



OHIO AUDITOR OF STATE
KEITH FABER



**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY
JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

Richard Allen Academy III Community School
Butler County
1206 Shuler Avenue
Hamilton, Ohio 45011

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Richard Allen Academy III Community School, Butler County, Ohio (the School), as of and for the year ended June 30, 2016, 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 such 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 qualified audit opinion.

Basis for Qualified Opinion

The School's Management Company did not provide the Management Company's general ledger. This resulted in us not being able to gain assurance regarding the accuracy of the contribution amounts used to calculate the School's net pension liability. The net pension liability included in the School's basic financial statements represents 100 percent, 86 percent, 100 percent and 8 percent of the deferred outflows, liabilities, deferred inflows and expenses, respectively, of the School's financial statements.

Qualified Opinion

In our opinion, except for the possible effect 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, Butler County, Ohio, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The School has suffered recurring losses from operations and has a net position deficiency at June 30, 2016. Note 17 describes Management's plans regarding this matter. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Additionally, as discussed in Note 19 to the financial statements, effective July 1, 2018, the School merged with Richard Allen Academy to operate as one school under the Richard Allen Academy name. We did not modify our opinion regarding these matters.

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*, and schedules of net pension liabilities and pension contributions 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 February 26, 2019, 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.



Keith Faber
Auditor of State
Columbus, Ohio

February 26, 2019

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**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Our discussion and analysis of Richard Allen Academy III Community School (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2016. 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

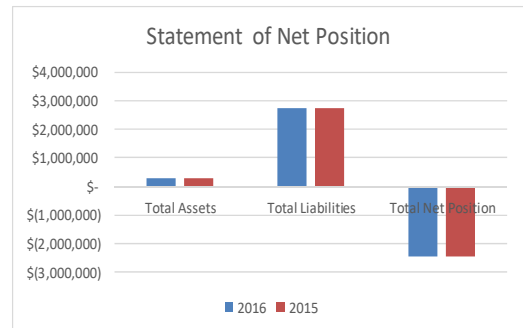
Key financial highlights for fiscal year 2016 are as follows:

- Total Net Position decreased \$19,091 from 2015.
- Total liabilities decreased \$95,566 or 4.0%, while total assets decreased \$6,327, or 25.1% from 2015.
- Total revenue increased from \$1,470,020 in fiscal year 2015 to \$1,550,166 in fiscal year 2016, a 5% increase.
- Total expenses increased from \$1,486,568 in fiscal year 2015 to \$1,569,257 in fiscal year 2016, a 6% increase.

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 2016. 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 net position. 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 2016. This statement includes all assets, deferred outflows of resources and liabilities and deferred inflows of resources, 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.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Table 1 provides a summary of the School's Net Position as of June 30, 2016 compared to the prior year.

(Table 1)

Statement of Net Position

	2016	2015
Assets		
Current Assets	\$ 18,899	\$ 25,226
Non-Current Assets,	-	-
Total Assets	18,899	25,226
Deferred Outflows		
Pension Requirements	247,545	276,420
Liabilities		
Current Liabilities	222,227	210,641
Non-Current Liabilities	2,054,071	2,161,223
Total Liabilities	2,276,298	2,371,864
Deferred Inflows		
Pension Requirements	459,658	380,203
Net Position		
Unrestricted	(2,469,512)	(2,450,421)
Total Net Position	\$(2,469,512)	\$(2,450,421)

Total assets decreased in 2016 due to decreased intergovernmental receivables. Liabilities decreased by \$95,566, and Net Position decreased \$19,091 in 2016. Current Liabilities increased primarily due to the increase in accounts payable.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal year 2016, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader whether, 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.

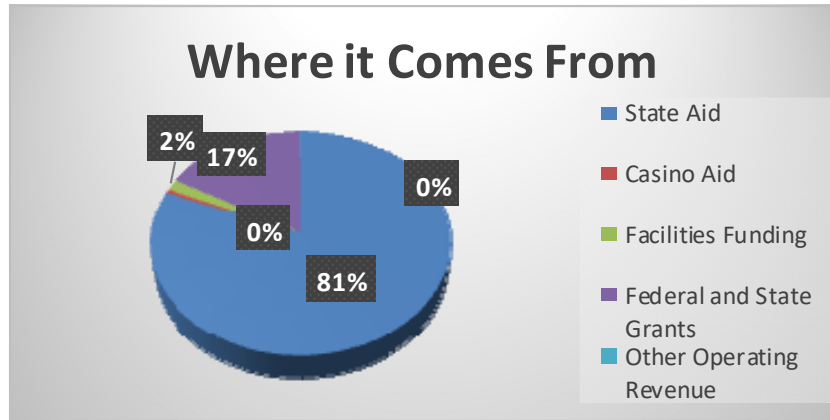


Table 2 shows change in Net Position for fiscal year 2016 compared with fiscal year 2015.

(Table 2)
Change in Net Position

	<u>2016</u>	<u>2015</u>
Operating Revenue		
State Foundation	\$1,255,991	\$1,207,652
Casino Aid	8,412	8,719
Facilities Funding	24,437	14,809
Other Operating Revenue	663	95
Non-Operating Revenue		
Federal and State Grants	260,663	238,745
Total Revenues	<u>1,550,166</u>	<u>1,470,020</u>
Operating Expenses		
Purchased Services	1,476,372	1,392,295
Sponsorship Fees	38,088	36,360
Legal	8,194	19,122
Auditing and Accounting	40,651	20,562
Board of Education	5,787	8,799
Other Operating Expenses	165	9,430
Total Expenses	<u>1,569,257</u>	<u>1,486,568</u>
Change in Net Position	<u>\$ (19,091)</u>	<u>\$ (16,548)</u>

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 2016. Revenues increased due to the increased foundation and entitlement funds.

