



OHIO AUDITOR OF STATE  
**KEITH FABER**





**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY  
JUNE 30, 2017**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Prepared by Management:	
Management's Discussion and Analysis .....	5
Basic Financial Statements:	
Statement of Net Position .....	11
Statement of Revenues, Expenses and Changes in Net Position .....	12
Statement of Cash Flows .....	13
Notes to the Basic Financial Statements .....	15
Required Supplementary Information:	
Schedule of the School's Proportionate Share of the Net Pension Liability .....	35
Schedule of School's Contributions .....	36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	39
Schedule of Findings .....	41
Prepared by Management:	
Summary Schedule of Prior Audit Findings .....	53
Official's Responses .....	54

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## INDEPENDENT AUDITOR'S REPORT

Richard Allen Academy II Community School  
Montgomery County  
184 Salem Avenue  
Dayton, Ohio 45406

To the Governing Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Richard Allen Academy II Community School, Montgomery County, Ohio (the School), as of and for the fiscal year ended June 30, 2017, 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 or an Agreed Upon Procedures Report on the Management Company's expenses for the School. 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, 85 percent, 100 percent and 6 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 II Community School, Montgomery County, Ohio, as of June 30, 2017, and the changes in financial position and cash flows thereof for the fiscal 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, the School merged with Richard Allen Preparatory Academy Community School on June 1, 2018 and ceased operations as an independent community school. We did not modify our opinion regarding 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 December 6, 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.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber  
Auditor of State  
Columbus, Ohio

December 6, 2019

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**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)**

Our discussion and analysis of Richard Allen Academy II Community School (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2017. 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**

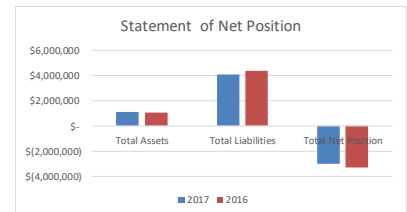
Key financial highlights for fiscal year 2017 are as follows:

- Total net position increased \$303,719 from 2016.
- Total liabilities decreased \$92,475 or 2.9% while total assets decreased \$153,465 or 18.6% from 2016.
- Total revenue decreased from \$3,032,534 in fiscal year 2016 to \$2,668,659 in fiscal year 2017, a 12% decrease.
- Total expenses decreased from \$2,862,991 in fiscal year 2016 to \$2,364,940 in fiscal year 2017, a 17.4% decrease.
- Net pension liability increased \$38,842 and deferred Inflows decreased by \$153,500 and deferred outflows increased \$211,209.

**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 2017. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.



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

The School uses enterprise presentation for all of its activities.

**Statement of Net Position**

The Statement of Net Position answers the question of how the School did financially during 2017. This statement includes all assets, deferred outflows of resources, 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 II COMMUNITY SCHOOL  
MONTGOMERY COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)**

Table 1 provides a summary of the School's Net Position as of June 30, 2017 compared to the prior year.

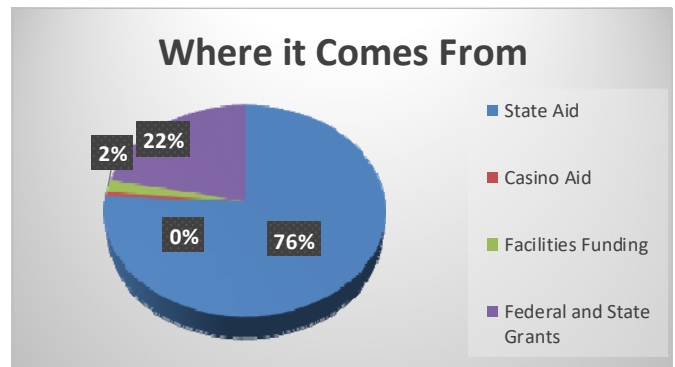
(Table 1)  
**Statement of Net Position**

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current Assets	\$ 672,696	\$ 826,161
<b>Deferred Outflows</b>		
Pension Requirements	441,469	230,260
<b>Liabilities</b>		
Current Liabilities	87,775	595,335
Long Term Liabilities	2,962,878	2,547,793
Total Liabilities	3,050,653	3,143,128
<b>Deferred Inflows</b>		
Pension Requirements	1,064,242	1,217,742
<b>Net Position</b>		
Unrestricted	(3,000,730)	(3,304,449)
Total Net Position	\$(3,000,730)	\$(3,304,449)

Total assets decreased in 2017 by \$153,465 due to decrease in receivables. Liabilities decreased by \$92,475 and net position increased \$303,719 in 2017. Liabilities decreased primarily due to decreased accounts payable.

**Statement of Revenues, Expenses and Changes in Net Position**

Table 2 shows the changes in Net Position for fiscal year 2017, 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.



**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)**

Table 2 shows change in Net Position for fiscal year 2017 compared with fiscal year 2016.

(Table 2)

**Change in Net Position**

	<b>2017</b>	<b>2016</b>
<b>Operating Revenue</b>		
State Foundation	\$2,022,727	\$2,332,604
Casino Aid	14,209	16,067
Facilities Funding	52,314	46,359
Other Operating Revenue	-	753
<b>Non-Operating Revenue</b>		
Federal and State Grants	579,409	636,751
Total Revenues	2,668,659	3,032,534
 <b>Operating Expenses</b>		
Purchased Services	2,163,359	2,631,037
Sponsorship Fees	60,869	69,738
Legal	37,286	8,331
Auditing and Accounting	42,618	42,951
Board of Education	4,449	5,833
Miscellaneous	36	121
<b>Non-Operating Expenses</b>		
Interest and Fiscal Charges	56,323	104,980
Total Expenses	2,364,940	2,862,991
 Change in Net Position	 \$ 303,719	 \$ 169,543

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 97.5% of all revenues for the School in fiscal year 2017. 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 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

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)**

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. Under GASB 68, pension expense represents additional amounts owed, adjusted by deferred inflows and outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2017 statements report pension expense of (\$131,817).

***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 2017, the School's capital assets were fully depreciated.

**Debt**

At June 30, 2017, the School had \$449,139 in notes payable. See Note 15.

