



**RICHARD ALLEN ACADEMY  
BUTLER COUNTY**

**REGULAR AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**



**RICHARD ALLEN ACADEMY  
BUTLER COUNTY  
JUNE 30, 2020**

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**INDEPENDENT AUDITOR'S REPORT**

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

To the Governing Board:

***Report on the Financial Statements***

We have audited the accompanying financial statements of Richard Allen Academy, Butler County, Ohio (the Academy), as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Academy'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 Academy'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 Academy'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 audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richard Allen Academy, as of June 30, 2020, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

The Academy has a net position deficiency at June 30, 2020. Note 19 to the financial statements describes management's plans regarding this matter. We did not modify our opinion regarding this matter.

As discussed in Note 17 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Academy. 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 and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2023, on our consideration of the Academy'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 Academy's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

January 5, 2023

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(UNAUDITED)

The discussion and analysis of the Richard Allen Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2020 are as follows:

- In total, net position was deficit \$2,732,753 at June 30, 2020.
- The Academy had operating revenues of \$1,120,627, operating expenses of \$1,122,755 and non-operating revenues of \$600,521 for fiscal year 2020.

**Using these Basic Financial Statements**

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

**Reporting the Academy's Financial Activities**

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2020?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Academy's net pension liability and net OPEB liability/asset.

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(UNAUDITED)

The table below provides a summary of the Academy's net position for fiscal year 2020 and 2019.

	2020	2019
<b><u>Assets</u></b>		
Current assets	\$ 20,660	\$ 86,887
Non-current assets	156,650	121,963
Total assets	177,310	208,850
<b><u>Deferred outflows of resources</u></b>		
	449,087	692,338
<b><u>Liabilities</u></b>		
Current liabilities	145,857	155,294
Non-current liabilities	1,716,333	1,957,065
Total liabilities	1,862,190	2,112,359
<b><u>Deferred inflows of resources</u></b>		
	1,496,960	2,119,975
<b><u>Net Position</u></b>		
Investment in capital assets	39,886	-
Restricted	9,194	-
Unrestricted (deficit)	(2,781,833)	(3,331,146)
Total net position (deficit)	\$ (2,732,753)	\$ (3,331,146)

The net pension liability (NPL) is the largest single liability reported by the Academy at June 30, 2020 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27." The Academy adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and net OPEB asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.



**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(UNAUDITED)

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability/asset to equal the Academy's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 Academy is not responsible for certain key factors affecting the balance of these liabilities. 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 Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability/asset, respectively, not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2020 and 2019, the Academy's net position totaled deficits of \$2,732,753 and \$3,331,146, respectively.

Current assets represent cash, intergovernmental receivables. Non-current asset represents net OPEB asset (see Note 9 for detail) and capital assets. Current liabilities represent accounts, accrued wages and benefits and intergovernmental payables for professional services.

Long-term liabilities outstanding at June 30, 2020 represent notes payable, the net pension liability (see Note 8 for detail) and the net OPEB liability (see Note 9 for detail). Refer to Note 14 for a summary of the changes in the Academy's long-term obligations during fiscal year 2020. Long-term liabilities decreased as a result of the reduction in net pension liability and net OPEB liability during fiscal year 2020.

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(UNAUDITED)

The table below shows the changes in net position for fiscal years 2020 and 2019.

**Change in Net Position**

	<u>2020</u>	<u>2019</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 1,081,150	\$ 1,086,225
Casino aid	7,245	8,634
Facilities funding	32,232	26,127
Miscellaneous	-	59,463
Total operating revenue	<u>1,120,627</u>	<u>1,180,449</u>
<b><u>Operating Expenses:</u></b>		
Salaries and wages	50,400	59,000
Fringe benefits	14,223	41,577
Purchased services	1,598,203	1,214,683
Materials and supplies	58,621	39,095
Change in pension obligations	(615,297)	(853,189)
Depreciation	2,100	-
Other	14,505	32,479
Total operating expenses	<u>1,122,755</u>	<u>533,645</u>
<b><u>Non-operating Revenues:</u></b>		
Federal and state grants	575,144	351,686
Other non-operating revenue	<u>25,377</u>	<u>2,900</u>
Total non-operating revenues	<u>600,521</u>	<u>354,586</u>
Change in net position	598,393	1,001,390
Net position (deficit) at beginning of year	<u>(3,331,146)</u>	<u>\$ (4,332,536)</u>
Net position (deficit) at end of year	<u>\$ (2,732,753)</u>	<u>\$ (3,331,146)</u>

Overall, expenses increased \$589,110. This increase is primarily the result of the negative change in pension and OPEB obligations of (\$615,297) in the current fiscal year compared to (\$853,189) in fiscal year 2019. Fluctuations in the pension expense reported under GASB 68 and 75 makes it difficult to compare financial information between years.

The revenue generated by a community school is dependent on per-pupil allotment given by the state foundation, casino aid, facilities funding. The Academy also received state and federal grant monies through the Child Nutrition Breakfast & Lunch, Title I-A, Title II-A, Title IV-A, Title VI-B and Student wellness and success programs during fiscal year 2020.

***Debt***

The Academy had \$11,500 in promissory notes payable outstanding at June 30, 2020. See Note 14 for detail.

***Capital Assets***

The Academy had \$39,886 in capital assets, net of depreciation, June 30, 2020. See Note 7 to the basic financial statements for detail.

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020  
(UNAUDITED)**

**Restrictions and Other Limitations**

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

**Current Financial Related Activities**

The Academy is reliant upon state foundation monies and federal and state grants to offer quality, educational services to students. In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Todd Johnson, Treasurer, 118 W. First Street, Suite 620, Dayton, Ohio 45402.