During 2015, the School adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources.

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.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the School's assets were fully depreciated. (see note 4).

Debt

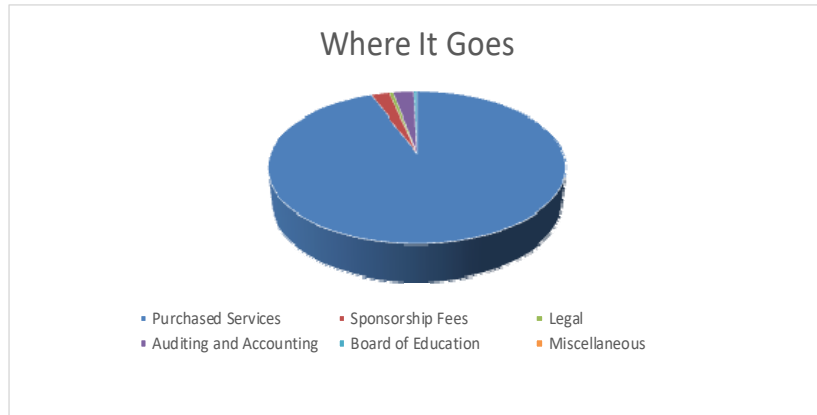
At June 30, 2016, the School had \$ 96,409 in notes payable. See Note 14.

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 165 students as of November 2016. 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 Todd Johnson, CFO, Richard Allen Academy III Community School, 1206 Shuler Avenue, Hamilton Ohio 45011.



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**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 1,022
Intergovernmental Receivable	17,877
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Total Assets	18,899
	<hr/>

DEFERRED OUTFLOWS

Pension Requirements	247,545
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LIABILITIES

Current Liabilities

Accounts Payable-Vendor	17,746
Accounts Payable-IMR	64,114
Payroll Requirement Due	140,367
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Total Current Liabilities	222,227
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Non-Current Liabilities

Notes Payable	96,409
Net Pension Liability	1,957,662
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Total Non-Current Liabilities	2,054,071
	<hr/>

Total Liabilities	2,276,298
	<hr/>

DEFERRED INFLOWS

Pension Requirements	459,658
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NET POSITION

Unrestricted	(2,469,512)
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Total Net Position	\$ (2,469,512)
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See accompanying notes to the basic financial statements

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

OPERATING REVENUES	
State Foundation	\$ 1,255,991
Casino Aid	8,412
Facilities Funding	24,437
Other Operating	<u>663</u>
Total Operating Revenues	<u>1,289,503</u>
OPERATING EXPENSES	
Purchased Services: Management Fees	1,215,709
Purchased Services: Grant Programs	260,663
Sponsorship Fees	38,088
Legal	8,194
Auditing and Accounting	40,651
Board of Education	5,787
Other Operating Expenses	<u>165</u>
Total Operating Expenses	<u>1,569,257</u>
Net Operating Loss	<u>(279,754)</u>
NON-OPERATING REVENUE	
Federal and State Grants	<u>260,663</u>
Total Non-Operating Revenue	<u>260,663</u>
Change in Net Position	(19,091)
Net Position Beginning of Year	<u>(2,450,421)</u>
Net Position End of Year	<u><u>\$ (2,469,512)</u></u>

See accompanying notes to the basic financial statements

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BULTER COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 1,298,662
Cash Received from Other Operating Activities	\$ 663
Cash Payments to Suppliers for Goods and Services	<u>(1,560,016)</u>
Net Cash Used For Operating Activities	<u>(260,691)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Federal and State Grants	<u>260,924</u>
Net Cash Provided by Noncapital Financing Activities	<u>260,924</u>
Net Increase in Cash and Cash Equivalents	233
Cash and Cash Equivalents Beginning of Year	<u>789</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 1,022</u></u>

**RECONCILIATION OF OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Operating Loss	\$ (279,754)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Changes in Assets, Liabilities, Deferred Inflows and Outflows of Resources	
Intergovernmental Receivable	6,300
Accounts Payable	11,585
Net Pension Liability	(107,152)
Deferred Outflows	28,875
Deferred Inflows	<u>79,455</u>
Net Cash Used For Operating Activities	<u><u>\$ (260,691)</u></u>

See accompanying notes to the basic financial statements

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**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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 contracts with the Institute of Management and Resources, Inc. (IMR) for a variety of services including management consulting, Education Management Information System (EMIS), monitoring and consulting, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications, and any other services requested by the School. In addition, all employees of the School are IMR employees and are subsequently contracted to the School. (See note 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 July 1, 2013 for a two-year period with them ending June 30, 2015. The School renewed its contract with ODE in June 2015 for five years, extending it to June 30, 2020. (See note 16).

The School operates under a self-appointing nine-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 163 FTE students for fiscal year 2016 represents a decrease of 2 students 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 and expenses, changes in net 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.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2016.

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 furniture and equipment. Improvements to capital assets are depreciated over the remaining useful lives of the related fixed assets.

At the end of fiscal year 2016, the School's capital assets are fully depreciated (see note 4).

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program which is reflected under "State Foundation", "Casino Aid", and "Facilities Aid" on the Statement of Revenues, Expenses and Changes in Net Position. 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.

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 2016 school year totaled \$1,549,503.

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, 2016.

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 represents the difference between all assets plus deferred outflows of resources less all liabilities, plus deferred inflows of resources. 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.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the School, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 8.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 8).

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, 2016, the book amount of the School's deposits was \$1,022 and the bank balance was \$1,022.

