RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Dave Yost • Auditor of State

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
MONTGOMERY COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Richard Allen Academy III 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 overall financial statement presentation.

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

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www.ohioauditor.gov

Basis for Qualified Opinion

The opinion on the School's June 30, 2012 financial statements was qualified due to the lack of sufficient audit evidence supporting the School's accounts payable – IMR and capital assets. We are unable to apply procedures to determine whether the net position in the financial statements as of July 1, 2012 and June 30, 2013 and accounts payable - IMR, were fairly presented in conformity with accounting principles generally accepted in the United States of America. The School has also included, in accounts payable – IMR in the accompanying statements of net position, certain payables that, in our opinion, are not true payables of the School. If these payables were removed, total liabilities would be decreased by $9,365. Additionally, net position would be increased by $9,365 for the year then ended.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Richard Allen Academy III 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.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. The School has suffered recurring losses from operations and has a net position deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 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

August 1, 2014

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Our discussion and analysis of Richard Allen Academy III Community School (the School) financial performance provides an overall review of the Schools' 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 basic financial statements and notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

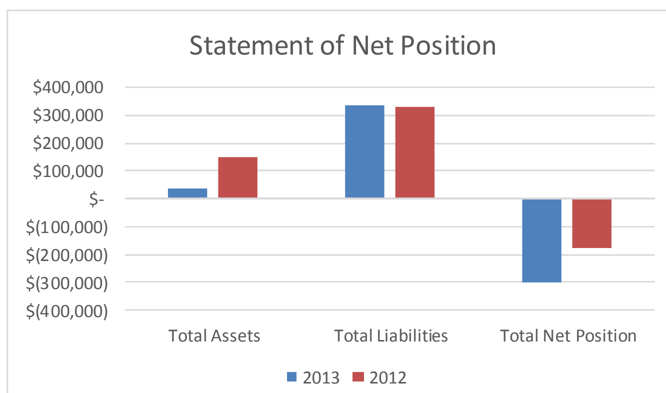
- Total Net Position decreased $119,559 from 2012.
- Total liabilities increased $5,762, or 1.8%, while total assets decreased $113,797, or 76.4% from 2012.
- Total revenue decreased from $1,461,253 in fiscal year 2012 to $1,426,445 in fiscal year 2013, a 2.6% decrease.
- Total expenses increased from $1,432,179 in fiscal year 2012 to $1,546,004 in fiscal year 2013, a 8.0% increase from 2012.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position reflect how the School did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's Net Position and changes in those assets. This change in Net Position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.



The School uses enterprise presentation for all of its activities.

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2013. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's Net Position as of June 30, 2013 compared to the prior year.

(Table 1)
Statement of Net Position

	2013	2012
Assets:		
Current Assets	$32,680	$15,772
Non-Current Assets	2,489	133,194
Total Assets	35,169	148,966
Liabilities:		
Current Liabilities	237,067	231,305
Non-Current Liabilities	96,409	96,409
Total Liabilities	333,476	327,714
Net Position:		
Restricted	2,489	133,194
Unrestricted	(300,796)	(311,942)
Total Net Position	($298,307)	($178,748)

Total assets decreased in 2013 due to decreased capital assets. Liabilities increased by $5,762, and Net Position decreased by $119,559 in 2013. Liabilities increased primarily due to the increase in accounts payable.

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal year 2013, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the school as a whole, the financial position of the school has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

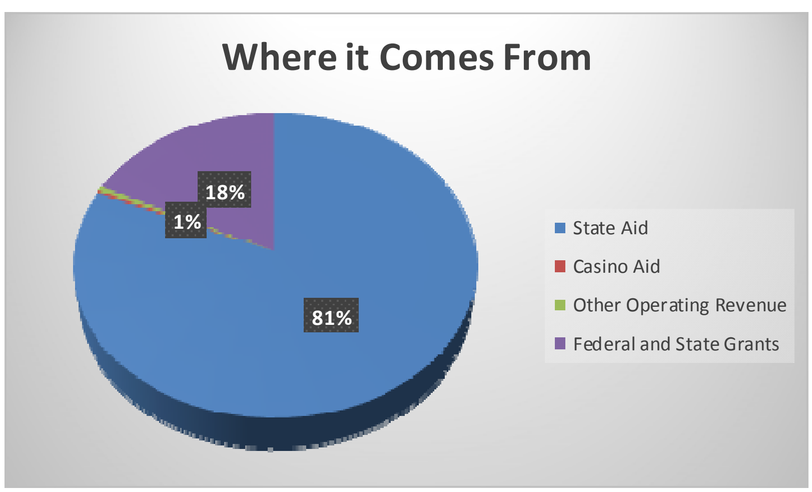


Table 2 shows change in Net Position for fiscal year 2013 compared with fiscal year 2012.