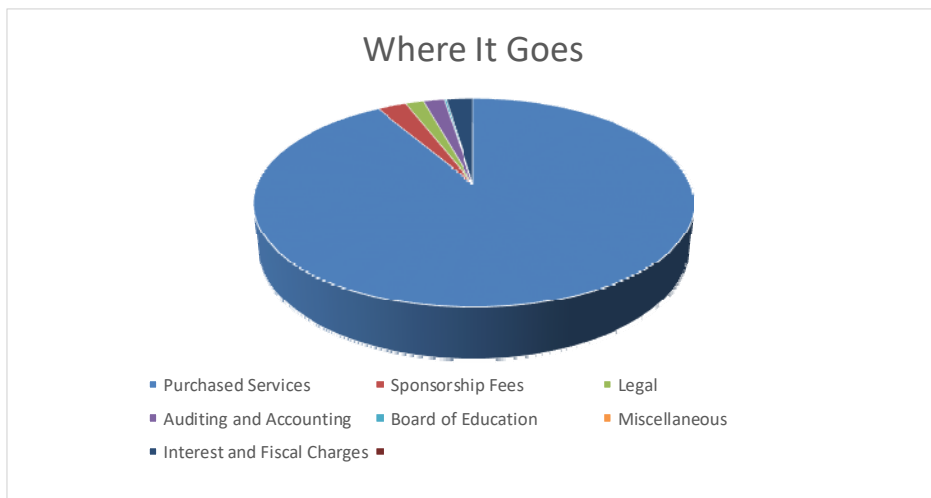
**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017  
(UNAUDITED)**

**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 263 students as of December 2017. 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 II Community School, 118 West First Street, Suite 620, Dayton, Ohio 45402.



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**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF NET POSITION  
JUNE 30, 2017**

**ASSETS**

Current Assets

Cash and Cash Equivalents	\$	1,000
Accounts Receivable - IMR		620,022
Intergovernmental Receivable		42,718
Security Deposits		8,956
		8,956

<b>Total Assets</b>		672,696
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**DEFERRED OUTFLOWS**

Pension Requirements		441,469
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**LIABILITIES**

Current Liabilities

Accounts Payable-Vendor		8,715
Intergovernmental Payable		6,164
Notes Payable		72,896
		72,896

Total Current Liabilities		87,775
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Non-Current Liabilities

Net Pension Liability		2,586,635
Notes Payable		376,243
		376,243

Total Long Term Liabilities		2,962,878
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<b>Total Liabilities</b>		3,050,653
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**DEFERRED INFLOWS**

Pension Requirements		1,064,242
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**NET POSITION**

Unrestricted		(3,000,730)
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<b>Total Net Position</b>		\$ (3,000,730)
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See accompanying notes to the basic financial statements

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

<b>OPERATING REVENUES</b>	
State Foundation	\$ 2,022,727
Casino Aid	14,209
Facilities Funding	<u>52,314</u>
<b>Total Operating Revenues</b>	<u>2,089,250</u>
<b>OPERATING EXPENSES</b>	
Purchased Services: Management Fees	1,583,950
Purchased Services: Grant Programs	579,409
Sponsorship Fees	60,869
Legal	37,286
Auditing and Accounting	42,618
Board of Education	4,449
Miscellaneous	<u>36</u>
<b>Total Operating Expenses</b>	<u>2,308,617</u>
<b>Net Operating Income (Loss)</b>	<u>(219,367)</u>
<b>NON-OPERATING REVENUE/(EXPENSES)</b>	
Federal and State Grants	579,409
Interest and Fiscal Charges	<u>(56,323)</u>
<b>Total Non-Operating Revenue/(Expenses)</b>	<u>523,086</u>
<b>Change in Net Position</b>	303,719
<b>Net Position Beginning of Year</b>	<u>(3,304,449)</u>
<b>Net Position End of Year</b>	<u><u>\$ (3,000,730)</u></u>

See accompanying notes to the basic financial statements



**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from State of Ohio	\$ 2,105,389
Cash Payments to Suppliers for Goods and Services	<u>(2,715,870)</u>
Net Cash Used For Operating Activities	<u>(610,481)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash Received from Federal and State Grants	656,731
Cash Received from Notes Payable	455,000
Cash Received from Line of Credit	782,200
Cash Payments on Line of credit	(1,208,800)
Cash Payment on Notes Payable	(18,361)
Cash Payments for Interest and Fiscal Charges	<u>(56,323)</u>

Net Cash Provided by Noncapital Financing Activities	<u>610,447</u>
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Net decrease in Cash and Cash Equivalents	(34)
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Cash and Cash Equivalents Beginning of Year	<u>1,034</u>
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Cash and Cash Equivalents End of Year	<u><u>\$ 1,000</u></u>
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**RECONCILIATION OF OPERATING LOSS TO NET**

**CASH USED FOR OPERATING ACTIVITIES**

Operating Loss	\$ (219,367)
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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

Accounts Receivable	36,676
Intergovernmental Receivable	39,433
Accounts Payable	(147,520)
Intergovernmental Payable	6,164
Net Pension Liability	38,842
Deferred Outflows	(211,209)
Deferred Inflows	(153,500)

Net Cash Used For Operating Activities	<u><u>\$ (610,481)</u></u>
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See accompanying notes to the basic financial statements

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**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**1. DESCRIPTION OF THE ENTITY**

Richard Allen Academy II 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 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 17).

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 has enrollment of 263 FTE's for fiscal year 2017.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

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

**B. Measurement Focus/Basis of Accounting**

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

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**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 2017.

**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.

**F. Intergovernmental Revenues**

The School currently participates in the State Foundation Program, which is reflected under "State Foundation", "Casino Aid", and "Facilities Funding" 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.

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**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 2017 school year totaled \$2,668,659.

**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, 2017.

**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 assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Investment in capital assets consists of capital assets, net of accumulated depreciation reduced by any outstanding capital related debt. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted Net Position 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.

**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.

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**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. CHANGE IN ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2017, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plan Other than Pension Plans*, No. 77, *Tax Abatement Disclosures*, No.78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 74 enhances the note disclosures and required supplementary information schedules required by OPEB Plans that are administered through trusts that meet the specified criteria. The implementation of this Standard had no effect on the School's financial statements.

GASB Statement No. 77 requires disclosures that provide users with information concerning the government's tax abatement programs, including nature and magnitude, which will provide information on ability to raise resources and the impact abatement programs have on the financial position of the government. The implementation of this Standard had no effect on the School's financial statements.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**4. 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, 2017, the book amount of the School's deposits was \$1,000 and the bank balance was \$1,050.

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, 2017 or during the fiscal year.

**5. ACCOUNTS RECEIVABLE**

At June 30, 2017, the school had receivables in the amount of \$620,022 which are amounts due from IMR. In addition, the school is due monies from ODE in the amount of \$42,718 for intergovernmental receivables. 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, 2017, but the cash was not received by year end.