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, 2016 or during the fiscal year.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

4. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2016, follows:

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/16</u>
Capital Assets Being Depreciated:				
Equipment	48,143	-	-	48,143
Furniture	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
Total Capital Assets Being Depreciated	49,643	-	-	46,643
Less Accumulated Depreciation:	<u>(49,643)</u>	<u>-</u>	<u>-</u>	<u>(49,643)</u>
Net Total Capital Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

5. RECEIVABLES

At June 30, 2016, the school has intergovernmental receivables in the amount of \$17,877. Intergovernmental receivables consist of credit balances with STRS and/or SERS as well as federal assistance (CCIP) which eligibility requirements have been met (earned) at June 30, 2016, but the cash was not received by year end. Intergovernmental receivable also includes the impact of adjustments to foundation revenue resulting from a review performed by Ohio Department of Education after June 30, 2016 (see Note 15).

6. ACCOUNTS PAYABLE

At June 30, 2016, the school had accounts payable totaling \$81,860. \$64,114 is due to IMR, and \$17,746 is due to 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 2016, 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 \$3,000,000 in the aggregate with \$10,000 deductible. The WRM America also provides umbrella liability coverage of \$3,000,000 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.

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8. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable*.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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 statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School's contractually required contribution to SERS was \$8,088 for fiscal year 2016

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$113,732 for fiscal year 2016.

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(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.00156300%	0.00816377%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.00159490%</u>	<u>0.00675417%</u>	
Change in Proportionate Share	<u>0.00003190%</u>	<u>-0.00140960%</u>	
Proportionate Share of the Net Pension Liability	\$91,007	\$1,866,655	\$1,957,662
Pension Expense	\$23,756	\$99,243	\$122,999

At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$1,468	\$85,096	\$86,564
Changes in proportionate Share and difference between School contributions and proportionate share of contributions	39,161		39,161
School contributions subsequent to the measurement date	<u>8,088</u>	<u>113,732</u>	<u>121,820</u>
Total Deferred Outflows of Resources	<u>\$48,717</u>	<u>\$198,828</u>	<u>\$247,545</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$3,016	\$134,248	\$137,264
Changes in Proportionate Share and Difference between School contributions and proportionate share of contributions		<u>322,394</u>	<u>322,394</u>
Total Deferred Inflows of Resources	<u>\$3,016</u>	<u>\$456,642</u>	<u>\$459,658</u>

\$121,820 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$11,938	(\$110,894)	(\$98,956)
2018	11,938	(110,894)	(98,956)
2019	11,939	(110,895)	(98,956)
2020	<u>1,798</u>	<u>(38,863)</u>	<u>(37,065)</u>
Total	<u>\$37,613</u>	<u>(\$371,546)</u>	<u>(\$333,933)</u>

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 126,193	\$ 91,007	\$ 61,376

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School's net pension liability is expected to be significant.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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8. DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$ 2,592,925	\$ 1,866,655	\$ 1,252,486

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STARS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School's net pension liability is expected to be significant.

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description – The School, contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

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9. POSTEMPLOYMENT 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 basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$21, \$605, and \$569, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions.

For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$14,891, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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 was through June 30, 2013. In October 2013, the school entered into a new management agreement with IMR. The terms of the new agreement call for the payment of 94% of all state aid and 100% of federal and state grants with the term ending June 30, 2020. The Board has also hired its own Treasurer to oversee payments to IMR and to assist it with financial oversight.

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 (Continued)**

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 statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquire all necessary licenses and permits; maintain all student and financial records required by federal, state and local laws and regulations, as well as protecting the confidentiality of those records; act as the School's agent in making deposits and disbursements promptly; provide for all expenses of operating the School, including lease payments for the school building, equipment and operating supplies needed in the operation of the School, from its management fee. IMR is responsible for hiring qualified teachers and all other employees which are subsequently contracted to operate the School.

The table below shows the management company expenses for fiscal year 2016.

	2016
Expenses	
Direct Expenses:	
Salaries & wages	903,386
Employees' benefits	118,774
Professional & technical services	35,392
Property services	30,354
Communications	2,208
Utilities	38,470
Food and Related Supplies	2,911
Other supplies	8,928
Other direct costs	17,141
Indirect Expenses:	
Overhead	327,246
Total Expenses	1,484,810

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. 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.

12. PENDING LITIGATION

The Institute of Management and Resources, Inc. ("IMR"), the management company of the School, is in a lawsuit with the School, as well as the Auditor of State and Attorney General regarding findings for recovery issued by the Auditor in favor of the School.

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(Continued)**

12. PENDING LITIGATION (Continued)

Both IMR and the School dispute the Auditor's interpretation of the contract and have attempted to resolve the matter amicably with both the Auditor and the Attorney General, who is tasked with enforcing findings for recovery. Not only were the parties unsuccessful in resolving the dispute, the Auditor has put both parties on notice that they intend to issue similar findings against IMR for the 2014 fiscal year. Accordingly, IMR has filed this action pursuant to R.C. 9.24, challenging the Auditor's interpretation of the management contract and enjoining the Attorney General from enforcing the finding. Because the Auditor and Attorney General are acting on behalf of the School statutorily, the School is an indispensable party to the litigation. On December 10, 2015, Court of Appeals of Ohio, Tenth Appellate District ruled in favor of Auditor and Attorney General. IMR has not repaid the Academy any money and has since entered bankruptcy protection where Ohio Attorney General is listed as a non-priority unsecured creditor.

William H. Sadler, Inc. v. Richard Allen Academy, Inc.