(Table 2)
Change in Net Position

	2013	2012
Operating Revenue:		
State Aid	$1,161,412	$1,117,773
Casino Aid	3,767	
Other Operating Revenue	7,027	32,890
Non-Operating Revenue:		
Federal and State Grants	254,239	310,590
Total Revenues	1,426,445	1,461,253
Operating Expenses:		
Purchased Services	1,347,623	1,374,034
Sponsorship Fees	34,842	22,394
Legal	14,501	8,997
Auditing and Accounting	8,818	13,667
Board of Education	9,515	4,739
Depreciation	1,409	5,861
Miscellaneous	-	2,487
Non-Operating Expenses:		
Loss on Disposition of Assets	129,296	
Total Expenses	1,546,004	1,432,179
Change in Net Position	($119,559)	$29,074

The revenue generated by a community school is almost entirely dependent on per-pupil allotment given by the state foundation and federal entitlement program receipts. Foundation and federal entitlement revenues made up 99% of all revenues for the School in fiscal year 2013. Revenues decreased due to the reduced entitlement funds.

Budgeting Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor. The contract between the School and its Sponsor does prescribe a budgetary process. The School has developed a one year spending plan and a five-year forecast that is reviewed periodically by the Board of Trustees. The five-year forecasts are also submitted to the Sponsor and the Ohio Department of Education.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School has capital assets, net of depreciation, of $2,489 (see note 4).

Debt

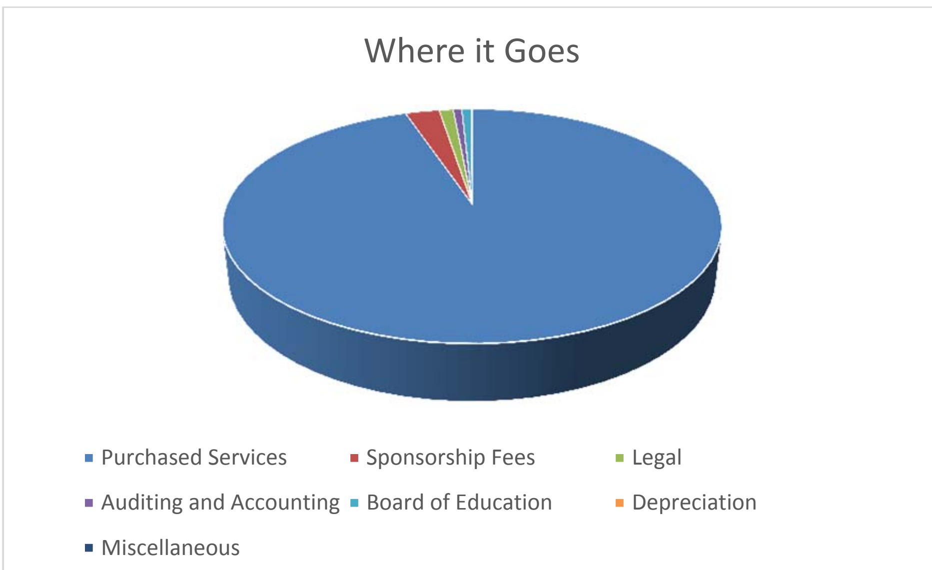
At June 30, 2013, the School had $ 96,409 in notes payable. See Note 15.

Current Financial Related Activities

The School's financial outlook over the next several years shows continued growth as enrollment is projected to increase. Enrollment for the school is at 182 students as of November 2013. But, future revenue increases are cautious due to Ohio's weak economic recovery.

Contacting the School's Financial Management

This financial report is designed to provide all citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Brian G. Adams, CFO, Richard Allen Academy III Community School, 368 South Patterson Boulevard Dayton, Ohio 45402.



RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
MONTGOMERY COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2013

Assets:	
Current Assets:	
Cash and Cash Equivalents	$132
Accounts Receivable-IMR	26,139
Intergovernmental Receivable	6,409
Total Current Assets	32,680
Non-current Assets:	
Depreciable Capital Assets, net	2,489
Total Assets	35,169
Liabilities:	
Current Liabilities:	
Accounts Payable-Vendor	45,856
Accounts Payable-IMR	50,844
Payroll Requirement Due	140,367
Total Current Liabilities	237,067
Non-Current Liabilities:	
Notes Payable	96,409
Total Liabilities	333,476
Net Position:	
Net Investment in Capital Assets	2,489
Unrestricted	(300,796)
Total Net Position	($298,307)

See accompanying notes to the basic financial statements.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
MONTGOMERY COUNTY
STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

OPERATING REVENUES:	
State Foundation	$1,161,412
Casino Aid	3,767
Other Operating	7,027
Total Operating Revenues	1,172,206
Operating Expenses:	
Purchased Services	1,347,623
Sponsorship Fees	34,842
Legal	14,501
Auditing and Accounting	8,818
Board of Education	9,515
Depreciation	1,409
Total Operating Expenses	1,416,708
Operating Loss	(244,502)
Non-Operating Revenue/(Expenses):	
Federal and State Grants	254,239
Loss on Disposition of Assets	(129,296)
Total Non-Operating Revenue/(Expenses)	124,943
Change in Net Position	(119,559)
Net Position Beginning of Year	(178,748)
Net Position End of Year	($298,307)

See accompanying notes to the basic financial statements.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
MONTGOMERY COUNTY

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

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from State of Ohio	$ 1,163,273
Cash Received from Other Operating Activities	7,027
Cash Payments to Suppliers for Goods and Services	(1,425,319)
Net Cash Used For Operating Activities	(255,019)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Received from Federal and State Grants	250,505
Net Cash Provided by Noncapital Financing Activities	250,505
Net Decrease in Cash and Cash Equivalents	(4,514)
Cash and Cash Equivalents Beginning of Year	4,646
Cash and Cash Equivalents End of Year	$ 132
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating Loss	$ (244,502)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	1,409
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(16,774)
Increase in Intergovernmental Receivable	(914)
Increase in Accounts Payable	7,668
Decrease in Intergovernmental Payable	(1,906)
Net Cash Used For Operating Activities	$ (255,019)

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE ENTITY

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

The School contract with the Institute of Management and Resources, Inc. (IMR) for a variety of services including management consulting, Education Management Information System (EMIS), monitoring and consulting, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications, and any other services requested by the School. In addition, all employees of the School are IMR employees and are subsequently contracted to the School. (See note 10 for additional detail on the contractual relationship between IMR and the School).

The School entered into a Sponsor Contract with the Ohio Department of Education (ODE) on June 29, 2012 for a two-year period with the term ending June 30, 2014 (See note 17).

The School operates under a self-appointing 10-member Board. The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School's enrollment of 176.85 FTE students for fiscal year 2013 represents an increase of 14.43 from the prior year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The School uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in Net Position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus/Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the School are included on the Statement of Net Position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Revenues, Expenses and Changes in Net Position present increases (e.g., revenues) and decreases (e.g., expenses) in total Net Position. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants, entitlements and donations, are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and the Sponsor does not prescribe an annual budget requirement, but sets forth a requirement to submit a spending plan each fiscal year. Furthermore, the School must submit a five-year forecast to its Sponsor annually.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. The School did not have any investments during fiscal year 2013.

E. Capital Assets and Depreciation

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

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

F. Intergovernmental Revenues

The School currently participates in the state foundation and state poverty based assistance programs. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The School participates in the Comprehensive Continuous Improvement Planning Program through the Ohio Department of Education. Revenue received from this program is recognized as non-operating revenues.

Amounts awarded under the above programs for the 2013 school year totaled $1,419,418.

G. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of June 30, 2013.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

I. Net Position

Net Position represent the difference between assets and liabilities. The Net Position component “net investment in capital assets” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net Position are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or contracts. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

J. Operating and Non-Operating Revenues and Expenses

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

3. CASH AND CASH EQUIVALENTS

The following information classifies deposits by category of risk as defined in GASB Statement No.3 “Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements,” as amended by GASB Statement No.40, “Deposit and Investment Risk Disclosures”.

