, expenditures were recorded on the financial statements for which revenue had not yet been received and federal expenditures do not match the revenues. This issue is receiving inconsistent treatment from different regions of the Auditor of State's Office and Independent Public Accountants (IPAs) who audit public charter schools on behalf of the Auditor of State's Office. At least four (4) other Imagine operated charter schools in other parts of Ohio followed the same procedures and did not receive this comment.

As the Auditor's office well knows, federal funds for the Title I, and National School Lunch Programs are generally provided to public schools including charter schools on a <u>reimbursement basis</u>. The School is required to expend the funds first, and then submit a Project Cash Request seeking reimbursement for eligible expenditures.

Based upon the procedures dictated by ODE and AOS Bulletin 2004-009, and as long as the footnote audit is prepared on a cash basis, it is unlikely that federal revenues and expenditures will ever match.

The fiscal officer will work with the Auditor to determine if a reconciliation of federal funds can be provided with the financial records to alleviate the concern.

Auditor of State's Conclusion:

Upon receipt, the School immediately passed all federal funds on to its management company. The management company then expended these federal funds on behalf of the School. For federal grant and federal schedule purposes, the funds are not considered to be expended until the management company actually disburses the funds.

The expenditures on the School's original federal schedule that was provided for audit were simply and incorrectly based on the School's accounting records (the amount of funds that were passed on to the management company during the audit period, July 1, 2012 to June 30, 2013). The variances noted in the above citation were based on a comparison between the School's original federal schedule expenditures and the federal funds that were actually expended on behalf of the School by the management company, based on the management company's accounting records, during the period of July 1, 2012 to June 30, 2013.

2. NONCOMPLIANCE AND MATERIAL WEAKNESS – LEVEL OF EFFORT

Finding Number	2013-002
CFDA Title and Number	Title I Grants to Local Educational Agencies (84.010) Special Education Grants to States (84.027)
Federal Award Number / Year	2012 and 2013
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

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

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

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

The Crosscutting section in Part 4 of the 2012 OMB Compliance Supplement further clarifies that, in some States, the SEA prepares the calculation from information provided by the LEA. In other States, the LEAs prepare their own calculation. Where the SEA performs the calculation, the books and records from which the LEA's audited financial statements were prepared must support the amounts used by the SEA in the maintenance of effort computation.

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

FINDING NUMBER 2013-002
(Continued)

During the year, the School outsourced significant administrative and instructional services to a management company. The School's financial statements present amounts paid to the management company in one income statement caption. This caption represents 79 percent of the School's total expenses. Since the management company provided services to the School that equaled more than twenty percent of the School's annual gross revenues, the management company provided the School with an independently audited footnote disclosure describing the School's total expenses in more detail, as required by Ohio Rev. Code §3314.024. However, the expenditure information presented in Footnote Number 10 was not sufficient to fully determine the School's compliance with the Federal maintenance of effort or Expenditure Flow Model requirements described in the previous paragraphs.

While the independently audited management company footnote segregates indirect expenses related to overhead charges for services such as, but not limited to facilities management, equipment, operational support services, etc., the footnote does not separately distinguish the source of the revenue stream (e.g., Federal, State, or local funds) used to finance those expenses. As a result, neither the School nor the ODE can assure that expenditures from Federal funds were excluded from the maintenance of effort computation. The School should implement an alternative accounting method that substantially complies with the EFM Handbook.

Officials' Response:

This comment should be removed. The Auditor of State's Office alleges that the financial data presented by the School's Operator, Imagine Schools ("Imagine"), pursuant to Ohio Rev. Code 3314.024 was insufficient to calculate whether the School was in compliance with certain federal maintenance of effort requirements.

According to the regulation cited in the comment, 34 CFR §299.5(a), the Ohio Department of Education, not the Auditor of State's Office, is the State Education Agency (the "SEA") tasked with monitoring compliance with maintenance of effort requirements. Government Auditing Standards require an auditor to substantiate their findings. Here the comment is vague and unsubstantiated and does not specify with any particularity how the data submitted were insufficient.

In addition, the School has submitted extensive information in the EFM to enable ODE to calculate the per-pupil spending. If the Ohio Department of Education, the organization tasked with monitoring compliance, does not have an issue with determining the School's level of effort, we find it inappropriate for the Auditor of State to indicate the information is insufficient.

Auditor of State's Conclusion:

As part of our single audit procedures, the Auditor of State is required to determine if the financial information submitted for expenditure flow model purposes to the Ohio Department of Education is accurate and would allow for the maintenance of effort requirement to be met. Given the nature of the relationship between the School and its management company, most of the School's expenditures are reported as "administration" on the expenditure flow model report. Because the management company expends most of the School's funds on behalf of the School, the true nature of expenditures for expenditure flow model purposes should be based on the management company's disbursements and the related underlying accounting records of the management company. As described in the above citation, the management company footnote disclosure is not sufficient to determine if the maintenance of effort requirement has been met. Additionally, the management company could not provide information to support how it determined that the School's maintenance of effort requirement had been met.

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Independent Accountants' Report on Applying Agreed-Upon Procedure

Klepinger Community School
Montgomery County
3650 Klepinger Road
Dayton, Ohio 45416

To the Governing Board:

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

1. We noted the School amended its anti-harassment policy at its meeting on September 19, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

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

April 30, 2014

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Dave Yost • Auditor of State

KLEPINGER 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
MAY 20, 2014