On November 2, 2015, William H. Sadler filed a suit against Richard Allen Schools alleging that the defendants were obligated to Plaintiff for an outstanding balance for goods and services in the amount of \$22,199, plus interest on the principal balance, plus cost of the action. On December 28, 2016, a joint motion to postpone examination of the judgment debtor was filed as a result of a repayment agreement being reached between the parties.

Comprehensive Concepts in Speech and Hearing, Inc., v. Richard Allen III

The Plaintiff filed an action relating to a contract between the School and Plaintiff. The complaint alleges five counts against the School including breach of contract; quantum meruit; unjust enrichment; alter ego/fraud. Plaintiff sought \$23,695 in damages, plus interest and costs. On May 5, 2017, the parties to the litigation entered an agreed consent judgment in favor of the Plaintiff.

Century Mechanical Solutions, Inc.

On November 7, 2018, Century Mechanical Solutions, Inc. filed a claim for relief against the Richard Allen Schools in the Butler County Court of Common Pleas for payment of \$33,797 for heating and cooling services and materials at one of its school locations. In February 2019, a settlement agreement was fully executed and a consent judgement was filed. Total liability of the Richard Allen-affiliated schools is \$31,797 made in 16 installment payments (plus costs and interest if any of the installment payments are not paid timely).

13. 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 I Community Schools for the fiscal year 2016, all of which are managed by the Institute of Management and Resources, Inc (IMR). Total compensation to Board members was \$5,400. Richard Allen Academy Community School shares its Superintendent and the Treasurer/CFO with the other three Richard Allen Schools named above. The Superintendent is also the corporate Secretary for IMR. The Treasurer/CFO is not an employee of IMR (nor has any other affiliation with IMR) and has a separate contract with the Board.

The School pays IMR a management fee of ninety-four percent (94%) of the state revenue of the School after a deduction of SERS, STRS, and audit adjustments. The School pays IMR another one hundred percent (100%) of grant expenses incurred on behalf of the School. See Note 10. The School has a note payable due to ICSMR and West Park Academy (See Note 14), both of these entities are related to IMR.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

14. NOTES PAYABLE

The following is a summary of the note activity for the School at June 30, 2016:

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

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 2016.

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, note may be called at any time upon written notice to the School. West Park Academy determined no interest will accrue on this loan in 2016.

15. 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, 2016.

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 could result in state funding being adjusted. The FTE calculation concluded that the School was overpaid \$14,191 during 2016. This amount is recorded as a reduction to intergovernmental receivable in the statement of net position.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

16. SPONSOR

On July 1, 2013, 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. The Sponsor is to provide oversight, monitoring, and technical assistance for the School. Sponsor fee expense at June 30, 2016 totaled \$38,088. In June 2015, the School and Sponsor entered into a five-year agreement ending on June 30, 2020 for a fee of 3% of state revenues. The Sponsor notified the School in 2018 that it will end its sponsorship agreement on June 30, 2018.

17. 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.

18. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2016, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments and GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
 BUTLER COUNTY, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (Continued)**

19. SUBSEQUENT EVENTS

In 2018, the Ohio Department of Education notified the School that it is ending its sponsorship agreement on June 30, 2018. The School contracted with St. Aloysius Orphanage to sponsor the School.

The School switched its management company from Institute of Management and Resources to Educational Management and Development Group during School year 2018.

The School's management company, Institute of Management and Resources filed for Bankruptcy protection during 2018.

Effective July 1, 2018, Richard Allen Academy merged with Richard Allen Academy III to operate as one school under the Richard Allen Academy name. Richard Allen III is a co-borrower under a loan agreement with Charter School Capital in the original principal amount of \$455,000. As co-borrower the School is jointly and severally liable for all amounts outstanding with respect to the loan. Charter School Capital has not been paid monies that it is owed and the company has filed a Proof of Claim in the bankruptcy proceedings of Institute of Management and Resources, Inc., a co-debtor of the schools on the obligation at issue.

20. PURCHASED SERVICES

For the period July 1, 2015 through June 30, 2016, purchased service expenses were for the following services:

Management Services	\$1,354,552
Certified Retirement	113,732
Non-Certified Retirement	8,088
Total	\$1,476,372

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**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY**

**Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Three Fiscal Years (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
State Teachers Retirement System (STRS)			
School's Proportion of the Net Pension Liability	0.00675417%	0.00816377%	0.00816377%
School's Proportionate Share of the Net Pension Liability	\$1,866,655	\$1,985,711	\$2,365,366
School's Covered-Employee Payroll	\$1,392,857	\$1,489,085	\$1,443,038
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	134.02%	133.35%	163.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)			
School's Proportion of the Net Pension Liability	0.00159490%	0.00156300%	0.00156300%
School's Proportionate Share of the Net Pension Liability	\$91,007	\$79,103	\$92,947
School's Covered-Employee Payroll	\$85,713	\$212,547	\$68,772
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	106.18%	37.22%	135.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available

Note: The amounts presented for each fiscal year were determined as of measurement date.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY**