**6. ACCOUNTS PAYABLE**

At June 30, 2017, the school had accounts payable totaling \$14,879. \$6,164 is due to ODE and \$8,715 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 2017, the School contracted with WRM American and Cincinnati Specialty Underwriters for business personal property and general liability insurance. General liability coverage provides \$1,000,000 per occurrence and \$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, 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.

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**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* on the accrual basis of accounting.

***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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:



**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

	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, 2017, 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 2017.

The School's contractually required contribution to SERS was \$14,620 for fiscal year 2017.

***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](http://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. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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 to 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. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 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 2017 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$92,256 for fiscal year 2017.

***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, 2016, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 2,252,490	\$ 334,145	\$ 2,586,635
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00672927%	0.00456540%	
Prior Measurement Date	<u>0.00827605%</u>	<u>0.00456590%</u>	
Change in Proportionate Share	<u>-0.00154678%</u>	<u>-0.00000050%</u>	
Pension Expense	\$ (164,038)	\$ 32,221	\$ (131,817)

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between Expected and Actual Experience	\$ 91,013	\$ 4,507	\$ 95,520
Net Difference between Projected and Actual Earnings on Pension Plan Investments	187,017	27,562	214,579
Changes of Assumptions	0	22,306	22,306
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	0	2,188	2,188
School Contributions Subsequent to the Measurement Date	<u>92,256</u>	<u>14,620</u>	<u>106,876</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 370,286</u>	<u>\$ 71,183</u>	<u>\$ 441,469</u>
<b>Deferred Inflows of Resources</b>			
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	<u>\$ 1,057,282</u>	<u>\$ 6,960</u>	<u>\$ 1,064,242</u>

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

\$106,876 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	\$ (284,950)	\$ 11,143	\$ (273,807)
2019	(284,949)	11,120	(273,829)
2020	(213,185)	19,417	(193,768)
2021	3,832	7,923	11,755
	\$ (779,252)	\$ 49,603	\$ (729,649)

***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, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted average 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	<u>10.00</u>	3.00
	<u>100.00 %</u>	

***Discount Rate***

The total pension liability was calculated using the discount rate of 7.50 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 earnings were calculated using the long-term assumed investment rate of return (7.50 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.

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

***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 School's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School's Proportionate Share of the Net Pension Liability	\$ 442,387	\$ 334,145	\$ 243,542

***Actuarial Assumptions - STRS***

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
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 commences on the fifth anniversary of the 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, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
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
Total	100.00 %	7.61 %

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

\*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

***Discount Rate***

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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, 2016. 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, 2016.

***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 as of June 30, 2016, 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	\$ 2,993,376	\$ 2,252,490	\$ 1,627,508

***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 STRS 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.

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**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](http://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 2017, 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 2017, this amount was \$23,500. 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.

For fiscal year 2017, SERS did not allocate employer contributions to the Health Care fund. The School's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016 and 2015 was \$411 and \$2,453. The full amount has been contributed for fiscal years 2016 and 2015.

***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](http://www.strsoh.org) or by calling (888) 227-7877.



**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

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 years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School did not contribute to health care in the last three fiscal years.

**10. MANAGEMENT COMPANY AGREEMENTS**

On September 1, 2006, the School entered into an agreement with the Institute of Management and Resources, Inc. (IMR), a non-profit corporation, to provide management services. The agreement with IMR is through June 30, 2013. In October 2013, the school has entered into a new management agreement with IMR. The terms of the new agreement calls for the payment of 94% of all state aid and 100% of federal grants 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.

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 2017.

	<b>2017</b>
<b>Expenses</b>	
<b>Direct Expenses:</b>	
Salaries & wages	\$ 1,125,034
Employees' benefits	281,029
Professional & technical services	122,118
Property services	131,979
Utilities	92,125
Contracted craft or trade services	182,492
Other purchased services	10,861
Supplies	4,422
<b>Indirect Expenses:</b>	
Overhead	408,012
<b>Total Expenses</b>	<b>\$ 2,358,072</b>

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**10. MANAGEMENT COMPANY AGREEMENTS (Continued)**

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.

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.

*United Way of the Greater Dayton Area*

On November 21, 2017, United Way of the Greater Dayton contacted the School regarding an obligation owed in amount of \$34,500 arising from Richard Allen's participation in the 2017 Freedom Schools Program. United Way has threatened to take formal action if settlement cannot be reached. As of August 16, 2018, the original outstanding balance of \$34,500 has been paid in full.

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**12. PENDING LITIGATION (Continued)**

*Charter School Capital*

Richard Allen Academy II 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. On October 24, 2019, Charter School Capital filed *Complaint for Foreclosure* of Richard Allen Academy III Community School Property in the Common Pleas Court of Butler County, Ohio.

*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 II Community School served in the same capacity for the Richard Allen Preparatory, Richard Allen Academy I, and Richard Allen Academy III Community Schools for the fiscal year 2017, all of which are managed by the Institute of Management and Resources, Inc (IMR). Total compensation to Board members was \$3,900. Richard Allen Academy II 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 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.

**14. SHORT TERM LOANS PAYABLE**

*Charter School Capital* - In May 2015, the school entered into an agreement with Charter School Capital to borrow against its future foundation payments. During fiscal year 2017, the School borrowed \$1,208,800 and repaid the same. The terms of the loan are amounts borrowed are to be repaid over the course of the next three months, therefore the entire amount is due within one year. Total interest accrued was \$56,323. The imputed interest rate is 18% per annum. The School retired the short term loan by issuing a long term debt with Charter School Capital. See Note 15 for details.

A summary of School's short term debt obligations for the year are as follows:

<b>Note Payable</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Operating Loan - IMR	\$ 12,500	-	\$ (12,500)	\$ -
Charter School Capital	426,600	782,200	(1,208,800)	-
Total Notes Payable	\$ 439,100	\$ 782,200	\$ (1,221,300)	\$ -

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**15. LONG-TERM LIABILITIES**

The changes in the School's long-term obligations during fiscal year 2017 were as follows:

	<b>Principal Outstanding</b>			<b>Principal      Amounts Outstanding    Due Within</b>	
	<u><b>6/30/2016</b></u>	<u><b>Additions</b></u>	<u><b>Reductions</b></u>	<u><b>6/30/2017</b></u>	<u><b>One Year</b></u>
Charter School Capital	\$ -	\$455,000	\$ (5,861)	\$ 449,139	\$ 72,896
Net Pension Liability					
SERS	260,535	73,610		334,145	
STRS	<u>2,287,258</u>	<u>-</u>	<u>(34,768)</u>	<u>2,252,490</u>	
Total Net Pension Liability	<u>2,547,793</u>	<u>73,610</u>	<u>(34,768)</u>	<u>2,586,635</u>	
Total Long-Term Liabilities	<u>\$2,547,793</u>	<u>\$528,610</u>	<u>\$ (40,629)</u>	<u>\$ 3,035,774</u>	<u>\$ 72,896</u>

