RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Dave Yost • Auditor of State

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY

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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 Richard Allen Academy III Community School, Butler County, Ohio (the School), as of and for the year ended June 30, 2015, 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 overall financial statement presentation.

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

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Basis for Qualified Opinion

The School's Management Company did not provide a total payroll listing for all employees or 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, 87 percent, 100 percent and 13 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 effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Richard Allen Academy III Community School, Butler County, Ohio (the School), as of and for the year ended June 30, 2015,and the respective 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

As discussed in Note 18 to the financial statements, during the year ended June 30, 2015, the School adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

The School had a net deficit at June 30, 2015 and as disclosed in Note 14, the School borrowed money in 2004 to meet its operating needs. The note was due by June 30, 2009 and is still outstanding. Management's plan in regard to this matter is described in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 January 10, 2017, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

January 10, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Our discussion and analysis of Richard Allen Academy III Community School (the School) financial performance provides an overall review of the Schools' financial activities for the fiscal year ended June 30, 2015. 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 2015 are as follows:

- Total Net Position decreased $16,548 from 2014.
- Total liabilities decreased $366,594, or 13.4%, while total assets increased $6,597, or 35.4% from 2014.
- Total revenue decreased from $1,608,363 in fiscal year 2014 to $1,470,020 in fiscal year 2015, a 9% decrease.
- Total expenses decreased from $1,622,416 in fiscal year 2014 to $1,486,568 in fiscal year 2015, a 9% decrease from 2014.

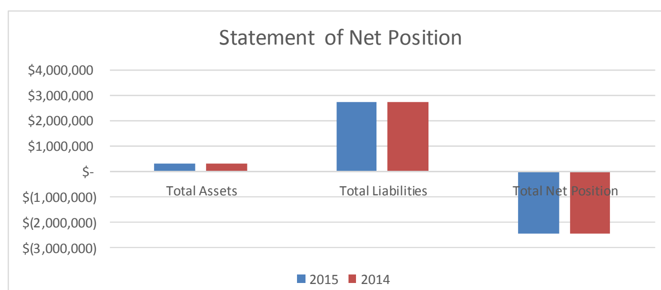
Using this Financial Report

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 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 2015. This statement includes all assets deferred inflows of resources and liabilities deferred outflows 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.



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

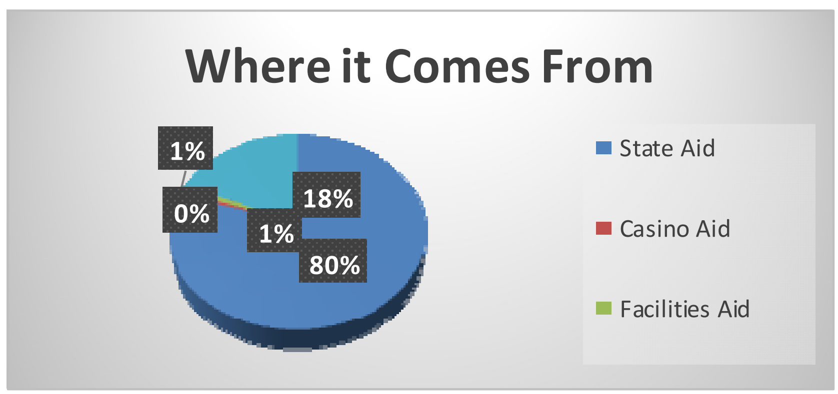
Table 1 provides a summary of the School's Net Position as of June 30, 2015 compared to the prior year.

(Table 1)
Statement of Net Position

	2015	Restated 2014
Assets:		
Current Assets	$25,226	$18,629
Non-Current Assets,		
Total Assets	25,226	18,629
Deferred Outflows:		
Pension Requirements	276,420	285,956
Liabilities:		
Current Liabilities	210,641	183,736
Non-Current Liabilities	2,161,223	2,554,722
Total Liabilities	2,371,864	2,738,458
Deferred Inflows		
Pension Requirements	380,203	-
Net Position		
Unrestricted	(2,450,421)	(2,433,873)
Total Net Position	($2,450,421)	($2,433,873)

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal year 2015, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the school as a whole, the financial position of the school has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.