**Required Supplementary Information
Schedule of School Contributions
Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
State Teachers Retirement System (STRS)			
Contractually Required Contribution	\$113,732	\$195,000	\$193,581
Contributions in Relation to the Contractually Required Contributions	<u>(\$113,732)</u>	<u>(\$195,000)</u>	<u>(\$193,581)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School's Covered-Employee Payroll	\$812,371	\$1,392,857	\$1,489,085
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%
 School Employees Retirement System (SERS)			
Contractually Required Contribution	\$8,088	\$11,297	\$29,459
Contributions in Relation to the Contractually Required Contributions	<u>(\$8,088)</u>	<u>(\$11,297)</u>	<u>(\$29,459)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School's Covered-Employee Payroll	\$57,771	\$85,713	\$212,547
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%

n/a - Information prior to 2008 is not available

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$187,595	\$121,535	\$106,685	\$119,563	\$91,207	\$97,116	\$67,788
<u>(\$187,595)</u>	<u>(\$121,535)</u>	<u>(\$106,685)</u>	<u>(\$119,563)</u>	<u>(\$91,207)</u>	<u>(\$97,116)</u>	<u>(\$67,788)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,443,038	\$934,885	\$820,654	\$919,715	\$701,592	\$747,046	\$521,446
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$9,518	\$7,775	\$8,133	\$1,444	\$86	\$8,622	n/a
<u>(\$9,518)</u>	<u>(\$7,775)</u>	<u>(\$8,133)</u>	<u>(\$1,444)</u>	<u>(\$86)</u>	<u>(\$8,622)</u>	n/a
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	n/a
\$68,772	\$57,807	\$64,702	\$10,665	\$874	\$87,800	n/a
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	n/a

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OHIO AUDITOR OF STATE KEITH FABER



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
Butler County
1206 Shuler Avenue
Hamilton, Ohio 45011

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, Butler County, (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated February 26, 2019, wherein we noted that the School is facing significant financial difficulties and as of July 1, 2018, the School merged with Richard Allen Academy Community School. We also qualified our opinion on the financial statements because the School's Management Company did not provide adequate documentation to support information provided to the retirement systems, which was used to calculate the School's proportionate share of its net pension liability.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 and 2016-002 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 are described in the accompanying schedule of findings as items 2016-002 through 2016-005.

School'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 subject the School's responses to the auditing procedures applied in the audit of the financial statements 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 report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

February 26, 2019

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016**

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

FINDING NUMBER 2016-001

MATERIAL WEAKNESS

The School's 2016 financial statements reported deferred outflows for pension requirement, net pension liability and deferred inflows for pension requirements on the statement of net position. Additionally, the School reported pension expense on the statement of revenues, expenses and changes in net position as part of purchased services – management fees. These amounts are based on the School's proportionate share of net pension liability accounts for each pension system and changes in proportionate share from one year to next along with any payments made by the School to the pension system subsequent to the measurement date.

Completeness and accuracy of the School's proportionate share of the net pension liability is verified by testing underlying payroll records at the School and verifying that the School is correctly reporting its payroll along with census information to the retirement systems. The School's 2015 audit opinion was qualified because the School's Management Company did not provide auditors with a total payroll listing for all employees or the Management Company's general ledger for the census data engagement. During the current audit the School's Management Company did not provide auditors with their general ledger to reconcile amounts to payroll information that was provided. Additionally, the Management Company's agreed upon procedures report noted variances of \$7,599 and \$2,059 between the employee contribution amounts per the payroll records and employee contributions remitted to the retirement system for State Teachers Retirement System (STRS) and School Employees Retirement System (SERS) respectively. Variances of \$14 and \$1,821 were also noted between calculated employer contributions and employer contribution amounts from the audited schedule of employer allocations for STRS and SERS respectively. This resulted in a scope limitation since we were unable to gain sufficient, competent audit evidence supporting the School's net pension liability and the related deferred outflows and inflows of resources.

The School's Board should review and revisit the management company contract to verify that the Management Company is accountable for complying with all required federal and state requirements. Failure to do so could result in modification of the School's opinion, additional audit cost and actions by the retirement systems against the School.

Official's Response: We did not receive a response from Officials to this finding.

FINDING NUMBER 2016-002

NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Rev. Code § 3314.03(B)(5) requires and AOS Bulletin 2000-005 provides guidance indicating 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.

**FINDING NUMBER 2016-002
(Continued)**

Additionally, in our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements, this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 and .A16. Governmental Accounting Standards Board (GASB) C0d. 1100 paragraph .101 states a governmental accounting system must make it possible to both: (a) present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Due to lack of adequate controls over financial reporting, the following error was noted that was determined to be material and required audit adjustment to the accompanying financial statements:

1. The School improperly included the employee withholdings remitted to the State Teachers Retirement System (STRS) during fiscal year 2016 as Deferred Outflows of Resources: School Contributions Subsequent to the Measurement Date. As a result, Deferred Outflows of Resources: Pension Requirements was overstated by \$111,267 and Operating Expenses: Purchased Services: Management Fees was understated by the same amount.

Additional immaterial errors not requiring audit adjustments in the range of \$11,500 to \$16,182 were also noted and reported to the management in the summary of unadjusted differences.

The School should establish and implement procedures to provide for the integrity of the financial records. Additionally, the amounts in the financial statements, notes to the financial statements and Management's Discussion and Analysis should be supported by appropriate documentation. Failure to establish these procedures could result in inaccurate reporting of the School's activities.

Official's Response: We did not receive a response from Officials to this finding.

FINDING NUMBER 2016-003

NONCOMPLIANCE

Ohio Rev. Code § 2921.42(A) states, in part, 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 2016, Dr. Michelle Thomas served as Secretary of Institute of Management and Resources, Inc. (the Management Company) and as Superintendent of the School. The latest available 2015 Form 990 for the Management Company as filed with the Internal Revenue Service (IRS) listed Michelle Thomas as the highest and only compensated officer making \$150,000 in reportable compensation. Additionally, Section C of the 2015 Form 990 for the Management Company listed Ohio Community School Consultants Ltd, which also served as the Treasurer for the School, as the entity who possessed the Management Company's books and records. The School paid \$1,223,793 to the Management Company during fiscal year 2016.