The School maintains its cash balances at one financial institution located in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, per qualifying account. At June 30, 2013, the book amount of the School’s deposits was $132 and the bank balance was $321.

The entire bank balance was covered by FDIC and therefore not considered to be subject to custodial credit risk. The School had no investments at June 30, 2013 or during the fiscal year.

4. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2013, follows:

	Balance 06/30/12	Additions	Deletions	Balance 06/30/13
Capital Assets Being Depreciated:				
Leasehold Improvements	$206,174		($206,174)	
Equipment	48,143			$48,143
Vehicles	1,500			1,500
Total Capital Assets Being Depreciated	255,817			49,643
Less Accumulated Depreciation:	(122,623)	($1,409)	76,878	(47,154)
Net Total Capital Assets	$133,194	($1,409)	($129,296)	$2,489

5. RECEIVABLES

At June 30, 2013, the school is due monies from IMR in the amount of $26,139 as well as a intergovernmental receivables in the amount of $ 6,409. Intergovernmental receivables consist of federal assistance (CCIP) which eligibility requirements have been met (earned) at June 30, 2013, but the cash was not received by year end and overpayment made on retirement contributions.

6. ACCOUNTS PAYABLE

At June 30, 2013, the school had accounts payable totaling $ 237,067. $191,211 is due to IMR, and $ 45,856 is due various vendors during the normal course of conducting operations.

7. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. For fiscal year 2013, the School contracted with WRM American and Cincinnati Specialty Underwriters for business personal property, director and officer liability and general liability insurance. Director and officer liability coverage is set at $1,000,000, total loss. General liability coverage provides $1,000,000 per occurrence and $2,000,000 in the aggregate with no deductible. The WRM America also provides umbrella liability coverage of $4,000,000 per occurrence, as well as, in the aggregate.

There have been no settlements exceeding coverage in the last three years. Settled claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

B. Employee Insurance Benefits

As part of the management agreement with the IMR (see note 10), insurance benefits are paid by the Institute.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description – The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at www.ohsers.org under Employer/ 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 by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10 percent. The remaining 0.9 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School contributions to SERS for the year ended June 30, 2013, 2012 and 2011 were $9,009, $7,341, and $7,641, respectively, which equaled the required contributions each year.

B. State Teachers Retirement System

Plan Description – The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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

In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

Funding Policy - For the fiscal year ended June 30, 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 contribution for pension obligations to STRS for the fiscal years ended June 30, 2013, 2012 and 2011 were $187,595, $121,535, and $106,685, respectively, of which 100% has been contributed.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

9. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement Systems

Plan Description - The School participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO’s, PPO’s, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B 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”*.

9. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 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 $110, $318 and $925, respectively.

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 $509, $434 and $492, respectively.

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were $14,430, $9,349, and $8,207, respectively all of which has been contributed for all fiscal years.

10. MANAGEMENT COMPANY AGREEMENTS

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

10. MANAGEMENT COMPANY AGREEMENTS (Continued)

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

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

The table below shows the management company expenses for fiscal year 2013.

Direct:	
Salary and Wages	$876,524
Benefits	9.934
Food Service	11,147
Health Insurance	38,799
Property & Casualty Insurance, Workers Comp	15,326
Professional and Legal Services	6,149
Purchased Services	183,588
Repairs and Maintenance	76,264
Telephone/Networking	17,577
Utility	37,369
Indirect:	
Overhead	249,318
Total Expenses	$1,521,995

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

11. PURCHASED SERVICES

For the period July 1, 2012 through June 30, 2013, purchased service expenses were for the following services:

Management Services	$1,136,884
Certified Retirement	201,222
Non-Certified Retirement	9,517
Total	$1,347,623

12. TAX EXEMPT STATUS

The School completed its application and filed for tax exempt status under 501(c) 3 of the Internal Revenue Code and was approved for tax exempt status. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

13. PENDING LITIGATION

On October 18, 2012, the Institute of Management and Resources, Inc. ("IMR"), the management company of the School, filed a complaint for declaratory judgment and injunctive relief against the School, as well as the Auditor of State and Attorney General regarding findings for received 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 Please: Case No. 2012 CV 07494

Both IMR and the School dispute the Auditor's interpretation of the contract and have attempted to resolve the matter amicably with both the Auditor and the Attorney General, who is tasked with enforcing findings for recovery. Accordingly, IMR has filed this action pursuant to R.C. 9.24, challenging the Auditor's interpretation of the management contract and enjoining the Attorney General from enforcing the finding. Because the Auditor and Attorney General are acting on behalf of the School statutorily, the School is an indispensable party to the litigation. The outcome of this case will have a material impact on the financial statements of the School, the exact amount of which is not know at this time.