Total assets increased in 2015 due to increased receivables. Liabilities decreased by $366,594, and Net Position decreased by $16,548 in 2015. Liabilities decreased primarily due to the decrease in net pension liability.

Table 2 shows change in Net Position for fiscal year 2015 compared with fiscal year 2014.

(Table 2)
Change in Net Position

	2015	2014
Operating Revenue:		
State Aid	$1,207,652	$1,311,070
Casino Aid	8,719	9,378
Facilities Funding	14,809	16,750
Other Operating Revenue	95	585
Non-Operating Revenue:		
Federal and State Grants	238,745	270,580
Total Revenues	1,470,020	1,608,363
Operating Expenses:		
Purchased Services	1,392,295	1,525,792
Sponsorship Fees	36,360	39,332
Legal	19,122	11,536
Auditing and Accounting	20,562	36,487
Board of Education	8,799	6,591
Other Operating Expenses	9,430	189
Non-Operating Expenses:		
Loss on Disposition of Assets		2,489
Total Expenses	1,486,568	1,622,416
Change in Net Position	($16,548)	($14,053)

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 98% of all revenues for the School in fiscal year 2015. Revenues decreased due to the reduced 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.

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.

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $(261,516) to $(2,433,873).

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of $223,040 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of $189,954. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	$1,486,568
Pension expense under GASB 68	(189,954)
2015 contractually required contribution	206,297
Adjusted 2015 program expenses	1,502,911
Total 2014 program expenses under GASB 27	1,622,416
Decrease in program expenses not related pension	($119,505)

Budgeting Highlights

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the School's capital assets were fully depreciated (see note 4).

Debt

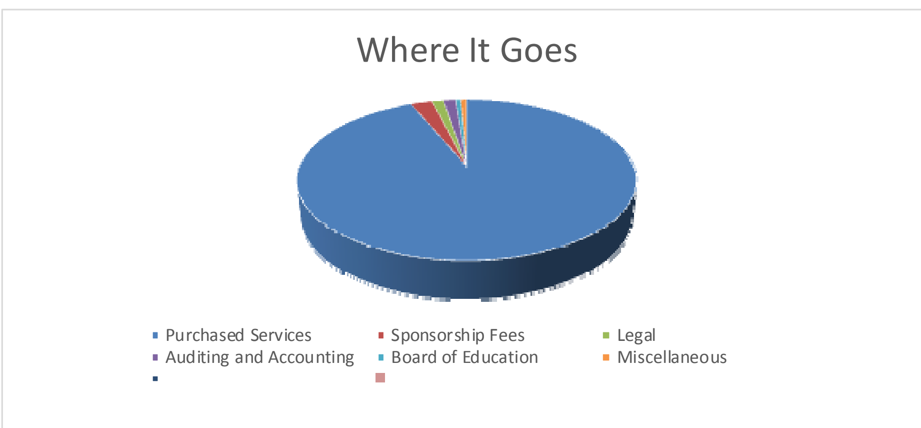
At June 30, 2015, the School had $ 96,409 in notes payable. See Note 14.

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 2015. But, future revenue increases are cautious due to Ohio's weak economic recovery.

Contacting the School's Financial Management

This financial report is designed to provide all citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Brian G. Adams, CFO, Richard Allen Academy III Community School, 1206 Shuler Avenue, Hamilton, Ohio 45011.