**FINDING NUMBER 2016-003
(Continued)**

During the March 10, 2016 Board meeting for Richard Allen Schools, Dr. Earl Harris who is the step-father of Dr. Michelle Thomas presented the nomination of the Board Members for the Schools; however, Dr. Earl Harris is not a Board Member nor an employee of the School.

The School's Administration and the Management Company funds were commingled and there were instances where the Management Company benefitted at the expense of the School. The arrangement between the Management Company and the School appears to be in violation of Ohio Rev. Code §2921.42 as the management at the School has 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 implemented 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 will be made to the Ohio Ethics Commission.

Official's Response: See Page 52 for responses.

FINDING NUMBER 2016-004

NONCOMPLIANCE/FINDING FOR RECOVERY

Ohio Rev. Code § 3314.02(E)(5) states that the governing authority of a start-up or conversion community school may provide by resolution for the compensation of its members. However, no individual who serves on the governing authority of a start-up or conversion community school shall be compensated more than one hundred twenty-five dollars per meeting of that governing authority and no such individual shall be compensated more than a total amount of five thousand dollars per year for all governing authorities upon which the individual serves. Each member of the governing authority may be paid compensation for attendance at an approved training program, provided that such compensation shall not exceed sixty dollars a day for attendance at a training program three hours or less in length and one hundred twenty-five dollars a day for attendance at a training program longer than three hours in length.

Additionally, Section 10 of the Richard Allen Academy, Inc.'s original Code of Regulations adopted in 1999 stated that the trustees shall not receive salaries, fees or compensation for their service as trustees or their attendance at any meeting or committee meeting of trustees. However, the Trustees shall be reimbursed for expenses incurred in connection with the performance of their duties.

Ohio Rev. Code § 149.351(A) states, in part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

On March 5, 2019, the School provided auditors with Amended and Restated Code of Regulations that were approved by the Board during the November 2011 meeting. The School was unable to provide a copy of the minutes where the Board approved the Amended and Restated Code of Regulations, which was silent about Board Compensation.

The Governing board was shared by all four Richard Allen Schools during 2016. One board meeting was held to discuss all Schools and the Board kept one set of minutes. Following are the payments received by each Board member from each school:

**FINDING NUMBER 2016-004
 (Continued)**

Alphonse Allen

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	701	726	754	771	795	804
Richard Allen Academy II Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	700	728	760	779	807	816
Richard Allen Academy III Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	700	730	760	779	803	812
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	697	722	752	771	798	810
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board Member Alphonse Allen amounted to \$2,400 from all four Schools.

Dixie Allen

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$0
Check Number	696	721	749	766	790	
Richard Allen Academy II Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$0
Check Number	704	722	755	774	802	
Richard Allen Academy III Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$0
Check Number	694	724	755	774	798	
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$0
Check Number	691	716	747	765	793	
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$0</u>

Total payments made to Board Member Dixie Allen amounted to \$2,000.

**FINDING NUMBER 2016-004
 (Continued)**

Michael Brown

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	700	725	753	770	794	803
Richard Allen Academy II Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	699	727	759	778	806	815
Richard Allen Academy III Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	699	729	759	778	802	811
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	696	721	751	770	797	809
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board Member Michael Brown amounted to \$2,400 from all four Schools.

Gerald Cooper

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	702	727	755	772	796	805
Richard Allen Academy II Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	701	729	761	780	808	817
Richard Allen Academy III Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	701	731	761	780	804	813
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	698	723	753	772	799	811
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board Member Gerald Cooper amounted to \$2,400 from all four Schools.

**FINDING NUMBER 2016-004
 (Continued)**

Laquetta Cortner

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100	\$100	\$0	\$100	\$100
Check Number	697	722	750		791	800
Richard Allen Academy II Community School						
Amount	\$100	\$100	\$100	\$0	\$100	\$100
Check Number	695	723	756		803	812
Richard Allen Academy III Community School						
Amount	\$100	\$100	\$100	\$0	\$100	\$100
Check Number	695	725	756		799	808
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100	\$100	\$0	\$100	\$100
Check Number	692	717	748		794	806
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$0</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board Member Laquetta Cortner amounted to \$2,000.

Wanda Mills

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	704	729	757	774	798	807
Richard Allen Academy II Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	703	731	763	782	810	819
Richard Allen Academy III Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	703	733	763	782	806	815
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	700	725	755	775	801	813
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board Member Wanda Mills amounted to \$2,400.

**FINDING NUMBER 2016-004
 (Continued)**

Lonnie Norwood

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	699	724	752	769	793	802
Richard Allen Academy II Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	697	725	758	777	805	814
Richard Allen Academy III Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	697	727	758	777	801	810
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	694	719	750	769	796	808
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board Member Lonnie Norwood amounted to \$2,400.

Rhonda Ragland

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	703	728	756	773	797	806
Richard Allen Academy II Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	702	730	762	781	809	818
Richard Allen Academy III Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	702	732	762	781	805	814
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	699	724	754	773	800	812
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board Member Rhonda Ragland amounted to \$2,400.

**FINDING NUMBER 2016-004
 (Continued)**

Kelli Vaughn

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	698	723	751	768	792	801
Richard Allen Academy II Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	696	724	757	776	804	813
Richard Allen Academy III Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	696	726	757	776	800	809
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100	\$100	\$100	\$100	\$100
Check Number	693	718	749	768	795	807
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board member Kelli Vaughn amounted to \$2,400.

Mia Wortham - Spells

Meeting Date	<u>9/3/2015</u>	<u>11/12/2015</u>	<u>2/4/2016</u>	<u>3/10/2016</u>	<u>5/19/2016</u>	<u>6/9/2016</u>
Richard Allen Academy Community School						
Amount	\$100	\$100				
Check Number	695	720				
Richard Allen Academy II Community School						
Amount	\$100	\$100				
Check Number	698	726				
Richard Allen Academy III Community School						
Amount	\$100	\$100				
Check Number	698	728				
Richard Allen Preparatory Academy Community School						
Amount	\$100	\$100				
Check Number	695	720				
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Total payments made to Board Member Mia Wortham-Spells amounted to \$800.