*Charter School Capital* – On May 19, 2017, Richard Allen Academy II Community School, Richard Allen Academy III Community School, Richard Allen Preparatory Academy Community School and Institute of Management and Resources, Inc. (IMR) entered into an agreement with Charter School Capital to retire Richard Allen Academy II Community School loan payable that had not been paid by the School in accordance with the provisions of the loan agreement. The Note also retired outstanding Richard Allen Preparatory debt. The new loan was made jointly and severally to all three Richard Allen Schools and IMR in the amount of \$455,000 at a fixed rate of 11% per annum. The proceeds of the loan were used to (i) pay in full \$362,862 in obligations relating to the Richard Allen Academy II Community School loan, interest accruing at the default rate of 18% per annum from the date of expected payment of the loan until paid in full, plus expenses and attorneys' fees incurred by Charter School Capital in connection with the collection of the loan, (ii) \$28,465 in repurchase of outstanding Richard Allen Preparatory Academy loan, (iii) pay \$5,755 in certain tax liabilities owed by IMR, and (iv) pay \$57,918 in loan closing costs.

Repayments on the loan started on June 1, 2017 and the loan matures on May 1, 2022. The loan is secured by among other things, an open-end mortgage assignment of leases and rents, security agreement and fixture filing dated as of May 23, 2017 executed by IMR, as mortgagor, in favor of Charter School Capital as mortgagee.

Richard Allen Academy II Community School reports the full amount of loan on its financial statements. Following are the amounts required to retire the debt.

<u><b>Year(s)</b></u>	<u><b>Principal</b></u>	<u><b>Interest</b></u>	<u><b>Total</b></u>
2018	\$ 72,896	\$ 45,818	\$ 118,714
2019	81,331	37,383	118,714
2020	90,742	27,971	118,713
2021	101,243	17,471	118,714
2022	<u>102,927</u>	<u>5,755</u>	<u>108,682</u>
	<u>\$ 449,139</u>	<u>\$ 134,398</u>	<u>\$ 583,537</u>

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**15. LONG-TERM LIABILITIES (Continued)**

The Schools and IMR have since defaulted on this Note. IMR subsequently filed for bankruptcy protection and Charter School Capital has filed a Proof of Claim in the bankruptcy proceedings of IMR. On October 24, 2019, Charter School Capital filed *Complaint for Foreclosure* of Richard Allen Academy III Community School Property in the Common Pleas Court of Butler County, Ohio. The School has 28 days to file its answer from the day it received the summons and complaint.

**16. CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2017.

**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 FTE review concluded that the School was overpaid \$6,164 during 2017. This amount is recorded as an intergovernmental payable in the statement of net position.

**17. 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. 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. Sponsor fee expense at June 30, 2017 totaled \$60,869.

**18. SUBSEQUENT EVENTS**

Effective August 1, 2017, the School entered into a multi-year Management Agreement (Agreement) with Educational Management and Development Group (EMDG). The Agreement's term runs through June 30, 2020. EMDG is responsible and accountable to the Board of Directors for the administration and day-to-day operations. As part of the terms of this agreement, the "Continuing Fee" percentage of the School is 16 percent of gross revenues. In addition to the management fee described above, the School will reimburse EMDG for its payroll and other costs eligible for reimbursements.

The School's management company, Institute of Management and Resources filed for Bankruptcy protection during 2018. The School reported a receivable of \$620,022 due from IMR at June 30, 2017.

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017  
(Continued)**

**18. SUBSEQUENT EVENTS (Continued)**

On January 5, 2018, the Ohio Department of Education notified the School that it is ending its sponsorship agreement on June 30, 2018. The School negotiated a contract with St. Aloysius Orphanage to sponsor the School, effective July 1, 2018.

Effective June 1, 2018, Richard Allen Academy II merged with Richard Allen Preparatory Academy to operate as one school under the Richard Allen Preparatory Academy name.

As disclosed in Note 15, Richard Allen Academy II 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.

On November 1, 2019, the School's 184 Salem Avenue property was auctioned off in Sheriff sale. This property houses grades 4 – 8 of the merged Richard Allen Preparatory Academy Community School.

**19. CAPITAL ASSETS**

A summary of the School's capital assets at June 30, 2017, follows:

	<u>Balance</u> <u>06/30/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/17</u>
<b>Capital Assets Being Depreciated:</b>				
Leasehold Improvements	\$ 339,078	\$ -	\$ -	\$ 339,078
Equipment	149,361	-	-	149,361
Furniture	<u>111,100</u>	<u>-</u>	<u>-</u>	<u>111,100</u>
<b>Total Capital Assets Being Depreciated</b>	599,539	-	-	599,539
<b>Less Accumulated Depreciation:</b>	<u>(599,539)</u>	<u>-</u>	<u>-</u>	<u>(599,539)</u>
<b>Net Total Capital Assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**20. PURCHASED SERVICES**

For the period July 1, 2016 through June 30, 2017, purchased service expenses were for the following services:

Management Services	\$2,295,176
Certified Retirement	(164,038)
Non-Certified Retirement	<u>32,221</u>
Total	<u><u>\$2,163,359</u></u>

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>State Teachers Retirement System (STRS)</b>				
School's Proportion of the Net Pension Liability	0.00672927%	0.00827605%	0.01116693%	0.01116693%
School's Proportionate Share of the Net Pension Liability	\$2,252,490	\$2,287,258	\$2,716,184	\$3,235,500
School's Covered-Employee Payroll	\$706,564	\$1,757,143	\$2,043,654	\$2,436,531
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	318.79%	130.17%	132.91%	132.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
<b>School Employees Retirement System (SERS)</b>				
School's Proportion of the Net Pension Liability	0.00456540%	0.00456590%	0.00479700%	0.00479700%
School's Proportionate Share of the Net Pension Liability	\$334,145	\$260,535	\$242,773	\$285,262
School's Covered-Employee Payroll	\$163,371	\$257,140	\$308,074	\$334,509
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	204.53%	101.32%	78.80%	85.28%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	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 II COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>State Teachers Retirement System (STRS)</b>			
Contractually Required Contribution	\$92,256	\$98,919	\$246,000
Contributions in Relation to the Contractually Required Contributions	<u>(\$92,256)</u>	<u>(\$98,919)</u>	<u>(\$246,000)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School's Covered-Employee Payroll	\$658,971	\$706,564	\$1,757,143
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%
 <b>School Employees Retirement System (SERS)</b>			
Contractually Required Contribution	\$14,620	\$22,869	\$33,891
Contributions in Relation to the Contractually Required Contributions	<u>(\$14,620)</u>	<u>(\$22,869)</u>	<u>(\$33,891)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School's Covered-Employee Payroll	\$104,429	\$163,371	\$257,140
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%