14. RELATED PARTY TRANSACTIONS

The Governing Board, of Richard Allen Academy III Community School served in the same capacity for the Richard Allen Preparatory, Richard Allen Academy II, and Richard Allen Academy Community Schools effective May 1, 2013, all of which are managed by the Institute of Management and Resources, Inc (IMR). Richard Allen Academy III Community School shares its Chief Executive Officer, Superintendent and the Treasurer/CFO with the other three Richard Allen Schools named above. The School pays IMR a management fee of ten percent of the total revenue of the School from all sources after a deduction of SERS, STRS, and audit adjustments. The School pays IMR another 87 percent for expenses incurred on behalf of the School (See Note 10). The School has a note payable due to ICMR and West Park Academy, two entities that are operated by management of IMR (See Note 15).

The School's Superintendent is also the CEO of IMR. The School's Treasurer is also the CFO of IMR.

15. NOTES PAYABLE

The following is a summary of the note activity for the School at June 30, 2013:

Note Payable	Beginning Balance	Additions	Deletions	Ending Balance
Demand Promissory Note-ICMR	$84,909			$84,909
Demand Promissory Note-West Park Academy	11,500			11,500
Total	$96,409	$0	$0	$96,409

15. NOTES PAYABLE (Continued)

On June 30, 2004, the school's management company, the Institute of Charter School Management and Resources, Inc. (ICSMR), provided the school with a demand promissory note of $104,653 to address cash flow issues arising during initial start-up phase of the School. The note stipulates that no interest will accrue if it is paid in full by June 30, 2009. A portion of the note may be called at any time, upon written notice to the School. ICSMR determined no interest will accrue on this loan in 2013.

On June 30, 2004, West Park Academy, Inc. provided the school with a demand promissory note of $11,500 for capital acquisitions during the initial start-up phase of the School. The note stipulates that no interest will accrue if it is paid in full by June 30, 2009. A portion of the note or the entire amount is due upon written notice to the School. West Park Academy determined no interest will accrue on this loan in 2013.

16. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2013.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review did not result in state funding being adjusted.

17. SPONSOR

On July 1, 2012, the School entered into a two-year Sponsorship contract with the Ohio Department of Education (ODE) in return for three percent (3%) of all funds received by the School from the State of Ohio foundation payments. Sponsor fee expense at June 30, 2013 totaled $34,842.

18. 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*", and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*", and GASB Statement No. 66, *"Technical Corrections-2012".*

18. CHANGE IN ACCOUNTING PRINCIPLES (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 beginning net position 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.

19. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT

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

20. SUBSEQUENT EVENTS

During fiscal year 14, the School has entered into a new management agreement with IMR. The terms of the new agreement calls for the payment of 94% of all state aid and 100% of federal grants. The Board has also hired its own Treasurer to oversee payments to IMR and to assist it with financial oversight.

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

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

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Richard Allen Academy III 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 August 1, 2014 wherein we noted that we were unable to obtain sufficient audit evidence supporting the School's accounts payable – IMR, opening net position and ending net position. We also noted that the School is a going concern.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001 and 2013-002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2013-002 and 2013-003.

Entity's Response to Findings

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

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

August 1, 2014

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

FINDING NUMBER 2013-001

MATERIAL WEAKNESS

At June 30, 2010, the School reported $10,623 in accounts receivable balance due from its management company, Institute of Management & Resources (IMR). This balance consisted of June 30, 2010 reconciling items for various revenues deposited by IMR in its bank account instead of the School's bank account during fiscal year 2010. During 2011, the School receipted $1,258 of this receivable amount for school lunch receipts. However, there was no evidence that IMR actually repaid the remaining receivable amount of $9,365 to the School during fiscal years 2011 and 2012 or netted the receivables against the payables due to the management company during either year. However, the School did not report any receivable due from the management company at June 30, 2012 on the original financial statements provided to the Auditor of State on December 4, 2012. In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery was issued in June 30, 2011 audit report which remains unpaid to date.