FINDING NUMBER 2016-004
(Continued)

In accordance with the forgoing facts, and pursuant to **Ohio Revised Code § 117.28**, a finding for recovery for public money illegally expended in the following amounts is hereby issued against the following individuals and in favor of Richard Allen Academy Community School, Richard Allen Academy II Community School, Richard Allen Academy III Community School, and Richard Allen Preparatory Academy Community School's General Fund:

	Name	Meetings Attended	Total Compensation	Allowable Amount	Overpayment	Finding Amount Per School
1	Alphonse Allen	6	\$2,400	\$750	\$1,650	\$412
2	Dixie Allen	5	2,000	625	1,375	343
3	Michael Brown	6	2,400	750	1,650	412
4	Gerald Cooper	6	2,400	750	1,650	412
5	Laquetta Cortner	5	2,000	625	1,375	343
6	Wanda Mills	6	2,400	750	1,650	412
7	Lonnie Norwood	6	2,400	750	1,650	412
8	Rhonda Ragland	6	2,400	750	1,650	412
9	Kelli Vaughn	6	2,400	750	1,650	412
10	Mia Wortham-Spells	2	800	250	550	137
Total			\$21,600	\$6,750	\$14,850	\$3,707

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

Brian Adams, Treasurer, supervised the accounts from which the improper payments were made. Accordingly, a Finding for Recovery is hereby jointly and severally issued against Brian Adams in the amount of \$14,850 and in favor of the Richard Allen Academy Community School, Richard Allen Academy II Community School, Richard Allen Academy III Community School, and Richard Allen Preparatory Academy Community School's General Fund. Brian Adam's bonding company is the Western Surety Company.

The School should review its community school contract, code of regulation and all applicable policies and implement procedures to verify that it is in compliance with all required provisions of law. Additionally, all public records should be maintained by the School and made available for inspection in case of a public records request. Failure to do so could result in material noncompliance that may result in loss of sponsorship or additional finding for recoveries in future audits.

Official's Response: See Page 53 for responses.

FINDING NUMBER 2016-005

NONCOMPLIANCE

Ohio Rev. Code § 3317.034(D) states that no public school may enroll or withdraw a student from the education management information system established under section 3310.0714 of the Revised Code later than thirty days after the student's actual enrollment or withdrawal from the school.

Due to lack of adequate controls over education management information system, for five out of twenty-five (20%) student withdrawals tested, the School did not withdraw the students in a timely manner after they were provided documentation of the students' enrollment in another school. Four out of the five students were withdrawn one hundred six days after the School received a records release request from another district. The last student was withdrawn one hundred days after the School received a records release request from another district.

The School should establish and implement policies and procedures to verify timely recording and reporting of the School's enrollment in the education management information system. Failure to do so could have a direct impact on School's state funding.

Official's Response: We did not receive a response from Officials to this finding.

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Ohio Rev. Code § 2921.42 (A) – conflict of interest	Not Corrected	Repeated as finding number 2016-003
2015-002	Ohio Rev. Code § 3314.03 (B)(5) and AOS Bulletin 2000-005 – Financial Statement Errors	Not Corrected	Repeated as finding number 2016-002
2015-003	Material Weakness – Scope limitation due to Management Company not providing records	Not Corrected	Repeated as finding number 2016-001

**RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY**

**OFFICIAL'S RESPONSES
JUNE 30, 2016**

FINDING NUMBER 2016-003

In this finding, the Auditor of State (AOS) erroneously identifies an ethics issue where none exist. This is evidenced by the fact that the AOS had made numerous referrals for this same matter to the Ohio Ethics Commission (OEC), and the OEC has repeatedly declined to investigate. Accordingly, these baseless allegations should have been removed from the Audit Report, or at minimum the School's legal arguments should have been addressed therein.

The Audit states that Dr. Earl Harris improperly interfered in the appointment of Governing Authority members. However, this is inaccurate. The Governing Authority of the School is a self-appointing board, and all members were selected, approved and appointed pursuant to the School's Code of Regulations. Furthermore, the AOS suggests that Dr. Michelle Thomas was on both sides of a public contract in violation of R.C. Section 2921.42, because she was the Superintendent of the School and an employee and officer of the School's former management company, the Institute of Management and Resources, Inc. (IMR). However, this interpretation is misguided and relies upon circular reasoning. The management contract at issue in this finding was entered into by the independent Governing Authority of the School, of which Dr. Thomas was not a member. Pursuant to that contract, the management company was responsible for all staffing and administrative services needed for the operation of the School, including the employment of a Superintendent. But for this management contract, Dr. Thomas would have had no role with the School, would not have served as the Superintendent, and would not have been a public official pursuant to state law. Moreover, Dr. Thomas' status as a public official would cease if she were terminated from her position with IMR or if the School's management contract were to be terminated or non-renewed by the independent Governing Authority. R.C. Section 2921.42 is intended to prevent individuals from engaging in self-dealing or authorizing or having an interest in a public contract. Here, Dr. Thomas did neither. Rather, Dr. Thomas has faithfully served in her role as Superintendent pursuant to the management contract between the School and IMR. Thus, we disagree with this finding in its entirety as unsupported by law and fact.

Auditor of State Conclusion: The Richard Allen Schools and the Schools' management company, Institute of Management and Resources (IMR) are managed by the same group of individuals.

