RICHARD ALLEN PREPARATORY
MONTGOMERY COUNTY

SINGLE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

REGULAR AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY**

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**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY**

**SINGLE AUDIT**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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**MONTGOMERY COUNTY**
**JUNE 30, 2019**

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OHIO AUDITOR OF STATE
KEITH FABER

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Columbus, Ohio 43215
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**INDEPENDENT AUDITOR'S REPORT**

Richard Allen Preparatory
Montgomery County
627 Salem Avenue
Dayton, Ohio 45402

To the Governing Board:

***Report on the Financial Statements***

We have audited the accompanying financial statements of Richard Allen Preparatory, Montgomery County, Ohio (the Preparatory), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Preparatory'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 Preparatory'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 Preparatory'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 the Preparatory, as of June 30, 2019, 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 Preparatory has a net position deficiency at June 30, 2019. Note 18 to the financial statements describes management's plans regarding this matter. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. We did not modify our opinion regarding this matter. As discussed in Note 19 to the financial statements, during fiscal year 2020, the financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods of the Preparatory. 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.

*Supplementary Information*

Our audit was conducted to opine on the Preparatory's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2022, on our consideration of the Preparatory’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 Preparatory’s internal control over financial reporting and compliance.

Keith Faber
Auditor of State
Columbus, Ohio

November 17, 2022

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**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
UNAUDITED

The discussion and analysis of the Richard Allen Preparatory's (the "Preparatory") financial performance provides an overall review of the Preparatory's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Preparatory'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 Preparatory's financial performance.

**Financial Highlights**

Key financial highlights for 2019 are as follows:

- In total, net position was deficit $3,464,539 at June 30, 2019.

- The Preparatory had operating revenues of $3,668,771, operating expenses of $3,611,250 and non-operating revenues of $676,006 for fiscal year 2019.

**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 Preparatory's financial activities. The s*tatement of net position* and s*tatement of revenues, expenses and changes in net position* provide information about the activities of the Preparatory, including all short-term and long-term financial resources and obligations.

**Reporting the Preparatory'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 2019?" 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 Preparatory's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the Preparatory as a whole, the *financial position* of the Preparatory 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 Preparatory 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 Preparatory's net pension liability and net OPEB liability/asset.

The table below provides a summary of the Preparatory's net position for fiscal year 2019 and 2018.

**Net Position**

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 105,634 | $ 182,663 |
| Non-current assets | 164,541 | - |
| Total assets | 270,175 | 182,663 |
| **Deferred outflows of resources** | 1,010,410 | 1,475,085 |
| **Liabilities** | | |
| Current liabilities | 375,493 | 371,155 |
| Non-current liabilities | 2,881,252 | 4,217,546 |
| Total liabilities | 3,256,745 | 4,588,701 |
| **Deferred inflows of resources** | 1,488,379 | 1,267,113 |
| **Net Position** | | |
| Unrestricted (deficit) | (3,464,539) | (4,198,066) |
| Total net position (deficit) | $ (3,464,539) | $ (4,198,066) |

The net pension liability (NPL) is the largest single liability reported by the Preparatory at June 30, 2019 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27." The Preparatory 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 Preparatory'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 the 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.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability/asset to equal the Preparatory'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 Preparatory 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 Preparatory'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, 2019 and 2018, the Preparatory's net position totaled deficits of ($3,464,539) and ($4,198,066), respectively.

Current and non-current assets represent cash, net OPEB asset, accounts and intergovernmental receivables. Current liabilities represent accounts and intergovernmental payables for professional services and accrued wages.

Long-term liabilities outstanding at June 30, 2019 represent the net pension liability (see Note 7 for detail) and the net OPEB liability (see Note 8 for detail). Refer to Note 13 for a summary of the changes in the Preparatory's long-term obligations during fiscal year 2019. Long-term liabilities decreased as a result of the reduction in net pension liability and net OPEB liability.

The table below shows the changes in net position for fiscal years 2019 and 2018.

**Change in Net Position**

| | 2019 | 2018 |
|---|---|---|
| **Operating Revenues:** | | |
| State foundation | $ 2,778,698 | $ 2,529,511 |
| Services provided to other entities | 800,932 | 967,869 |
| Casino aid | 18,134 | 17,954 |
| Facilities funding | 71,007 | 64,719 |
| Miscellaneous | - | 7,760 |
| Total operating revenue | 3,668,771 | 3,587,813 |
| **Operating Expenses:** | | |
| Salaries | 2,423,943 | 2,021,298 |
| Benefits | 838,189 | 714,917 |
| Purchased services | 1,121,252 | 1,781,392 |
| Materials and supplies | 9,934 | 5,198 |
| Change in pension obligations | (814,894) | (2,097,820) |
| Other | 32,826 | 111,731 |
| Total operating expenses | 3,611,250 | 2,536,716 |
| **Non-operating Revenues (Expenses):** | | |
| Federal and state grants | 669,311 | 757,380 |
| Other non-operating revenue | 5,934 | - |
| Contributions and donations | 761 | - |
| Interest and fiscal charges | - | (21,490) |
| Total non-operating revenues (expenses) | 676,006 | 735,890 |
| **Special Item:** | | |
| Debt forgiveness | - | 11,100 |
| Change in net position | 733,527 | 1,798,087 |
| Net position (deficit) at beginning of year | (4,198,066) | $ (5,996,153) |
| Net position (deficit) at end of year | $ (3,464,539) | $ (4,198,066) |