<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$265,675	\$316,749	\$211,667	\$206,039	\$229,699	\$170,658	\$196,704
<u>(\$265,675)</u>	<u>(\$316,749)</u>	<u>(\$211,667)</u>	<u>(\$206,039)</u>	<u>(\$229,699)</u>	<u>(\$170,658)</u>	<u>(\$196,704)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,043,654	\$2,436,531	\$1,628,208	\$1,584,915	\$1,766,915	\$1,312,754	\$1,513,108
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$42,699	\$46,296	\$22,548	\$30,380	\$15,141	\$15,058	\$10,245
<u>(\$42,699)</u>	<u>(\$46,296)</u>	<u>(\$22,548)</u>	<u>(\$30,380)</u>	<u>(\$15,141)</u>	<u>(\$15,058)</u>	<u>(\$10,245)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$308,074	\$334,509	\$167,643	\$241,687	\$111,824	\$153,028	\$104,328
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

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

Richard Allen Academy II Community School  
Montgomery County  
184 Salem Avenue  
Dayton, Ohio 45406

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 II Community School, Montgomery County, (the School) as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements and have issued our report thereon dated December 6, 2019, wherein we noted that the School merged its operations with Richard Allen Preparatory Academy Community School on June 1, 2018 and ceased operations as an independent 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 2017-001 and 2017-002 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 2017-002 through 2017-006.

***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

December 6, 2019

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2017**

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

**FINDING NUMBER 2017-001**

MATERIAL WEAKNESS – NET PENSION LIABILITY

The School's 2017 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 2016 audit opinion was qualified because the School's Management Company did not provide auditors with the Management Company's general ledger to reconcile amounts to payroll information that was provided. During 2017, Richard Allen Academy III Community School was selected for census data testing, again the Management Company refused to provide auditors with a copy of its general ledger. Additionally, the Management Company did not have agreed upon procedures (AUP) performed that would have covered payroll and census data. 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 2017-002**

NONCOMPLIANCE AND MATERIAL WEAKNESS – FINANCIAL STATEMENT MISSTATEMENTS

**Ohio Rev. Code §3314.03(B)(5)** requires management of each community school to submit to the school sponsor a comprehensive plan for the School specifying internal financial controls.

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 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to 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.

**FINDING NUMBER 2017-002  
(Continued)**

Due to lack of adequate controls in financial reporting the School had the following material misstatements on the statement of cash flows:

1. The School borrowed money to help its management company with the operating expenses. The loan activity was presented as cash flow from capital financing activities instead of cash flow from noncapital financing activities. This resulted in cash flow from capital and related financing activities being overstated by \$30,269
2. Cash flow from operating activities was understated by \$20,230
3. Cash flow from noncapital financing activities was understated by \$10,039

The Statement of cash flows has been adjusted to correctly reflect the cash flow activity of the School.

Additional errors not requiring adjustments to the financial statements ranging from \$6,152 to \$36,913 were also noted during the audit and have been reported to those charged with governance.

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 2017-003**

**NONCOMPLIANCE – CONFLICT OF INTEREST**

**Ohio Rev. Code § 102.03 (E)**, states:

- (E) No public official or employee shall solicit or accept anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

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

- (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 the audit period, the Richard Allen Schools had a contract with Institute of Management and Resources, Inc. (IMR) to perform management services; and Dr. Michelle Thomas served as the Superintendent of Richard Allen Schools while being employed as the Director of IMR. Dr. Thomas may have violated Ohio Rev. Code § 2921.42(A)(4) because as a public official in her role as the Superintendent of Richard Allen Schools, Dr. Thomas had a pecuniary interest in the agreement between IMR and the Richard Allen Schools.

**FINDING NUMBER 2017-003**  
**(Continued)**

Additionally, Dr. Thomas received compensation and benefits from IMR while in her role as Director of IMR. According to bankruptcy filings dated April 17, 2018 with the United States Bankruptcy Court for the Southern District of Ohio, IMR leased a 2015 Maserati Ghibli for Dr. Thomas. IMR's bankruptcy filing claimed that Dr. Thomas made lease payments on these vehicles. Further, according to the latest available 2015 IRS 990 form, Dr. Thomas was the only compensated Director of IMR making \$150,000 a year. According to the bankruptcy proceedings, IMR failed to pay vendors that had a direct impact on supporting the Schools. As disclosed in the notes to the financial statements, the Schools have been subject to litigation by IMR's vendors for nonpayment. Dr. Thomas may have violated Ohio Rev. Code § 102.03(E) because her acceptance of the compensation and benefits from IMR may have impaired her ability to objectively and independently exercise judgment in matters concerning IMR in her role as the Superintendent for Richard Allen Schools.

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.

Additionally, on March 9, 2016, IMR transferred properties located at 627, 635, and 641 Salem Avenue to Cash Money Properties at no cost. Cash Money Properties is owned by Brian Adams, who also owned the Ohio Community School Consultants Ltd which served as the Treasurer for the School. The School then leased these properties for operations from Cash Money Properties. Michelle Thomas authorized the transfer of these properties, signing the quitclaim deed as the Vice President of IMR. The Auditor of State's Special Investigation Unit is conducting an investigation of Brian Adams' conduct related to this series of transactions. As of the date of this report, the investigation is ongoing.

**Official's Response:** See Page 54 for Response

**FINDING NUMBER 2017-004**

NONCOMPLIANCE – MANAGEMENT COMPANY AGREED UPON PROCEDURES

**Ohio Rev. Code § 3314.03(A)(8)** includes the requirements of community schools to have financial audits performed by the Auditor of State (AOS). The Contract between sponsors and the governing authority shall require financial records of the school to be maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, and the audits shall be conducted in accordance with Ohio Rev. Code § 117.10. This includes preparing the footnote of the management company in accordance with Ohio Rev. Code § 3314.024 and the Auditor of State Requirements.

**Ohio Rev. Code § 3314.024(A)** states a management company that receives more than twenty per cent of the annual gross revenues of a community school shall provide a detailed accounting including the nature and costs of goods and services it provides to the community school. This information shall be reported using the categories and designations set forth in divisions (B) and (C) of this section, as applicable.

**Ohio Rev. Code § 3314.024(D)** states the information provided pursuant to this section shall be subject to verification through examination of community school records during the course of the regular financial audit of the community school.