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RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY

STATEMENT OF NET POSITION
JUNE 30, 2015

Assets:	
Current Assets:	
Cash and Cash Equivalents	$789
Intergovernmental Receivable	24,437
Total Assets	25,226
Deferred Outflows:	
Pension Requirements	276,420
Liabilities:	
Current Liabilities:	
Accounts Payable-Vendor	7,318
Accounts Payable-IMR	62,956
Payroll Requirement Due	140,367
Total Current Liabilities	210,641
Non-Current Liabilities:	
Notes Payable	96,409
Net Pension Liability	2,064,814
Total Non-Current Liability	2,161,223
Total Liabilities	2,371,864
Deferred Inflows:	
Pension Requirements	380,203
Net Position:	
Unrestricted	(2,450,421)
Total Net Position	($2,450,421)

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, 2015

Operating Revenues:	
State Foundation	$1,207,652
Casino Aid	8,719
Facilities Funding	14,809
Other Operating	95
Total Operating Revenues	1,231,275
Operating Expenses:	
Purchased Services	1,392,295
Sponsorship Fees	36,360
Legal	19,122
Auditing and Accounting	20,562
Board of Education	8,799
Other Operating Expenses	9,430
Total Operating Expenses	1,486,568
Net Operating Income (Loss)	(255,293)
Non-Operating Revenue/(Expenses)	
Federal and State Grants	238,745
Total Non-Operating Revenue/(Expenses)	238,745
Change in Net Position	(16,548)
Net Position Beginning of Year - Restated	(2,433,873)
Net Position End of Year	($2,450,421)

See accompanying notes to the basic financial statements.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	$1,235,550
Cash Received from Other Operating Activities	95
Cash Payments to Suppliers for Goods and Services	(1,473,685)
Net Cash Used For Operating Activities	(238,040)
Cash Flows from Non-Capital Financing Activities:	
Cash Received from Federal and State Grants	234,112
Net Cash Provided by Noncapital Financing Activities	234,112
Net Increase in Cash and Cash Equivalents	(3,928)
Cash and Cash Equivalents Beginning of Year	4,717
Cash and Cash Equivalents End of Year	$789
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($255,293)
Changes in Assets and Liabilities:	
Intergovernmental Receivable	(5,891)
Accounts Payable	26,904
Net Pension Liability	(393,499)
Deferred Outflows	9,536
Deferred Inflows	380,203
Net Cash Used For Operating Activities	($238,040)

See accompanying notes to the basic financial statements.

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1. DESCRIPTION OF THE ENTITY

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

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

The School entered into a Sponsor Contract with the Ohio Department of Education (ODE) on July 1, 2013 for a two-year period with the term 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 10-member Board. The School's Code of Regulations specifies that vacancies that arise on the Board be filled by the appointment of a successor trustee by a majority vote of the then existing trustees. The Board is responsible for carrying out the provisions of the contract with the Sponsor which includes but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School's enrollment of 165 FTE students for fiscal year 2015 represents a decrease of 18 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, changes in Net Position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus/Basis of Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. The School did not have any investments during fiscal year 2015.

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 2015, the School's capital assets are fully depreciated (see note 4).

F. Intergovernmental Revenues

The School currently participates in the state foundation. Revenues received from this program is recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2015 school year totaled $1,446,397.

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, 2015.

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 investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net Position is 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 is 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report 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 financial position report 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, 2015, the book amount of the School's deposits was $789 and the bank balance was $1,375.

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, 2015 or during the fiscal year.

4. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2015, follows:

	Balance 06/30/14	Additions	Deletions	Balance 06/30/15
Capital Assets Being Depreciated:				
Equipment	$48,143			$48,143
Furniture	1,500			1,500
Total Capital Assets Being Depreciated	49,643			49,643
Less Accumulated Depreciation:	(49,643)			(49,643)
Net Total Capital Assets	$0	$0	$0	$0

5. RECEIVABLES

At June 30, 2015, the school has intergovernmental receivables in the amount of $ 24,437. 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, 2015, but the cash was not received by year end.

6. ACCOUNTS PAYABLE

At June 30, 2015, the school had accounts payable totaling $70,274. $62,956 is due to IMR, and $7,318 is due various vendors during the normal course of conducting operations.

7. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. For fiscal year 2015, the School contracted with WRM America and Cincinnati Specialty Underwriters for business personal property and general liability insurance. General liability coverage provides $1,000,000 per occurrence and s/b $3,000,000 in the aggregate with no 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, however, there has been reductions in insurance coverage from the prior year.