BASIC  
FINANCIAL STATEMENTS

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2020

<b>Assets:</b>	
Current assets:	
Cash . . . . .	\$ 6,855
Receivables:	
Intergovernmental . . . . .	13,805
Total current assets . . . . .	20,660
Non-current assets:	
Net OPEB asset . . . . .	116,764
Depreciable capital assets, net . . . . .	39,886
Total non-current assets . . . . .	156,650
Total assets . . . . .	177,310
 <b>Deferred outflows of resources:</b>	
Pension . . . . .	432,351
OPEB . . . . .	16,736
Total deferred outflows of resources . . . . .	449,087
 <b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	136,276
Accrued wages and benefits . . . . .	8,400
Intergovernmental payable . . . . .	1,181
Total current liabilities . . . . .	145,857
Long-term liabilities:	
Notes payable . . . . .	11,500
Net pension liability (See Note 8) . . . . .	1,663,841
Net OPEB liability (See Note 9) . . . . .	40,992
Total long-term liabilities . . . . .	1,716,333
Total liabilities . . . . .	1,862,190
 <b>Deferred inflows of resources:</b>	
Pension . . . . .	955,617
OPEB . . . . .	541,343
Total deferred inflows of resources . . . . .	1,496,960
 <b>Net position:</b>	
Investment in capital assets . . . . .	39,886
Restricted for:	
Restricted for state programs . . . . .	6,619
Restricted for federal programs . . . . .	2,575
Unrestricted (deficit) . . . . .	(2,781,833)
Total net position (deficit) . . . . .	\$ (2,732,753)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 1,081,150
Casino aid. . . . .	7,245
Facilities funding . . . . .	32,232
Total operating revenues . . . . .	<u>1,120,627</u>
 <b>Operating expenses:</b>	
Salaries and wages . . . . .	50,400
Fringe benefits. . . . .	14,223
Purchased services . . . . .	1,598,203
Materials and supplies . . . . .	58,621
Change in pension and OPEB obligations . . . . .	(615,297)
Depreciation . . . . .	2,100
Other . . . . .	14,505
Total operating expenses . . . . .	<u>1,122,755</u>
 Operating loss . . . . .	 <u>(2,128)</u>
 <b>Non-operating revenues:</b>	
Federal and state grants . . . . .	575,144
Other non-operating revenue . . . . .	25,377
Total non-operating revenues . . . . .	<u>600,521</u>
 Change in net position. . . . .	 598,393
 <b>Net position (deficit) at beginning of year. . . . .</b>	 <u>(3,331,146)</u>
 <b>Net position (deficit) at end of year . . . . .</b>	 <u>\$ (2,732,753)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

<b>Cash flows from operating activities:</b>	
Cash received from State foundation . . . . .	\$ 1,089,340
Cash received from casino aid. . . . .	7,245
Cash received from facilities funding . . . . .	32,232
Cash received from other operations . . . . .	45,923
Cash payments for salaries and wages. . . . .	(60,000)
Cash payments for fringe benefits. . . . .	(19,725)
Cash payments for purchased services. . . . .	(1,554,629)
Cash payments for materials and supplies . . . . .	(84,747)
Cash payments for other expenses . . . . .	(26,293)
	(570,654)
<b>Net cash used in operating activities . . . . .</b>	
<b>Cash flows from noncapital financing activities:</b>	
Cash received from federal and state grants . . . . .	592,258
Cash received from miscellaneous receipts. . . . .	25,377
	617,635
<b>Net cash provided by noncapital financing activities. . . . .</b>	
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	(41,986)
	(41,986)
<b>Net cash used in capital and related financing activities. . . . .</b>	
Net increase in cash. . . . .	4,995
<b>Cash at beginning of year . . . . .</b>	<b>1,860</b>
<b>Cash at end of year. . . . .</b>	<b>\$ 6,855</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (2,128)
Adjustments:	
Depreciation . . . . .	2,100
Changes in assets, deferred outflows, liabilities, and deferred inflows:	
Decrease in intergovernmental receivable . . . . .	54,108
Decrease in net OPEB asset . . . . .	5,199
Decrease in deferred outflows - pensions . . . . .	243,887
(Increase) in deferred outflows - OPEB . . . . .	(636)
Increase in accounts payable . . . . .	17,298
(Decrease) in intergovernmental payable . . . . .	(17,135)
(Decrease) in accrued wages and benefits . . . . .	(9,600)
(Decrease) in net pension liability . . . . .	(194,054)
(Decrease) in net OPEB liability . . . . .	(46,678)
(Decrease) in deferred inflows - pensions. . . . .	(545,687)
(Decrease) in deferred inflows - OPEB . . . . .	(77,328)
	(570,654)
<b>Net cash used in operating activities. . . . .</b>	<b>\$ (570,654)</b>

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**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**NOTE 1 - DESCRIPTION OF THE ENTITY**

Richard Allen Academy (Academy) 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 Academy, which is part of the State's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

Effective August 1, 2017, the Academy entered into a multi-year Management Agreement (Agreement) with Educational Management and Development Group (EMDG). The Agreement's term runs through June 30, 2023. EMDG is responsible and accountable to the Board of Directors for the administration and day-to-day operations. See Note 12 for additional detail on the contractual relationship between EMDG and the Academy. During fiscal year 2020, the Academy also contracted with Richard Allen Preparatory to provide employee services and to pay those employees.