Form 990 filed by Institute of Management & Resources, Inc. for the fiscal year ended June 30, 2015 lists Dr. Michelle Thomas as the Secretary and the only compensated employee under "individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees and former such persons." Additionally, as noted in Note 19 to the financial statements, the School switched its management company from Institute of Management and Resources to Educational Management and Development Group during school year 2018. Contrary to the School's claim, Michelle Thomas continues to serve as the Superintendent of the School after the management company contract was terminated.

Similar findings have been reported in prior audits and Ohio Ethics Commission has not indicated that the findings are unfounded. Since the issue has not been corrected, nor has the Auditor received notice from the Ohio Ethics Commission that it has declined to investigate this matter, it has been repeated in accordance with requirements in AU-C 265.

FINDING NUMBER 2016-004

In this finding, the Auditor of State takes issue with the longstanding and common practice of holding multiple public meetings concurrently in order to efficiently address public business and avoid violations of the Open Meetings Act. Effective during the start of fiscal year at issue in this Audit, R.C. Section 3314.02(E)(5) permitted the governing authority members of a community school to receive compensation up to "\$425 *per meeting of that governing authority*" with a maximum compensation limit of "\$5000 per year for all of the governing authorities upon which the individual serves." Effective February 1, 2016, the per meeting amount was reduced to \$125. R.C. Section 121.22 defines a "meeting" as "any [1] prearranged discussion [2] of the public business [3] of the public body [4] by a majority of its members." Read together, neither R.C. Section 121.22 nor Chapter 3314 impose a temporal restriction on holding concurrent meetings or the compensation of governing authority members. Accordingly, Governing Authority members are entitled to compensation for each public meeting, as defined by R.C. Section 121.22, held by the board.

As permitted under R.C. 3314.02(E)(5), individual Governing Authority members served on multiple community school boards, some of which happened to be other Richard Allen schools. Because of this overlapping membership, the Governing Authority's of each school conducted their public meetings concurrent with one another. It is undisputed that meetings of the Governing Authority of all Richard Allen schools constitute (1) prearranged discussions (2) of the public business of all four schools, as noted in the Audit statement "one board meeting was held to discuss all schools," and that (3 & 4) a majority of the Governing Authority members of each school were present. Thus, although each meeting happened simultaneously, four separate meetings took place during those times as defined by the General Assembly. During the Post Audit Meeting, the AOS legal counsel agreed that under the given circumstances, failure to notice a Richard Allen "meeting" as the term is generally used in the finding, would constitute four open meetings violations—one for each of the Richard Allen school—because each board met the statutory definition of a meeting. Therefore, in order to comply with the Open Meetings Act, each School's Governing Authority meeting was individually noticed, and meetings were held concurrently. Each School also kept individual meeting minutes that reflected the specific action taken by that school during the meeting. (We note that the Auditor of State inaccurately asserts that "the Board kept one set of minutes" for all four concurrently held meetings, despite the School's provision of evidence that this was not in-fact the case.) Thus, pursuant to R.C. 3314.02(E)(5) the Governing Authority members were entitled to compensation for each of the four statutory meetings of the board that they attended, regardless of whether those meetings were held concurrently or on separate occasions. The Auditor's new position on this issue exceeds the statutory requirements, and may constitute improper rulemaking and imposes a burden on the School that did not exist during the fiscal year relevant to this Audit.

We further take issue with the process by which the Auditor of State went about issuing this finding for recovery. Prior to the initial drafting of this Audit, the School's legal counsel provided details relating to this finding that went unaddressed. Later, the initial draft audit report suggested that the cause of the finding was language contained in what can only be assumed to be an out-of-date version of the Schools' Codes of Regulations; however, upon supplying the AOS with the correct version of the Schools' Codes of Regulations, the reasoning for this finding was revised to take issue with the Schools' practice of holding concurrent meetings. Despite this mid-audit revision, the Auditor refused to engage with the School or its legal counsel, to review materials supporting the School's position as it related to the revised finding, or to address the School's arguments in any meaningful or good faith way. It is therefore the position of the School that this finding is unreasonable, contrary to law and fact, and should be removed.

**FINDING NUMBER 2016-004
(Continued)**

Auditor of State Conclusion: The Schools' website <https://www.richardallenschools.com/> presents the Schools as one School District with multiple campuses. The same Board Members govern all four Schools. There is little to no separation of Schools in the minutes and the minutes consistently refer to Richard Allen School District. For example, the June 2016 Meeting lasted thirty five minutes in duration, in which there were no separate motions or approvals to indicate separate Boards, or separate meetings. All meeting minutes discussed the District generally. Additionally, the September 2015 minutes document Dr. Thomas reporting that the District has 702 students enrolled as of August. The minutes produced for each School were identical in content, with only the header of each School name changed.

Auditor of State's Position is that only one meeting was held based on the minute record, and in accordance with Ohio Rev. Code § 3314.02(E)(5), the compensation was limited to one hundred and twenty-five dollars per meeting. A finding for recovery has been issued for excessive payments. As noted in the finding, the School provided Auditor of State with a copy of revised code of regulations; however, it could not provide the auditors with the copy of meeting minutes to support that the code of regulations were ever revised or adopted.

Furthermore, Auditor of State carefully considered and evaluated all support provided by the Schools and their legal counsel from November through present, in which the School was unable to provide meeting minutes to support separate meetings. The finding for recovery was revised and reduced significantly based on evidence provided; however, the School was unable to provide any additional substantive evidence that would require Auditor of State to remove the finding.

OHIO AUDITOR OF STATE KEITH FABER



RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

BUTLER 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 30, 2019**