**FINDING NUMBER 2017-004  
(Continued)**

In order to meet these requirements, management companies may elect to have AOS (or contracting independent public auditors) audit this information at the management company or may provide independently audited financial statements and statement showing the direct and allocated indirect (e.g. overhead) expenses for each school it manages. The companies should present this statement in a combining or consolidated format (i.e. present a column for each school). If a management company does not have audited financial statements or the audited financial statements do not present combining or consolidated columns for each of its schools, or if the management company's auditor does not provide opinion-level assurance on the combining or consolidating columns presenting each school, the Auditor of State will accept an agreed-upon procedures (AUP) report per AICPA Clarified Attestation Standards Section 215.

Additionally, Section 10 of the Sponsorship Contract for a Community School between the Ohio Department of Education's Office of School Sponsorship and the Richard Allen Academy requires any management agreement to require the management company to fully cooperate with and be compliant with any reporting obligations required by the State Auditor's Office. Any management agreement shall require the management company to provide fiscal information, upon request, to permit the school's fiscal officer to comply with this contract and audit requirements with respect to transactions undertaken by the management company on behalf of the School.

Institute of Management and Resources, Inc., the management company for the School, received more than 20% of the School's revenue during fiscal year 2017. However, the management company failed to provide a detailed accounting related to the nature and costs of the goods and services provided to the School.

Failure to provide a detailed accounting related to the nature and costs of goods and services provided to the School, and have an audit or agreed-upon procedures (AUP) engagement performed over the information could lead to issues in determining if the School's funds are being spent properly and in accordance with the management company agreement.

The School should implement policies and procedures to determine that the required management company expenditure information is included in the School's notes to the financial statements. There should also be an audit or AUP performed over the management company's reported information. Also, the School should review the sponsorship agreement to determine compliance with various aspects of the agreement. Failure to do so could result in modification of the School's opinion and additional audit cost.

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

**FINDING NUMBER 2017-005**

**NONCOMPLIANCE/ FINDING FOR RECOVERY – MANAGEMENT COMPANY OVERPAYMENT**

**Section 10 of the Amended and Restated Management Agreement between the Institute of Management and Resources, Inc. (IMR) and the Governing Authority of Richard Allen Academy II Community School** provides for IMR to receive ninety-four (94%) of the total state aid received by the School. The Agreement further states that should the six percent (6%) of the total state aid retained by the School be insufficient to cover the expenses, IMR hereby agrees to pay to the School funds to cover its expenses up to fifty-seven thousand dollars (\$57,000) per school per year.

The contract required IMR to receive one hundred percent (100%) of all pass-through federal and state grant funding as well as all school lunch revenues received by the School.



**FINDING NUMBER 2017-005  
 (Continued)**

The School did not pay its management company in accordance with the Management Company agreement and at July 1, 2016, \$632,231 was due from the management company related to overpayment of management fees primarily due to the School borrowing money to help support management company operations. During fiscal year 2017, the following changes were noted to receivable due from IMR:

Balance at June 30, 2016	\$632,231
Increase in Loan taken to support IMR operations	22,539
Interest and Fiscal Charges on Loan taken to support IMR	56,323
Amount underpaid on Management Contract during 2017	(84,723)
Loan Payable to IMR at June 30, 2016	(12,500)
Amount due at June 30, 2017	<u>\$613,870</u>

The School cancelled the contract with IMR effective July 31, 2017 and there is no indication that the School collected the amounts due from IMR at this time.

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 amount of \$613,870 is hereby issued against Institute of Management and Resources, Inc., and in favor of Richard Allen Academy II Community School's General Fund.

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 and Board Members Alphonse Allen, Michael Brown, Gerald Cooper, Laquetta Cortner, Wanda Mills, Lonnie Norwood, Rhonda Ragland and Kelli Vaughn supervised the accounts from which the improper payments were made. Accordingly, a Finding for Recovery is hereby jointly and severally issued against Brian Adams, Treasurer and Board Members Alphonse Allen, Michael Brown, Gerald Cooper, Laquetta Cortner, Wanda Mills, Lonnie Norwood, Rhonda Ragland and Kelli Vaughn in the amount of \$613,870 and in favor of the Richard Allen Academy II Community School's General Fund. Brian Adams's bonding company is the Western Surety Company.

Policies and procedures should be established and implemented to verify that payments made to the Management Company are in accordance with the contract. The Governing Board should constantly monitor the Management Company to verify that it is fulfilling its obligations under the contract and the state and federal funds are being used for the benefit and betterment of the School. Lack of appropriate oversight could result in the School funds being used for personal gains and overpayments to the management company going unnoticed which may result in additional finding for recoveries in future audits.

**Official's Response:** See Page 55 for Response

## FINDING NUMBER 2017-006

### NONCOMPLIANCE – DEBT COVENANT VIOLATION

**Section 6.g of the Loan agreement between Richard Allen Academy II Community School, Inc., Richard Allen Preparatory Academy Community School, Inc., Richard Allen Academy III Community School, Inc., Institute of Management and Resources, Inc. (IMR) (collectively, the Borrowers), and Charter School Capital, Inc.,** dated May 27, 2017, states that none of the Borrowers shall not be a party to any merger, consolidation, or reorganization (including the purchase of all or substantially all of the equity or assets of any other enterprise); nor, except in the ordinary course of its business, sell, transfer, or lease any part of its assets or property.

Additionally, **Section 6.n of the Loan Agreement** states none of the Borrowers shall voluntarily cease operations for a period of 30 days or longer without the prior written consent of CSC. Borrower hereby covenants and agrees to (i) operate its business in accordance with the provisions of the Community School Contract and all applicable laws and in such manner as to ensure that Borrower's Community School Contract will be renewed in due course and is not revoked or withdrawn and (ii) continue to instruct students pursuant to a valid charter.

On June 1, 2018, Richard Allen Academy III Community School ceased operations and merged with Richard Allen Academy Community School. On the same date Richard Allen Academy II Community School merged with Richard Allen Preparatory Academy Community School. Additionally, the Richard Allen Schools canceled its management company contract with IMR on June 30, 2017 and on April 17, 2018, IMR filed for chapter 11 bankruptcy protection. These actions of IMR and Richard Allen Schools were in violation of the Debt Covenant on its loan agreement.

The Schools should establish and implement procedures to verify that it takes appropriate steps to meet all debt covenants. Failure to do so could result in debtors considering the loans to be in default and demanding immediate repayment of the full amount on loans. Covenant violations could also result in expensive litigation process for the Schools.