The School's 2012 financial statements initially excluded the $9,365 in accounts receivable from IMR. On the final version of financial statements, the School agreed to present the accounts receivable on the June 30, 2012 statement of net assets by increasing the corresponding accounts payable to IMR. As noted above, there is no indication that the receivables were netted against payables during 2011 or 2012.

The June 30, 2012 financial statements presented an accounts payable - IMR balance of $50,844. Of this balance $9,365 was the offsetting entry for the above noted accounts receivable. However, the offsetting entry to the receivable should have been to beginning net position rather than accounts payable. Additionally, the remaining $41,479 in accounts payable - IMR balance as of June 30, 2012 related to the 2011 accounts payable balance that was qualified during 2011 and 2012 due to lack of supporting documentation. The 2012 audit opinion was also modified for beginning and ending net assets.

The Opinion on the 2012 financial statements was also qualified due to the School not reporting $5,446 in leasehold improvements related to 2004 audit adjustments. To date, no depreciation had been taken on this leasehold improvement. Additionally, the Capital Asset reported by the School did not include $16,862 in leasehold improvements that were reported on the School's fixed asset listing with asset description. The School moved to a new location during 2013 and the leasehold improvements were correctly deleted from the 2013 capital assets. However, the beginning net position on statement of revenues, expenses and changes in net position is misstated due to the previously noted error.

Since the accounts payable – IMR and net position amount carries forward from prior year and no additional documentation was provided during the 2013 audit, we are unable to provide an opinion on the accounts payable - IMR, net position beginning of the year and net position end of year line items.

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. Failure to establish these procedures could result in inaccurate financial reporting of the School's activities.

Official's Response:

See Officials' Response - page 31

FINDING NUMBER 2013-002

NONCOMPLIANCE AND MATERIAL WEAKNESS

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

The following error was noted that required adjustment to the financial statements:

> The School contracted with a management company, Institute of Management Resources (IMR) to perform functions reasonably required to manage the operation of the School. The School's management agreement stated that the School shall pay to IMR a management fee of ten percent (10%) of the total revenues of the School from all sources after deduction of STRS, SERS and audit adjustments. The School will pay to IMR eighty-seven percent (87%) of total revenues of the School from all sources after deduction of STRS, SERS and audit adjustments for school expense fees incurred on behalf of the School for school-wide operational services, i.e transportation, supplies, textbooks, rents, utilities, etc.
>
> The 2013 accounts receivable - IMR included $9,365 from the 2012 financial statements and current year addition to the receivable of $102,012 for a total receivable balance at June 30, 2013 of 111,377. Based on the above stated contract language, an error was noted in the calculation of the 2013 addition to accounts receivable resulting in an overstatement of receivable balance by $85,238 and understatement of purchased services expense of the same amount.

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

Official's Response:

See Officials' Response – page 31

FINDING NUMBER 2013-003

NONCOMPLIANCE

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

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

During fiscal year 2013, Michelle Thomas served as President/CEO of Institute of Management and Resources, Inc (the Management Company) and as Superintendent of the School. The Management Company's CFO, Felix O'Aku also served as the Treasurer of the Richard Allen Schools during fiscal year 2013. The School electronically transferred $1,157,758 to the Management Company during fiscal year 2013. All electronic transfers were initiated by Treasurer, Felix O'Aku.

FINDING NUMBER 2013-003
(Continued)

On February 19, 2013, the School Board approved to hire Brian Adams as Treasurer effective July 1, 2013.

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

A referral has been made to the Ohio Ethics Commission.