B. Employee Insurance Benefits

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

8. DEFINED BENEFIT PENSION PLANS

A. 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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

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.

B. 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.

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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School's contractually required contribution to SERS was $11,297 for fiscal year 2015.

C. 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. 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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

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, 2015, plan members were required to contribute 12 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 2015 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was $195,000 for fiscal year 2015.

D. 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, 2014, 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:

	STRS	SERS	Toal
Proportionate Share of the Net Pension Liability	$1,985,711	$79,103	$2,064,814
Proportion of the Net Pension Liability	0.00816377%	0.00156300%	
Pension Expense	$162,173	$27,781	$189,954

At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

8. DEFINED BENEFIT PENSION PLANS (Continued)

	STRS	SERS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$19,117	$673	$19,790
Changes in proportionate share		50,333	50,333
School contributions subsequent to the measurement date	195,000	11,297	206,297
Total Deferred Outflows of Resources	$214,117	$62,303	$276,420
Deferred Inflows of Resources:			
Net difference between projected and actual earnings on pension plan investments	$367,364	$12,839	$380,203

$206,297 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	STRS	SERS	Total
2016	($87,062)	$9,542	($77,520)
2017	(87,062)	9,542	(77,520)
2018	(87,062)	9,542	(77,520)
2019	(87,061)	9,541	(77,520)
Total	($348,247)	$38,167	($310,080)

E. 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, 2014, are presented below:

8. DEFINED BENEFIT PENSION PLANS (Continued)

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3.00 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.

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
	100.00 %	

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.

8. DEFINED BENEFIT PENSION PLANS (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share Of the net pension liability	$112,856	$79,103	$50,713

F. Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75percent
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)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2.00 percent per year, for members retiring August 1, 2013, or later, 2.00 percent COLA pair 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 no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, 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:

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
	100.00 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

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	$2,842,762	$1,985,711	$1,260,935

9. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description – On behalf of the School, IMR 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.

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 2015, 0.82 percent of covered payroll was allocated to health care. 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 2015, this amount was $20,450. 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, 2015, 2014, and 2013 were $605, $569 and $110, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

9. POST-EMPLOYMENT BENEFITS (Continued)

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 2015, 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, 2015, 2014, and 2013 were $0, $14,891 and $14,430, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

10. MANAGEMENT COMPANY AGREEMENTS

In October 2013, the school has 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 grants. The Board has also hired its own Treasurer to oversee payments to IMR and to assist it with financial oversight. The table below shows the management company expenses for fiscal year 2015.

	2015
Expenses:	
Direct:	
Salary & Wages	$937,370
Benefits	6,883
Food Service	5,827
Health Insurance	59,583
Property & Casualty Insurance, Workers Comp.	21,421
Professional & Legal Services	833
Purchased Services	62,820
Repairs & Maintenance	20,453
Supplies/ Postage/ Printing	1,626
Telephone/Networking	428
Utility	42,017
Indirect Expenses:	
Overhead	225,720
Total Expenses	$1,384,981

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

On October 18, 2010, the Institute of Management and Resources, Inc. ("IMR"), the management company of the School, filed a complaint for declaratory judgment and injunctive relief against the School, as well as the Auditor of State and Attorney General regarding findings for recovery issued by the Auditor in favor of the School.

Institute of Management and Resources, Inc. v. Richard Allen Academy, Inc., et al.
Montgomery County, Ohio Court of Common Pleas: Case No. 2015 CV 05722

On October 29, 2015, the Institute of Management and Resources, Inc. ("IMR"), the management company of the School, filed a complaint seeking reformation in equity of Section 3 of the management agreements between IMR and the Schools that were in effect from July 1, 2009 through January 20, 2012.