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

## 2. OTHER – FINDINGS FOR RECOVERY

In addition, we identified the following other issue related to Findings for Recovery. This issue did not impact our GAGAS report.

## FINDING NUMBER 2017-007

### FINDING FOR RECOVERY – BOARD OVERPAYMENT

**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.

**FINDING NUMBER 2017-007  
 (Continued)**

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 fiscal year 2017. 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:

Alphonse Allen

Meeting Date	<u>8/30/2016</u>	<u>11/3/2016</u>	<u>1/12/2017</u>	<u>2/27/2017</u>	<u>4/6/2017</u>
Richard Allen Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	832	855	877	895	929
Richard Allen Academy II Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	844	869	894	912	946
Richard Allen Academy III Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	836	860	883	895	931
Richard Allen Preparatory Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	836	857	882	891	925
Total Payments	<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 \$2,000 from all four Schools.

**FINDING NUMBER 2017-007  
 (Continued)**

Michael Brown

Meeting Date	<u>8/30/2016</u>	<u>11/3/2016</u>	<u>1/12/2017</u>	<u>2/2/2017</u>	<u>4/6/2017</u>
Richard Allen Academy Community School					
Amount	\$100	\$0	\$100	\$100	\$100
Check Number	831		876	894	927
Richard Allen Academy II Community School					
Amount	\$100	\$0	\$100	\$100	\$100
Check Number	843		893	911	944
Richard Allen Academy III Community School					
Amount	\$100	\$0	\$100	\$100	\$100
Check Number	835		882	894	930
Richard Allen Preparatory Academy Community School					
Amount	\$100	\$0	\$100	\$100	\$100
Check Number	835		881	890	924
Total Payments	<u>\$400</u>	<u>\$0</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board Member Michael Brown amounted to \$1,600 from all four Schools.

Gerald Cooper

Meeting Date	<u>8/30/2016</u>	<u>11/3/2016</u>	<u>1/12/2017</u>	<u>2/2/2017</u>	<u>4/6/2017</u>
Richard Allen Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	833	856	878	896	930
Richard Allen Academy II Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	845	870	895	913	947
Richard Allen Academy III Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	837	861	884	896	932
Richard Allen Preparatory Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	837	858	883	892	926
Total Payments	<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 \$2,000 from all four Schools.

**FINDING NUMBER 2017-007  
 (Continued)**

Laquetta Cortner

Meeting Date	<u>8/30/2016</u>	<u>11/3/2016</u>	<u>1/12/2017</u>	<u>2/2/2017</u>	<u>4/6/2017</u>
Richard Allen Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	828	852	873	891	923
Richard Allen Academy II Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	840	865	890	908	940
Richard Allen Academy III Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	832	856	878	891	926
Richard Allen Preparatory Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	832	853	878	887	920
Total Payments	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>

Total payments made to Board Member Laquetta Cortner amounted to \$2,000 from all four Schools.

Wanda Mills

Meeting Date	<u>8/30/2016</u>	<u>11/3/2016</u>	<u>1/12/2017</u>	<u>2/2/2017</u>	<u>4/6/2017</u>
Richard Allen Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	835	858	880	898	993
Richard Allen Academy II Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	847	872	897	915	950
Richard Allen Academy III Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	839	863	887	898	935
Richard Allen Preparatory Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	839	860	885	894	929
Total Payments	<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 \$2,000 from all four Schools.

**FINDING NUMBER 2017-007  
 (Continued)**

Lonnie Norwood

Meeting Date	<u>8/30/2016</u>	<u>11/3/2016</u>	<u>1/12/2017</u>	<u>2/2/2017</u>	<u>4/6/2017</u>
Richard Allen Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	830	854	875	893	943
Richard Allen Academy II Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	842	867	892	910	960
Richard Allen Academy III Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	834	858	881	893	929
Richard Allen Preparatory Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	834	855	880	889	923
Total Payments	<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 \$2,000 from all four Schools.

Rhonda Ragland

Meeting Date	<u>8/30/2016</u>	<u>11/3/2016</u>	<u>1/12/2017</u>	<u>2/2/2017</u>	<u>4/6/2017</u>
Richard Allen Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	834	857	879	897	931
Richard Allen Academy II Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	846	871	896	914	948
Richard Allen Academy III Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	838	862	885	897	933
Richard Allen Preparatory Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	838	859	884	893	927
Total Payments	<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 \$2,000 from all four Schools.

**FINDING NUMBER 2017-007  
 (Continued)**

Kelli Vaughn

Meeting Date	<u>8/30/2016</u>	<u>11/3/2016</u>	<u>1/12/2017</u>	<u>2/2/2017</u>	<u>4/6/2017</u>
Richard Allen Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	829	853	874	892	925
Richard Allen Academy II Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	841	866	891	909	942
Richard Allen Academy III Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	833	857	880	892	928
Richard Allen Preparatory Academy Community School					
Amount	\$100	\$100	\$100	\$100	\$100
Check Number	833	854	879	888	922
Total Payments	<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 \$2,000 from all four Schools.

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	5	\$2,000	\$625	\$1,375	\$343
2	Michael Brown	4	1,600	500	1,100	275
3	Gerald Cooper	5	2,000	625	1,375	343
4	Laquetta Cortner	5	2,000	625	1,375	343
5	Wanda Mills	5	2,000	625	1,375	343
6	Lonnie Norwood	5	2,000	625	1,375	343
7	Rhonda Ragland	5	2,000	625	1,375	343
8	Kelli Vaughn	5	2,000	625	1,375	343
Total			<u>\$15,600</u>	<u>\$4,875</u>	<u>\$10,725</u>	<u>\$2,676</u>

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.

**FINDING NUMBER 2017-007  
(Continued)**

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 \$10,725 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 regulations 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 55 for Response





**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2017**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2016-001	School placed scope restrictions on testing of net pension liability	Not Corrected	Repeated as Finding Number 2017-001
2016-002	Ohio Rev. Code § 3314.03(B)(5) – Financial Statement Misstatements	Not Corrected	Repeated as Finding Number 2017-002
2016-003	Ohio Rev. Code § 2921.42(A) – Conflict of Interest	Not Corrected	Repeated as Finding Number 2017-003
2016-004	Ohio Rev. Code § 3314.02(E)(5) – Finding for Recovery, Board Member Overpayments	Not Corrected	Findings have been fully repaid by: Mia Wortham-Spells Michael Brown Wanda Mills Lonnie Norwood Alphonse Allen  All other findings have not been repaid.  Similar finding for recovery has been reported as finding number 2017-007

**RICHARD ALLEN ACADEMY II COMMUNITY SCHOOL  
MONTGOMERY COUNTY**

**OFFICIAL'S RESPONSES  
JUNE 30, 2017**

**FINDING NUMBER 2017-003**

**Schools Official Response:**

The School strongly objects to finding 2017-003 as it pertains to alleged ethics matters involving the School's chief administrator. As in prior years, the Auditor indicates that a "referral will be made to the Ohio Ethics Commission." No prior referrals have resulted in an ethics finding against Dr. Thomas, however, which is not surprising because none have occurred.