The Academy entered into a Sponsor Contract with the Ohio Department of Education (ODE) on July 1, 2013 for a two-year period ending June 30, 2015. The Academy renewed its contract with ODE in June 2015 for five years, extending it to June 30, 2020. On January 5, 2018, ODE sent an opt-out notice to the Academy. The Academy entered into a Sponsor Contract with a new sponsor, St. Aloysius, commencing July 1, 2018 through June 30, 2022.

The Academy operates under a self-appointing seven-member Board. The Academy'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 Academy had an enrollment of 133 full-time equivalent (FTE) students for fiscal year 2020.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

**B. Measurement Focus**

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

**C. Basis of Accounting**

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

**D. Deferred Outflows of Resources and Deferred Inflows of Resources**

In addition to assets, the government-wide statement of net position will 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/expenditure) until then. For the Academy, see Notes 8 and 9 for deferred outflows of resources related to the Academy's net pension liability and net OPEB liability/asset, respectively.

In addition to liabilities, the statement of net position will 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. For the Academy, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the Academy's net pension liability and net OPEB liability/asset, see Notes 8 and 9, respectively, for detail.

**E. Budgetary Process**

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032I. However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy 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 Academy must submit a five-year forecast to its Sponsor annually.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

**F. Cash**

Cash received by the Academy is reflected as “cash” on the statement of net position. All monies received by the Academy are maintained in demand deposit accounts. The Academy did not have any investments during fiscal year 2020.

**G. Capital Assets**

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 acquisition value as of the date received. The Academy maintains a capitalization threshold of \$1,000. The Academy 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 capital assets.

**H. Net Position**

Net position represents the difference between assets and deferred outflow of resources and liabilities and deferred inflow of resources. The net position component “investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**I. Operating Revenues and Expenses**

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

**J. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program, and the State Special Education Program, which are 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. Amounts awarded under these programs for the 2020 school year totaled \$1,120,627.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 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 Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy participates in the Comprehensive Continuous Improvement Planning Program (CCIP) through the ODE. Revenue received from this program is recognized as non-operating revenues. Amounts awarded under these programs for the 2020 school year totaled \$575,144.

**K. Accrued Liabilities and Long-Term Obligations**

The Academy has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of June 30, 2020.

**L. Pensions/Other Postemployment Benefits (OPEB)**

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

**M. Estimates**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2020, the Academy has implemented GASB Statement No. 84, "Fiduciary Activities" and GASB Statement No. 90, "Majority Equity Interests - an amendment to GASB Statements No. 14 and No. 61".

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. The implementation of GASB Statement No. 84 did not have an effect on the financial statements of the Academy.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the Academy.

**NOTE 4 - DEPOSITS**

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2020, the carrying amount of the Academy's deposits was \$6,855 and the bank balance was \$6,855. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

**NOTE 5 - RECEIVABLES**

At June 30, 2020, the Academy has \$13,805 in intergovernmental receivables. Intergovernmental receivables consist of federal assistance (CCIP) which eligibility requirements have been met (earned) and foundation due from ODE at June 30, 2020, but the cash was not received by year end. All receivables are considered collectible in full.

**NOTE 6 - PAYABLES**

At June 30, 2020, the Academy had accounts payable, accrued wages and benefits payable and an intergovernmental payable totaling \$136,276, \$8,400, and \$1,181, respectively. Accounts payable includes amounts due to various vendors during the normal course of conducting operations and the accrued payroll due to Richard Allen Preparatory for employee services. Accrued wages and benefits payable consist of payroll due to the Treasurer for services. The intergovernmental payable consists of an amount due to ODE and amounts due to SERS and STRS.

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	Balance 06/30/19	Additions	Reductions	Balance 06/30/20
Capital assets, being depreciated:				
Leasehold improvements	\$ -	\$ 41,986	\$ -	\$ 41,986
Total capital assets being depreciated	<u>-</u>	<u>41,986</u>	<u>-</u>	<u>41,986</u>
Less: accumulated depreciation				
Leasehold improvements	-	(2,100)	-	(2,100)
Total accumulated depreciation	<u>-</u>	<u>(2,100)</u>	<u>-</u>	<u>(2,100)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 39,886</u>	<u>\$ -</u>	<u>\$ 39,886</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**NOTE 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 Academy’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.

The Ohio Revised Code limits the Academy’s obligation for this liability to annually required payments.

The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy 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 and accounts payable on the statement of net position.

***Plan Description - School Employees Retirement System (SERS)***

Plan Description - The Academy 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Age 65 with 5 years of services credit; or 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; or 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 years of service; 2.2% for the first thirty years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% 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% for plan members and 14% 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, 2020, the allocation to pension, death benefits, and Medicare B was 14.0%.

The Academy's contractually required contribution to SERS was \$7,729 for fiscal year 2020.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description - Licensed teachers 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 website 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% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 28 years of service, or 33 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% 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% of the 14% member rate goes to the DC Plan and the remaining 2% 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 fiscal year 2020, plan members were required to contribute 14% of their annual covered salary. The Academy was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2020 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$123,117 for fiscal year 2020.