On January 8, 2016, the Court entered an Agreed Order of Reformation, reforming Section 3 of the management agreements in accord with the text of the second series of addenda and states that the reformation shall be effective July 1, 2009, through January 21, 2012. However, on March 7, 2016, the Auditor of State and the Attorney General (together, the "State") filed a motion to intervene, contending that they have an interest in this matter and seeking leave to file a motion for relief from judgment. IMR and the Schools timely filed a memorandum in opposition, to which the state replied. On May 18, 2016, the Court sustained the State's Motion to Intervene and deemed the State's Motion for Relief from Judgment filed on that date. IMR and the Schools are in the process of preparing a Memorandum in Opposition to the same.

The outcome of this case will have a material impact on the financial statements of the School, the exact amount of which is not know at this time.

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 2015, all of which are managed by the Institute of Management and Resources, Inc (IMR). Total compensation to Board members was $4,700. 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 no 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 also pays IMR one hundred percent (100%) of grant Revenues. See Note 10. The School has a note payable due to ICMR and West Park Academy. (See Note 14). Both these entities are related to IMR.

14. NOTES PAYABLE

The following is a summary of the note activity for the School at June 30, 2015:

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

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 2015.

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, upon written notice to the School. West Park Academy determined no interest will accrue on this loan in 2015.

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, 2015.

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. As of the date of this report, ODE has not finalized the impact of FTE adjustments to the June 30, 2015 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

16. SPONSOR

On July 1, 2015, the School entered into a five-year Sponsorship contract with the Ohio Department of Education (ODE) in return for three percent (3%) of all funds received by the School from the State of Ohio foundation payments. Sponsor fee expense at June 30, 2015 totaled $36,360. 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.

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, 2015, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68.*

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the full-accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the School.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported.

Net Position June 30, 2014	($261,516)
Deferred Outflows of Resources	285,956
Net Pension Liability	(2,458,313)
Restated Net Position, July 1, 2014	($2,433,873)

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

19. PURCHASED SERVICES

For the period July 1, 2014 through June 30, 2015, purchased service expenses were for the following services:

Management Services	$1,185,998
Certified Retirement	11,297
Non-Certified Retirement	195,000
Total	$1,392,295

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

	2014	2013
State Teachers Retirement System (STRS)		
School's proportion of the net pension liability (asset)	0.00816377%	0.00816377%
School's proportionate share of the net pension liability (asset)	$ 1,985,711	$ 2,365,366
School's covered-employee payroll	$ 1,489,085	$ 1,443,038
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	133.35%	163.92%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%
School Employees Retirement System (SERS)		
School's proportion of the net pension liability (asset)	0.00156300%	0.00156300%
School's proportionate share of the net pension liability (asset)	$ 79,103	$ 92,947
School's covered-employee payroll	$ 212,547	$ 68,772
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	37.22%	135.15%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY

Required Supplementary Information
Schedule of the School's Contributions
Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
State Teachers Retirement System (STRS)										
Contractually Required Contribution	$ 195,000	$ 193,581	$ 187,595	$ 121,535	$ 106,685	$ 119,563	$ 91,207	$ 97,116	$ 67,788	$ 80,791
Contributions in Relation to the Contractually Required Contribution	(195,000)	(193,581)	(187,595)	(121,535)	(106,685)	(119,563)	(91,207)	(97,116)	(67,788)	(80,791)
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
School's covered-employee payroll	$ 1,392,857	$ 1,489,085	$ 1,443,038	$ 934,885	$ 820,654	$ 919,715	$ 701,592	$ 747,046	$ 521,446	$ 621,469
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
School Employees Retirement System (SERS)										
Contractually required contribution	$ 11,297	$ 29,459	$ 9,518	$ 7,775	$ 8,133	$ 1,444	$ 86	$ 8,622	n/a	n/a
Contributions in relation to the contractually required contribution	(11,297)	(29,459)	(9,518)	(7,775)	(8,133)	(1,444)	(86)	(8,622)	n/a	n/a
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	n/a	n/a
School's covered-employee payroll	$ 85,713	$ 212,547	$ 68,772	$ 57,807	$ 64,702	$ 10,665	$ 874	$ 87,800	n/a	n/a
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	n/a	n/a

n/a - Information prior to 2008 is not available.