The School again raises the question of how an operator—which, as Ohio law provides, can include an "individual" managing day-to-day operations by contract with an independent governing authority—can fulfill a school's chief administrator role when considering the Auditor's position that such administrators cannot be connected with the operator. The Auditor has never attempted to address this conflict with R.C. 3314.02(A)(8)(a) despite multiple requests for response. Consistent with Ohio community school law, an operator staff member—regardless of position with the operator—who fulfills the operator's contractual duties to manage the day-to-day operations of a school does not have a conflict of interest under R.C. 102.03 or R.C. 2921.42 where the school's independent governing authority has permissibly delegated such operational responsibility. Regardless, this matter has since been addressed through the change in management.

**Auditor of State Conclusion:** The Auditor agrees that similar findings have been reported in prior audits to the Ohio Ethics Commission (OEC), however, the OEC has not indicated that the findings are unfounded. Since the issue has neither been corrected during this audit period by the School, nor has the Auditor received notice from the OEC that it has declined to investigate the matter, this finding must be included in accordance with requirements in AU-C 265.

Further, it is not clear how the School can claim that Ohio Rev. Code § 3314.02(A)(8)(a) permits Dr. Thomas from serving as a public official in her role as the Superintendent of the Schools while simultaneously working for and being compensated as the Director of IMR, without being in violation of Ohio Rev. Code §§ 102.03(E) and 2921.42(A). Ohio Rev. Code § 3314.02(A)(8)(a) defines operator or management company as "an individual or organization that manages the daily operations of a community school pursuant to a contract between the operator or management company and the school's governing authority. . . ." Here, under Ohio Rev. Code § 3314.02(A)(8)(a), IMR was the organization that managed the daily operations of the School pursuant to a contract between IMR and the School. Ohio Rev. Code § 3314.02(A)(8)(a) does not state that a management company is required, or even permitted, to have the same individual serve as a public official of the School while also serving as a director for the management company. Counter to the School's argument in its official response stating "operator staff member—regardless of position with the operator—who fulfills the operator's contractual duties to manage the day-to-day operations of a school does not have a conflict of interest," it is clear that this is *not* merely the case in which the management company, under the authority granted to it by the governing authority, placed an individual to serve in a position for the School. This is the case where an individual who was actively employed and being compensated as the Director of the management company was simultaneously placed to be the Superintendent, a public official, of the School.

In sum, Dr. Thomas, as the Superintendent of the School, meets the definition of a public official under the Ohio Ethics Laws and she is thus subject to comply with Ohio Rev. Code §§ 102.03(E) and 2921.42(A), regardless of how Ohio Rev. Code § 3314.02(A)(8)(a) defines operator or management company.

#### **FINDING NUMBER 2017-005**

##### **Schools Official Response:**

The School strongly objects to finding 2017-005 as written. After the close-out conference, the Auditor made an eleventh hour addition to the finding subjecting individual board members to personal liability over hundreds of thousands of dollars of allegedly misspent funds. It has done so arbitrarily and without any valid justification. In response, multiple parties, including the School, illuminated the deep flaws in this determination. Of note, the School established that such debts at issue were forgiven pursuant to an agreement with valid consideration to terminate the management contract with IMR. The School also noted that no board members had any control over the School's account, and the Auditor has provided no evidence that the individual Board members "supervised" these accounts despite multiple requests. It is the Auditor's burden to establish the basis for its findings—it has refused to offer support for its assertions because none exists.

The Auditor's conduct in setting forth this finding violates its authority, undermines the legitimacy of the office, and is not in the public interest. Given that this finding—and in particular the alleged personal liability of board members—is unreasonable and lacks factual or legal basis, any pursuit of recovery is not only doomed to fail after a costly litigation process, but will subject the pursuing party to significant additional liability. All such costs will be paid from taxpayer dollars.

**Auditor of State Conclusion:** The Board Members should be held liable for this finding. It is clear that the School is a public office and the Board Members are public officials. The Board Members, as the governing authority of the School, are the individuals tasked with carrying out the broad statutory duties of the School. See Ohio Rev. Code § 3314.01. While serving in its capacity as public officials, the Board Members had control, supervision, and oversight of the School's accounts. For example, the Board supervised the School's Treasurer, Brian Adams, in his execution of the fiscal duties that the Board had delegated to him; and also the Board supervised Mr. Adam's compliance with the fiscal policies created by the Board. Additionally, the Board had the authority to contract on behalf of the School, and otherwise bind the School to fiscal obligations. Further, in accordance with the Community School Sponsorship Agreement and O.R.C. Chapter 1702, the Board had fiduciary duties to monitor the activities of the School's Treasurer and verify his compliance with the applicable laws, agreements, and liability of the School. It can be concluded that the Board had the ultimate control, supervision, and oversight of the School's financials.

Additionally, based on the documents and information provided to the Auditor during the course of this audit, there was no indication that the Board Members took an official action to establish that the debt at issue were forgiven pursuant to an agreement with valid consideration to terminate the management contract with IMR.

#### **FINDING NUMBER 2017-007**

##### **Schools Official Response:**

The Auditor alleges that the members of the Schools' respective Governing Authorities were "overpaid" for attendance at public board meetings that were held concurrently, which the Auditor erroneously suggests constituted a single meeting rather than four separate open meetings. Here, the Auditor seeks to impose a temporal restriction on holding concurrent meetings that does not exist. The Auditor is welcome to pursue changes to state statute, but it cannot enforce requirements developed on a whim that contradict law. At all times, the Board complied with established open meetings and governing authority compensation laws, and the School hereby incorporates its response from the prior year's audit.

**FINDING NUMBER 2017-007  
(Continued)**

In all, the Auditor's findings show a lack of regard for established law and fact and are unreasonable, arbitrary, capricious, and harmful to the School's reputation. For all other aspects of findings not explicitly addressed, the School has taken steps since fiscal year 2017 to address the concerns raised. The School expressly reserves all rights and waives none.

**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 February 2017 Meeting lasted forty six 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 April 2017 minutes document Dr. Thomas reporting that the District has 544 students enrolled as of February. 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.

# OHIO AUDITOR OF STATE KEITH FABER



**RICHARD ALLEN ACADEMY II 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  
JUNE 30, 2020**