***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, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the projected contributions of all participating entities.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.00330055%	0.00758998%	
Proportion of the net pension liability current measurement date	<u>0.00175138%</u>	<u>0.00704994%</u>	
Change in proportionate share	<u>-0.00154917%</u>	<u>-0.00054004%</u>	
Proportionate share of the net pension liability	\$ 104,788	\$ 1,559,053	\$ 1,663,841
Pension expense	\$ (215,929)	\$ (149,079)	\$ (365,008)

At June 30, 2020, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 2,657	\$ 12,694	\$ 15,351
Changes of assumptions	-	183,142	183,142
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	-	103,012	103,012
Contributions subsequent to the measurement date	<u>7,729</u>	<u>123,117</u>	<u>130,846</u>
Total deferred outflows of resources	<u>\$ 10,386</u>	<u>\$ 421,965</u>	<u>\$ 432,351</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 6,750	\$ 6,750
Net difference between projected and actual earnings on pension plan investments	1,346	76,197	77,543
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>145,079</u>	<u>726,245</u>	<u>871,324</u>
Total deferred inflows of resources	<u>\$ 146,425</u>	<u>\$ 809,192</u>	<u>\$ 955,617</u>

\$130,846 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2021	\$ (126,173)	\$ (35,053)	\$ (161,226)
2022	(18,264)	(215,805)	(234,069)
2023	(91)	(242,890)	(242,981)
2024	760	(16,596)	(15,836)
Total	<u>\$ (143,768)</u>	<u>\$ (510,344)</u>	<u>\$ (654,112)</u>

***Actuarial Assumptions - SERS***

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2019, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
COLA or ad hoc COLA	2.50%
Investment rate of return	7.50% net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For 2019, the mortality rates were based on 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% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** - The total pension liability was calculated using the discount rate of 7.50%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50%). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, 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%), or one percentage point higher (8.50%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Academy's proportionate share of the net pension liability	\$ 146,845	\$ 104,788	\$ 69,518

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***Actuarial Assumptions - STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation are presented below:

	July 1, 2019
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.00%

For the July 1, 2019, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS Ohio's 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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

\*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

\*\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**Discount Rate** - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2019. 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, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

**Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45%, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Academy's proportionate share of the net pension liability	\$ 2,278,381	\$ 1,559,053	\$ 950,104

**NOTE 9 - DEFINED BENEFIT OPEB PLANS**

***Net OPEB Liability/Asset***

The net OPEB liability/asset reported on the statement of net position represents a liability/asset to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability/asset represents the Academy's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability/asset 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 these estimates annually.

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

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**NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)**

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability/asset. Resulting adjustments to the net OPEB liability/asset would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded/funded benefits is presented as a long-term *net OPEB liability* or *net OPEB asset* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in intergovernmental payable and accounts payable on the statement of net position.

***Plan Description - School Employees Retirement System (SERS)***

Health Care Plan Description – The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2020, SERS did not allocate any employer contributions to post-employment health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the Academy's surcharge obligation was zero.

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**NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)**

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. 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.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

***OPEB Liabilities/Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability/asset was measured as of June 30, 2019, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB liability/asset was based on the Academy's share of contributions to the respective retirement systems relative to the contributions of all participating entities.

Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability/asset prior measurement date	0.00316010%	0.00758998%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.00163007%</u>	<u>0.00704994%</u>	
Change in proportionate share	<u>-0.00153003%</u>	<u>-0.00054004%</u>	
Proportionate share of the net OPEB liability	\$ 40,992	\$ -	\$ 40,992
Proportionate share of the net OPEB asset	\$ -	\$ 116,764	\$ 116,764
OPEB expense	\$ (44,013)	\$ (75,430)	\$ (119,443)

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**NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)**

At June 30, 2020, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 603	\$ 10,587	\$ 11,190
Net difference between projected and actual earnings on OPEB plan investments	98	-	98
Changes of assumptions	<u>2,994</u>	<u>2,454</u>	<u>5,448</u>
Total deferred outflows of resources	<u>\$ 3,695</u>	<u>\$ 13,041</u>	<u>\$ 16,736</u>
	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	\$ 9,006	\$ 5,941	\$ 14,947
Net difference between projected and actual earnings on OPEB plan investments	-	7,334	7,334
Changes of assumptions	2,296	128,018	130,314
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>190,809</u>	<u>197,939</u>	<u>388,748</u>
Total deferred inflows of resources	<u>\$ 202,111</u>	<u>\$ 339,232</u>	<u>\$ 541,343</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2021	\$ (46,582)	\$ (67,553)	\$ (114,135)
2022	(41,942)	(67,553)	(109,495)
2023	(41,916)	(64,615)	(106,531)
2024	(41,921)	(63,584)	(105,505)
2025	(22,082)	(62,703)	(84,785)
Thereafter	<u>(3,973)</u>	<u>(183)</u>	<u>(4,156)</u>
Total	<u>\$ (198,416)</u>	<u>\$ (326,191)</u>	<u>\$ (524,607)</u>



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)**

***Actuarial Assumptions - SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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 OPEB liability in the latest actuarial valuation date of June 30, 2019 are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.13%
Prior measurement date	3.62%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.22%
Prior measurement date	3.70%
Medical trend assumption:	
Measurement date	
Medicare	5.25 to 4.75%
Pre-Medicare	7.00 to 4.75%
Prior measurement date	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120% of male rates and 110% of female rates. RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)**

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50%, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** - The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22%. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13%, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.62% was used as of June 30, 2018. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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**NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)**

*Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates* - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Academy's proportionate share of the net OPEB liability	\$ 49,758	\$ 40,992	\$ 34,024

  

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB liability	\$ 32,844	\$ 40,992	\$ 51,805

***Actuarial Assumptions - STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation, compared with July 1, 2018, are presented below:

	July 1, 2019		July 1, 2018	
Inflation	2.50%		2.50%	
Projected salary increases	12.50% at age 20 to 2.50% at age 65		12.50% at age 20 to 2.50% at age 65	
Investment rate of return	7.45%, net of investment expenses, including inflation		7.45%, net of investment expenses, including inflation	
Payroll increases	3.00%		3.00%	
Cost-of-living adjustments (COLA)	0.00%		0.00%	
Discounted rate of return	7.45%		7.45%	
Blended discount rate of return	N/A		N/A	
Health care cost trends				
	Initial	Ultimate	Initial	Ultimate
Medical				
Pre-Medicare	5.87%	4.00%	6.00%	4.00%
Medicare	4.93%	4.00%	5.00%	4.00%
Prescription Drug				
Pre-Medicare	7.73%	4.00%	8.00%	4.00%
Medicare	9.62%	4.00%	-5.23%	4.00%

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)**

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

**Assumption Changes Since the Prior Measurement Date** - There were no changes in assumptions since the prior measurement date of June 30, 2018.