Dave Yost · Auditor of State

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, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 10, 2017, wherein we noted the School adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting in Pensions – an amendment of GASB Statement No. 27* and Government Accounting Standards Board Statement No. 71, *Pension Transaction for Contributions Made Subsequent to the Measurement Date*. We 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. We also noted that the School is facing significant financial difficulties.

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 2015-002 and 2015-003 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 2015-001 and 2015-002.

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 audit the School's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State
Columbus, Ohio

January 10, 2017

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2015

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

FINDING NUMBER 2015-001

NONCOMPLIANCE

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

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

During fiscal year 2015, Michelle Thomas served as Secretary of Institute of Management and Resources, Inc (the Management Company) and as Superintendent of the School. The School electronically transferred $1,155,206 to the Management Company during fiscal year 2015.

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 is also 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 in place to detect and appropriately address any conflict of interest. Failure to do so could result in the School entering into contracts that might not be in the best interest of the School or the attending students. A referral will be made to the Ohio Ethics Comm.

Official's Response:

See page 39.

FINDING NUMBER 2015-002

MATERIAL WEAKNESS/ NONCOMPLIANCE

Ohio Revised Code Section 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.

The following errors were noted that required adjustment to the financial statements:

-2015 Statement of Cash Flows:

1. The School overstated cash payment to suppliers for goods and services by $159,157. The School also overstated cash and cash equivalents beginning of year by $384,855. This resulted in the cash and cash equivalents at end of year being overstated by $225,698 on the statement of cash flows. Additionally adjustments to reconcile operating loss to net cash used for operating activities was not properly presented and required significant changes.

FINDING NUMBER 2015-002
(Continued)

-2015 Statement of Net Position:

1. Deferred outflows were understated by $175,000 while purchased services expense was understated on the Statements of Revenues, Expenses, and Changes in Net Position, by the same amount due to a typographical error made in the calculation of GASB 68.

2. The School presented a deficit of $2,496,789 in net position as retained earnings instead of unrestricted net position.

The following errors noted in the financial statements, were determined to be immaterial and did not require an audit adjustment:

1. The School recorded $24,173 in intergovernmental receivable related to overpayments made to SERS and STRS. However, in accordance with its management company agreement, the School failed to record 94% of this receivable amount as accounts payable - IMR. This resulted in the purchased services expense and accounts payable - IMR being understated by $22,723.
2. The School reported $11,500 in notes payable due to West Park Academy for capital acquisition. The loan amount should have been reported as net investment in capital assets under net position in the Statement of Net Position. However, the School reported the entire amount as unrestricted net position. This resulted in an understatement of unrestricted net position and overstatement of net investment in capital assets.

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

Official's Response:

See page 39.

FINDING NUMBER 2015-003

MATERIAL WEAKNESS

During 2015, the Richard Allen Academy Community School was selected by School Employees Retirement System's (SERS) auditors as one of the schools in the State of Ohio for an examination of the completeness and accuracy of census data reported to the retirement system. The results of the testing were used by the SERS auditors to gain assurance that the census data reported by employers across the state was complete and accurate. Gaining the necessary assurances regarding the completeness and accuracy of the census data is essential since the census data is used by SERS and its actuaries to calculate the plan's net pension liability and the proportionate share for each employer contributing to the retirement system.

FINDING NUMBER 2015-003
(Continued)

The School's Management Company did not provide auditors with a total payroll listing for all employees or the Management Company's general ledger. This resulted in a scope limitation and inability of the School's auditors to provide an opinion on the accuracy and completeness of the census data the School reported to the retirement system. Additionally, without access to the necessary records, we were unable to gain the necessary assurances that all employees were properly enrolled in the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS), and the contributions amount reflected in the schedule of employer allocations accurately reflected the School's contributions. Since the School's proportionate share of the net pension liability and the related deferred outflows of resources, deferred inflows of resources and pension expense are based on the School's employer contributions, we were unable to gain sufficient, competent audit evidence supporting these amounts as reported in the financial statements.