Official's Response:

See Officials' Response – page 31

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2012-001	Opinion Qualification -Accounts Payable, and Beginning and Ending Net Position	No	Repeated as Finding Number 2013-001
2012-002	Ohio Rev. Code § 3314.03 (B)(5) and AoS Bulletin 2000-005 – Internal Controls over Financial Reporting	No	Repeated as Finding Number 2013-002
2012-003	Ohio Rev. Code § 3314.024 – AUP Report Errors	No	Partially Corrected – Repeated as Management Letter Comment.
2012-004	Finding for Recovery in the amount of $65,145 against IMR for overpayment of management fees.	No	Finding has not been repaid
2012-005	Ohio Rev. Code § 2921.42 (A) – management of the School with interest in affairs of IMR	No	Repeated as Finding Number 2013-003
2012-006	Fixed Asset Policy and unreported capital assets	Yes	

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
MONTGOMERY COUNTY

OFFICIAL RESPONSES
JUNE 30, 2013

FINDING 2013-001

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

FINDING 2013-002

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

FINDING 2013-003

Official Response: We believe the Auditor of State has treated the Richard Allen Schools less favorably than other community schools with regard to the relationship between the Schools and their management company. The Auditors have been provided with documentation, including Dr. Thomas' employment contract with IMR and the relevant board meeting minutes/resolutions to establish that Dr. Thomas, along with all administrators, teachers and staff at the Richard Allen Schools, are employed solely by IMR. The Governing Board of the Richard Allen Schools has taken action to give Dr. Thomas the title of Superintendent in order to recognize her role as the lead administrator of the Schools. However, this audit report fails to mention that Dr. Thomas also holds the title of Principal of both Richard Allen Academy and Richard Allen Academy II.

Dr. Thomas is but one of three administrators designated as principals by the Governing Board; all of whom are IMR employees providing services to the Schools pursuant to the Management Agreements between IMR and the Governing Boards. Neither Dr. Thomas, nor any of the other administrators, teachers or staff that make the Richard Allen Schools run on a day-to-day basis receive any compensation from the Schools. The Auditors have also been informed by the Ohio Attorney General's Constitutional section that their research has revealed no legal prohibitions regarding Dr. Thomas' relationship with IMR and the Schools. However, the Auditors have refused to remove this finding and the corresponding Ethics Commission referral.

This is also a common structure amongst community school management companies in Ohio and the schools that they operate. For instance, Constellation Schools, an Ohio limited liability company, operates 21 schools throughout the State. Constellation lists Richard Lukich as its Board Chairman and Thomas Babb as a board member. Mr. Babb is listed on each school's most recent audit report as the schools' treasurer/CFO, which is known under ORC 3314.011 as a designated fiscal officer and is more commonly referred to as a school treasurer. Mr. Lukich is listed as the incorporator of both Constellation Schools LLC and many, if not all, of the schools that Constellation operates. However, no findings for recovery have been issued against any of the Constellation schools regarding these relationships, nor have any Ethics Commission referrals been made. Other community school operators through the State, such as White Hat Management, employ similar structures. Documentation to support these contentions has been provided to the Dayton Regional Auditors.

We are dismayed by the disparate treatment that our schools have received from the Auditor of State, and are only left to assume what the basis for this discriminatory animus might be.

AOS Position: The Richard Allen Schools and the Schools' management company, Institute of Management and Resources (IMR) are managed by the same group of individuals. Findings for Recovery against IMR have been issued in the past three audit reports as listed below:

Finding Number/ Description	Richard Allen	Richard Allen II	Richard Allen III	Richard Allen Prep	Status
Special Audit Report					
Scholarship Fund	$7,845				Repaid
Overpayment of Contract	27,511	$134,109	$127,794	$118,826	Unpaid
Payroll and Benefits Billed	49,313	111,297	44,014	10,434	Unpaid
Former Superintendent	5,815	14,038	5,815	1,380	Unpaid
ODE TANF Funds	20,400				
2011 Financial Audit					
2011-002 Contract Overpayment	82,939	282,388	142,997	215,643	Unpaid
2011-003 Accounts Receivable	101,632	18,743	9,365	5,320	Unpaid
2012 Financial Audit					
2012-004 Contract Overpayment	30,360	238,511	69,145	114,265	Unpaid
Total Finding for Recoveries	$325,815	$799,086	$399,130	$465,868	

The overpayments made to the Management Company during fiscal year 2013 have been reported as accounts receivable – IMR by the Schools.

The Ohio Attorney General's Office looked at the issue and concluded that it did not find any authority prohibiting the dual role. However, it concluded that it is up to the Ohio Ethics Commission to make the final determination and the research was not comprehensive.

Similar findings have been reported in prior audits. Since the finding has not been corrected it has been repeated in accordance with requirements in AU-C 265.

Dave Yost • Auditor of State

RICHARD ALLEN ACADEMY 3 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
SEPTEMBER 25, 2014

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