**Benefit Term Changes Since the Prior Measurement Date** - There was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944% to 1.984% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

\* Target weights will be phased in over a 24-month period concluding on July 1, 2019.

\*\*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2019.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)**

*Sensitivity of the Academy's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate* - The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
Academy's proportionate share of the net OPEB asset	\$ 99,635	\$ 116,764	\$ 131,166

  

	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB asset	\$ 132,405	\$ 116,764	\$ 97,608

**NOTE 10 - RISK MANAGEMENT**

**A. Property and Liability**

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2020, the Academy maintained the following coverage through the Alliance of Nonprofits for Insurance Company:

<u>Coverage</u>	<u>Limits of Coverage</u>
Property liability:	
Building replacement cost	\$4,678,933
Business personal property limit	150,000
Deductible	5,000
General liability:	
Each occurrence	1,000,000
General aggregate	2,000,000
Products – aggregate	2,000,000
Personal & advertising injury	1,000,000
Damages to rented premises, per occurrence	500,000
Medical payments	20,000
Liquor Liability:	
Aggregate limit	1,000,000
Common cause	1,000,000
Social Service Professional:	
Aggregate limit	2,000,000
Event	1,000,000

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**NOTE 10 - RISK MANAGEMENT - (Continued)**

<u>Coverage</u>	<u>Limits of Coverage</u>
Improper Sexual Conduct Limits:	
Aggregate limit	\$1,000,000
Each occurrence	1,000,000

Settled claims have not exceeded this coverage in any of the past three years. There was a significant reduction in building replacement cost insurance coverage from the prior year.

**B. Employee Insurance Benefits**

Effective August 1, 2017, the Academy contracted with Richard Allen Preparatory to provide health, dental, vision and life insurance to employees.

**NOTE 11 - SPONSOR**

On July 1, 2013, the Academy 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 Academy from the State of Ohio foundation payments. The Sponsor is to provide oversight, monitoring, and technical assistance for the Academy. In June 2015, the Academy and Sponsor entered into a five-year agreement ending on June 30, 2020 for a fee of 3% of state revenues. On January 5, 2018, ODE sent an opt-out notice to the Academy. The Academy entered into a Sponsor Contract with a new sponsor, St. Aloysius, commencing July 1, 2018 through June 30, 2022. Sponsor fee expense for fiscal year 2020 totaled \$34,770.

**NOTE 12 - MANAGEMENT COMPANY AGREEMENT**

**Educational Management and Development Group, LLC**

Effective August 1, 2017, the Academy entered into a multi-year Management Agreement (Agreement) with Educational Management and Development Group (EMDG). The Agreement's term runs through June 30, 2023.

EMDG will provide the Academy with the educational and administrative services set forth as follows:

- Educational services - curriculum, instruction oversight and coordination, instructional tools, extra-curricular and co-curricular programs, and additional educational services.
- Administrative services - personnel management, facility operation and maintenance, business administration (talent acquisition and human resources administration), facility acquisition and management, financial management, grants management, executive leadership, Board expenses, transportation and food services, public relations, budgeting and financial reporting, maintenance of financial and student records, marketing and community outreach, state data reporting, professional development for all staff, Board governance services, building level leadership and training supervision, fundraising, technology administration, admissions, student hearings, academic progress reports, rules and procedures, parent satisfaction forms, and additional administrative services.

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**NOTE 12 - MANAGEMENT COMPANY AGREEMENT - (Continued)**

As part of the terms of this Agreement, the “Continuing Fee” percentage of the Academy is 16 percent of gross revenues and a license fee of 3 percent of gross revenues. In addition to the management fee described above, the Academy will reimburse EMDG for its payroll and other costs eligible for reimbursements. Teachers and support staff recommended by EMDG will be employees of the Academy. The Director of the Academy will be an employee of EMDG, whose selection and removal shall be subject to approval of the Board.

EDMG may terminate the Agreement prior to the end of the term in the event the Academy fails to remedy a material breach of the Agreement within thirty days after written notice from EMDG. The Academy may terminate the Agreement for cause or without cause, per terms of the Agreement. The Agreement will terminate upon termination of the Academy’s Charter or substantial reduction in state and federal funding.

The Academy paid \$252,927 to EMDG during fiscal year 2020 for management services.