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:

See page 40.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2014-001	Ohio Rev. Code § 2921.42(A) – conflict of interest	No	Repeated as finding number 2015-001
2014-002	§10 of the Management Company Agreement - Over-payments to Retirement Systems was utilized to pay the Management Company employee’s share of retirement	Yes	
2014-003	Ohio Rev. Code § 3314.03(B)(5) - Financial Statement Errors	No	Repeated as finding number 2015-002

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL
BUTLER COUNTY

OFFICIAL'S RESPONSES
JUNE 30, 2015

FINDING NUMBER 2015-001

Official's Response: We disagree with this finding and it should be removed in its entirety. To begin, note 10 states that the School pays the management company" 94% of State revenues and 100% of federal grants". This contract is no different than other contracts used by EMOs around the state. In such arrangements, EMO officials serve as officials of the school holding titles such as Superintendent, Treasurer, etc… Furthermore, the Finding is inaccurate. Dr. Thomas was not the secretary of IMR, nor was she an officer or director of the corporation. Dr. Thomas is simply an employee of the management company who, pursuant to the agreements between IMR and the Schools, serves as the school's chief administrator, overseeing its day-to-day operations. While performing services at the school, pursuant to the management agreement, she goes by the title of "Superintendent." This is simply the title by which students, staff, parents, vendors and guests of the school refer to her. She is not an employee of the school, nor does she receive any compensation directly from the school for the services she renders as "Superintendent." To the contrary, the only compensation that Dr. Thomas receives for the services she provides to the school is from IMR pursuant to her employment contract with the EMO. The AOS has raised similar issues in past audits and has referred this arrangement to the Ohio Ethics Commission on several occasions. However, to date, no state agency has found Dr. Thomas' title or relationship with the school to be unethical, illegal or otherwise impermissible. To infer breaking of the law by citing ORC 2921.42 (A) is highly inflammatory and prejudicial against the Board and Ms. Thomas. In reviewing audits of similar schools with similar contracts, the AOS does not site such a finding even when private litigation against the EMO has found irregularities. Accordingly, we believe that the AOS is treating both Dr. Thomas and the school in a disparate manner.

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

Overpayments made to the Management Company during fiscal year 2013, 2014 and 2015 have been reported as accounts receivable – IMR by the Schools. Additionally, form 990 filed by I MR for the fiscal year ended June 30, 2015 listed 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.

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

FINDING NUMBER 2015-002

Official's Response: In the document originally submitted for audit, there were formula transpositions that led to the errors stated. The school will ensure that the compiler does not have these errors in future submissions.

FINDING NUMBER 2015-003

Official's Response: This finding should be removed in its entirety. All GASB 68 calculations are based upon a formula calculation given to the school from the retirement system. As such, all amounts posted for Deferred inflows, Deferred Outflows, and Net Pension liabilities are estimates (refer to note 11). The School hired an outside CPA to calculate the effects of the pronouncement. However, the AOS disagreed with those calculations and the corrections have been posted to the financial statements. Given the complexity and the newness of this pronouncement, any disagreements relative to their calculations should be put on the ML letter. All items specified in this finding are moot as the retirement systems has been given an unqualified opinion. Any amounts flowed through to the school from the retirement systems have been corrected by the AOS. Thus, any errors (if any) on the school's books are immaterial.

Furthermore, we feel that the qualification on our statements should be removed. As previously stated all adjustments relative to calculation errors have been posted to the school's financial statements. The restatement of findings from the special audit have no bearing on the accuracy of these statements as all corrections have been posted to these statements.

Auditor of State Conclusion The School did not provide auditors with access to payroll and personnel records. As a result, we were unable to determine whether the amount reflected as the School's contributions in the schedule of employer allocations accurately reflected the School's contributions. Since this amount is used to determine the proportionate share reported by the pension systems for the School, we were unable to gain the necessary assurances over the proportionate share of the net pension liability, related deferred outflows of resources, deferred inflows of resources and pension expense.

RICHARD ALLEN ACADEMY III COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 9, 2017