**NOTE 13 - PURCHASED SERVICES**

For fiscal year ended June 30, 2020, purchased services expenses were as follows:

Instructional services	\$ 1,030,828
Professional development	195
Management services	252,927
Data processing services	10,216
Board stipends	27,898
Professional/legal services	9,878
Accounting/auditing services	(1,745)
Property services	112,219
Travel expenses	222
Communications	86
Utility services	52,472
Contracted food services	102,979
Instruction other tuition	<u>28</u>
Total	<u>\$ 1,598,203</u>

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**NOTE 14 - LONG-TERM OBLIGATIONS**

The following changes occurred in the long-term obligations during fiscal year 2020:

	Balance <u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2020</u>	Amounts Due in <u>One Year</u>
Net pension liability:					
STRS	\$ 1,668,866	\$ -	\$ (109,813)	\$ 1,559,053	\$ -
SERS	<u>189,029</u>	<u>-</u>	<u>(84,241)</u>	<u>104,788</u>	<u>-</u>
Total net pension liability	<u>1,857,895</u>	<u>-</u>	<u>(194,054)</u>	<u>1,663,841</u>	<u>-</u>
Net OPEB liability:					
SERS	87,670	-	(46,678)	40,992	-
Total net OPEB liability	<u>87,670</u>	<u>-</u>	<u>(46,678)</u>	<u>40,992</u>	<u>-</u>
Promissory notes payable:					
West Park	<u>11,500</u>	<u>-</u>	<u>-</u>	<u>11,500</u>	<u>-</u>
Total long-term obligations	<u>\$ 1,957,065</u>	<u>\$ -</u>	<u>\$ (240,732)</u>	<u>\$ 1,716,333</u>	<u>\$ -</u>

Net Pension Liability

See Note 8 for information on the Academy's net pension liability.

Net OPEB Liability

See Note 9 for information on the Academy's net OPEB liability.

Promissory Notes Payable

On June 30, 2004, West Park Academy, Inc. provided the Academy with a demand promissory note of \$11,500 for capital acquisitions during the initial start-up phase of the Academy. The note stipulates that no interest will accrue if it is paid in full by June 30, 2009. A portion of the note, or the entire, upon written notice to the Academy. West Park Academy determined no interest will accrue on this loan in 2020, and no payments were made on the loan during fiscal year 2020.

**NOTE 15 - RELATED PARTY TRANSACTIONS**

The Governing Board of Richard Allen Academy served in the same capacity for the Richard Allen Preparatory for the fiscal year 2020, both of which were managed by the EMDG for the period July 1, 2019 through June 30, 2020. The Richard Allen Academy shares its Superintendent and the Treasurer/CFO with Richard Allen Preparatory.

The Superintendent serves as the Executive Director of EMDG. The Treasurer/CFO is not an employee of EMDG (nor has no other affiliation with EMDG) and has a separate contract with the Board.

The Academy pays EMDG 16 percent of gross revenues and a license fee of 3 percent of gross revenues. In addition to the management fee described above, the Academy will reimburse EMDG for its payroll and other costs eligible for reimbursements. See Note 12 for details.



**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2020.

**B. State Foundation Funding**

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The ODE is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2020.

The Academy is due \$355 and owes \$5 from the fiscal year 2020 reviews. This amount has been reported as an intergovernmental receivable and intergovernmental payable, respectively.

**C. Pending Litigation**

The Academy is currently involved in legal proceedings; however, management does not believe there will be a significant negative financial impact to the Academy's financial position.

**NOTE 17 - COVID-19**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Academy. Investments of the pension and other employee benefit plan in which the Academy participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Academy's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**NOTE 18 - FEDERAL TAX STATUS**

The Academy 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 Academy's tax-exempt status.

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 19 - MANAGEMENT PLAN**

Management merged the Richard Allen Academy and the Richard Allen Academy III effective June 1, 2018. Management has taken steps towards increasing student enrollment and containing costs, which would provide additional State funding and reduce expenses respectively, enabling the Academy to return to financial stability.

**NOTE 20 – SUBSEQUENT EVENT**

The Academy's former management company, Institute of Management and Resources, filed for bankruptcy protection on March 22, 2018. This chapter 7 liquidation bankruptcy proceeding was terminated on January 6, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST SEVEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017*</u>
Academy's proportion of the net pension liability	0.00175138%	0.00330055%	0.01139500%	0.01186560%
Academy's proportionate share of the net pension liability	\$ 104,788	\$ 189,029	\$ 680,826	\$ 868,454
Academy's covered payroll	\$ 84,548	\$ 173,415	\$ 364,500	\$ 644,914
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	123.94%	109.00%	186.78%	134.66%
Plan fiduciary net position as a percentage of the total pension liability	70.85%	71.36%	69.50%	62.98%

\* Amounts were restated in fiscal year 2018 to reflect the June 1, 2018 merger between Richard Allen Academy and Richard Allen Academy III.

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<b>2016</b>	<b>2015</b>	<b>2014</b>
0.01240200%	0.01673600%	0.01673600%
\$ 707,670	\$ 846,999	\$ 995,236
\$ 942,860	\$ 940,462	\$ 1,005,484
75.06%	90.06%	98.98%
69.16%	71.70%	65.52%

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST SEVEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017*</u>
Academy's proportion of the net pension liability	0.00704994%	0.00758998%	0.01411859%	0.01414981%
Academy's proportionate share of the net pension liability	\$ 1,559,053	\$ 1,668,866	\$ 3,353,901	\$ 4,736,368
Academy's covered payroll	\$ 669,614	\$ 2,204,271	\$ 1,552,164	\$ 2,935,714
Academy's proportionate share of the net pension liability as a percentage of its covered payroll	232.83%	75.71%	216.08%	161.34%
Plan fiduciary net position as a percentage of the total pension liability	77.40%	77.31%	75.30%	66.80%

\* Amounts were restated in fiscal year 2018 to reflect the June 1, 2018 merger between Richard Allen Academy and Richard Allen Academy III.

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2016</u>	<u>2015</u>	<u>2014</u>
0.00629395%	0.00653529%	0.06535290%
\$ 1,739,464	\$ 1,589,609	\$ 1,893,531
\$ 1,225,714	\$ 1,198,554	\$ 1,857,962
141.91%	132.63%	101.91%
72.10%	74.70%	69.30%

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY PENSION CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017*</u>
Contractually required contribution	\$ 7,729	\$ 11,414	\$ 23,411	\$ 51,030
Contributions in relation to the contractually required contribution	<u>(7,729)</u>	<u>(11,414)</u>	<u>(23,411)</u>	<u>(51,030)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 55,207	\$ 84,548	\$ 173,415	\$ 364,500
Contributions as a percentage of covered payroll	14.00%	13.50%	13.50%	14.00%

\* Amounts were restated in fiscal year 2018 to reflect the June 1, 2018 merger between Richard Allen Academy and Richard Allen Academy III.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



<u>2016*</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 90,288	\$ 124,269	\$ 130,348	\$ 139,159	\$ 90,742	\$ 94,416
<u>(90,288)</u>	<u>(124,269)</u>	<u>(130,348)</u>	<u>(139,159)</u>	<u>(90,742)</u>	<u>(94,416)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 644,914	\$ 942,860	\$ 940,462	\$ 1,005,484	\$ 674,662	\$ 751,122
14.00%	13.18%	13.86%	13.84%	13.45%	12.57%

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY PENSION CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017*</u>
Contractually required contribution	\$ 123,117	\$ 93,746	\$ 308,598	\$ 217,303
Contributions in relation to the contractually required contribution	<u>(123,117)</u>	<u>(93,746)</u>	<u>(308,598)</u>	<u>(217,303)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 879,407	\$ 669,614	\$ 2,204,271	\$ 1,552,164
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

\* Amounts were restated in fiscal year 2018 to reflect the June 1, 2018 merger between Richard Allen Academy and Richard Allen Academy III.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2016*</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 411,000	\$ 171,600	\$ 155,812	\$ 241,535	\$ 144,197	\$ 180,102
<u>(411,000)</u>	<u>(171,600)</u>	<u>(155,812)</u>	<u>(241,535)</u>	<u>(144,197)</u>	<u>(180,102)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,935,714	\$ 1,225,714	\$ 1,198,554	\$ 1,857,962	\$ 1,109,208	\$ 1,385,400
14.00%	14.00%	13.00%	13.00%	13.00%	13.00%

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's proportion of the net OPEB liability	0.00163007%	0.00316010%	0.01046470%	0.01085369%
Academy's proportionate share of the net OPEB liability	\$ 40,992	\$ 87,670	\$ 280,845	\$ 309,370
Academy's covered payroll	\$ 84,548	\$ 173,415	\$ 364,500	\$ 644,914
Academy's proportionate share of the net OPEB liability as a percentage of its covered payroll	48.48%	50.56%	77.05%	47.97%
Plan fiduciary net position as a percentage of the total OPEB liability	15.57%	13.57%	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FOUR FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's proportion of the net OPEB liability/asset	0.00704994%	0.00758998%	0.01411859%	0.01414981%
Academy's proportionate share of the net OPEB liability/(asset)	\$ (116,764)	\$ (121,963)	\$ 550,855	\$ 756,736
Academy's covered payroll	\$ 669,614	\$ 2,204,271	\$ 1,552,164	\$ 2,935,714
Academy's proportionate share of the net OPEB liability/(asset) as a percentage of its covered payroll	(17.44%)	(5.53%)	35.49%	25.78%
Plan fiduciary net position as a percentage of the total OPEB liability/asset	174.70%	176.00%	47.10%	37.33%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Academy's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY OPEB CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017*</b>
Contractually required contribution	\$ -	\$ 423	\$ 3,268	\$ 595
Contributions in relation to the contractually required contribution	-	(423)	(3,268)	(595)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Academy's covered payroll	\$ 55,207	\$ 84,548	\$ 173,415	\$ 364,500
Contributions as a percentage of covered payroll	0.00%	0.50%	1.88%	0.16%

\* Include contributions of Richard Allen Academy and Richard Allen Academy III to reflect the June 1, 2018 merger.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2016*</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 469	\$ 7,764	\$ 1,394	\$ 1,700	\$ 3,930	\$ 11,432
<u>(469)</u>	<u>(7,764)</u>	<u>(1,394)</u>	<u>(1,700)</u>	<u>(3,930)</u>	<u>(11,432)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 644,914	\$ 942,860	\$ 940,462	\$ 1,005,484	\$ 674,662	\$ 751,122
0.07%	0.82%	0.15%	0.17%	0.58%	1.52%

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF ACADEMY OPEB CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017*</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered payroll	\$ 879,407	\$ 669,614	\$ 2,204,271	\$ 1,552,164
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

\* Include contributions of Richard Allen Academy and Richard Allen Academy III to reflect the June 1, 2018 merger.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



<u>2016*</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ -	\$ -	\$ 11,986	\$ 18,580	\$ 11,092	\$ 13,854
-	-	(11,986)	(18,580)	(11,092)	(13,854)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,935,714	\$ 1,225,714	\$ 1,198,554	\$ 1,857,962	\$ 1,109,208	\$ 1,385,400
0.00%	0.00%	1.00%	1.00%	1.00%	1.00%

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PENSION

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changes in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%. There were no changes in benefit terms from the amounts previously reported for fiscal years 2019-2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2018-2020.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero. There were no changes in benefit terms from amounts previously reported for fiscal years 2019-2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2020.

(Continued)

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal years 2017-2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement, (h) the municipal bond index rate increased from 2.92% to 3.56% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 2.98% to 3.63%. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate increased from 3.63% to 3.70%, (b) the health care cost trend rates for Medicare were changed from a range of 5.50%-5.00% to a range of 5.375%-4.75% and Pre-Medicare were changed from a range of 7.50%-5.00% to a range of 7.25%-4.75%, (c) the municipal bond index rate increased from 3.56% to 3.62% and (d) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%. For fiscal year 2020, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate decreased from 3.70% to 3.22%, (b) the health care cost trend rates for Medicare were changed from a range of 5.375%-4.75% to a range of 5.25%-4.75% and Pre-Medicare were changed from a range of 7.25%-4.75% to a range of 7.00%-4.75%, (c) the municipal bond index rate decreased from 3.62% to 3.13% and (d) the single equivalent interest rate, net of plan investment expense, including price inflation decreased from 3.70% to 3.22%.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. For fiscal year 2019, STRS increased the subsidy multiplier for non-Medicare benefit recipients from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020. For fiscal year 2020, STRS increase the subsidy percentage from 1.944% to 1.984% effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability/asset since the prior measurement date: (a) the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and (b) decrease in health care cost trend rates from 6.00%-11.00% initial; 4.50% ultimate down to Medical Pre-Medicare 6.00% and Medicare 5.00% initial; 4.00% ultimate and Prescription Drug Pre-Medicare 8.00% and Medicare (5.23%) initial; 4.00% ultimate. For fiscal year 2020, health care cost trend rates were changed to the following: medical pre-Medicare from 6.00% initial - 4.00% ultimate down to 5.87% initial - 4.00% ultimate; medical Medicare from 5.00% initial - 4.00% ultimate down to 4.93% initial - 4.00% ultimate; prescription drug pre-Medicare from 8.00% initial - 4.00% ultimate down to 7.73% initial - 4.00% ultimate and (5.23%) initial - 4.00% ultimate up to 9.62% initial - 4.00% ultimate.

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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  
Butler County  
1206 Shuler Avenue  
Hamilton, Ohio 45011

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Richard Allen Academy, Butler County, (the Academy) as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 5, 2023, wherein we noted that the Academy is facing financial difficulties and we also noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Academy.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing 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 Academy'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 Academy's financial statements. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

As part of reasonably assuring whether the Academy'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 financial statements. 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2020-001.

***Academy's Response to Finding***

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the Academy's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***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 Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

January 5, 2023

**RICHARD ALLEN ACADEMY  
BUTLER COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2020**

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

**FINDING NUMBER 2020-001**

**NONCOMPLIANCE**

**Ohio Rev. Code § 102.03 (E)** states 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)(4)**, states, in part, no public official shall knowingly 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.

In previous periods, the Academy had a contract with Institute of Management and Resources, Inc. (IMR) to perform management services and Dr. Michelle Thomas (now Bozeman) served as the Superintendent of Richard Allen Schools while being employed as the Director of IMR. Due to the bankruptcy process related to IMR, the Academy then entered into an agreement with a new management company, Educational Management and Development Group (EMDG), to perform management services effective August 1, 2017. Dr. Michelle Thomas (Bozeman) again was employed as the Director of EMDG while serving as the Superintendent of the Academy. Dr. Thomas (Bozeman) may have violated Ohio Rev. Code § 2921.42(A)(4) because as a public official in her role as the Superintendent of the Academy, Dr. Thomas (Bozeman) had a pecuniary interest in the agreement between EMDG and the Academy.

Additionally, Dr. Thomas (Bozeman) received compensation and benefits from EMDG while in her role as Director. Dr. Thomas (Bozeman) may have violated Ohio Rev. Code § 102.03(E) because her acceptance of the compensation and benefits from EMDG may have impaired her ability to objectively and independently exercise judgment in matters concerning EMDG in her role as the Superintendent for the Academy.

The Academy 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 Academy entering into contracts that might not be in the best interest of the Academy or the attending students. A referral will be made to the Ohio Ethics Commission.

**Officials' Response:** The School strongly objects to this finding 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. Bozeman (former 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 proposed finding fails to address this conflict with R.C. 3314.02(A)(8)(a). Consistent with Ohio community school law, a staff member of the operator—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. Accordingly, this baseless allegation should be removed from the Audit Report.

**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, to the best of the Auditor's knowledge, 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 clear 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. Bozeman (formerly 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 (for which the School contracted with for one month during the audit period) and the Director of EMDG (for which the School contracted with for the remaining months during the audit period), 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 and EMDG were the organizations that managed the daily operations of the School pursuant to a contract between IMR and the School and EMDG 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. Bozeman, 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.



# Richard Allen Academy

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2020

Finding Number	Finding Summary	Status	Additional Information
2019-001	Material Weakness – Net Pension Liability and Net OPEB Liability – The Academy placed scope restrictions on testing net pension liability and net OPEB liability for 2018.	Fully Corrected	
2019-002	Material Weakness – Accounts Payable – The Academy could not provide appropriate underlying support and an appropriate search for unrecorded accounts payable could not be performed; therefore, the opinion was modified for accounts payable and operating expenses.	Fully Corrected	
2019-003	Noncompliance – Ohio Rev. Code § 102.03(E) and Ohio Rev. Code § 2921.42(A)(4) – Potential conflict of interest involving Dr. Michelle Thomas (Bozeman) due to relationship with Academy and management company.	Not Corrected	Repeated as Finding Number 2020-001

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# OHIO AUDITOR OF STATE KEITH FABER



**RICHARD ALLEN ACADEMY**

**BUTLER COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 6/1/2023**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)