Overall, expenses increased $ 1,074,534. This increase is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50% in fiscal year 2018. Fluctuations in the pension expense reported under GASB 68 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. State foundation revenue increased due to a higher student enrollment during fiscal year 2019. The Preparatory also received federal grant monies through the Child Nutrition Breakfast & Lunch, Title I-A, Title II-A, Title IV-A and Title VI-B programs during fiscal year 2019. The Preparatory reports operating revenue for services provided to other entities, which is revenue received from the Richard Allen Academy for employee services.

***Debt***

The Preparatory had no outstanding promissory notes payable at June 30, 2019, or June 30, 2018.

***Capital Assets***

The Preparatory had no capital assets to report at June 30, 2019, or June 30, 2018.

**Restrictions and Other Limitations**

The future stability of the Preparatory is not without challenges. The Preparatory 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 Preparatory.

**Current Financial Related Activities**

The Preparatory 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 Preparatory's students, the Preparatory will apply resources to best meet the needs of its students.

**Contacting the Preparatory's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the Preparatory's finances and to show the Preparatory'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 PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2019

| | |
|---|---|
| **Assets:** | |
| Current assets: | |
| Cash | $ 3,997 |
| Receivables: | |
| Accounts | 64,869 |
| Intergovernmental | 36,768 |
| Total current assets | 105,634 |
| Non-current assets: | |
| Net OPEB asset | 164,541 |
| Total non-current assets | 164,541 |
| Total assets | 270,175 |
| **Deferred outflows of resources:** | |
| Pension | 946,363 |
| OPEB | 64,047 |
| Total deferred outflows of resources | 1,010,410 |
| **Liabilities:** | |
| Current liabilities: | |
| Accounts payable | 71,830 |
| Accrued wages and benefits | 204,663 |
| Intergovernmental payable | 99,000 |
| Total current liabilities | 375,493 |
| Long-term liabilities: | |
| Net pension liability (See Note 7) | 2,674,796 |
| Net OPEB liability (See Note 8) | 206,456 |
| Total long-term liabilities | 2,881,252 |
| Total liabilities | 3,256,745 |
| **Deferred inflows of resources:** | |
| Pension | 1,081,216 |
| OPEB | 407,163 |
| Total deferred inflows of resources | 1,488,379 |
| **Net position:** | |
| Unrestricted (deficit) | (3,464,539) |
| Total net position (deficit) | $ (3,464,539) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| | |
|---|---|
| **Operating revenues:** | |
| State foundation | $ 2,778,698 |
| Services provided to other entities | 800,932 |
| Casino aid. | 18,134 |
| Facilities funding | 71,007 |
| Total operating revenues | 3,668,771 |
| **Operating expenses:** | |
| Salaries | 2,423,943 |
| Benefits | 838,189 |
| Purchased services | 1,121,252 |
| Materials and supplies | 9,934 |
| Change in pension and OPEB obligations | (814,894) |
| Other | 32,826 |
| Total operating expenses. | 3,611,250 |
| Operating income | 57,521 |
| **Non-operating revenues:** | |
| Federal and state grants | 669,311 |
| Other non-operating revenue | 5,934 |
| Contributions and donations | 761 |
| Total non-operating revenues | 676,006 |
| Change in net position. | 733,527 |
| **Net position (deficit) at beginning of year** | (4,198,066) |
| **Net position (deficit) at end of year** | $ (3,464,539) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| | | |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from State foundation | $ | 2,767,114 |
| Cash received from services provided to other entities | | 809,378 |
| Cash received from casino aid | | 18,134 |
| Cash received from facilities funding | | 71,007 |
| Cash payments for salaries | | (2,405,362) |
| Cash payments for benefits | | (773,097) |
| Cash payments for purchased services | | (1,180,638) |
| Cash payments for materials and supplies | | (3,934) |
| Cash payments for other expenses | | (17,734) |
| Net cash used in operating activities | | (715,132) |
| **Cash flows from noncapital financing activities:** | | |
| Cash received from federal and state grants | | 699,660 |
| Cash received from contributions and donations | | 761 |
| Net cash provided by noncapital financing activities | | 700,421 |
| Net decrease in cash | | (14,711) |
| **Cash at beginning of year** | | 18,708 |
| **Cash at end of year** | $ | 3,997 |
| **Reconciliation of operating income to net cash used in operating activities:** | | |
| Operating income | $ | 57,521 |
| Changes in assets, deferred outflows, liabilities, and deferred inflows: | | |
| Decrease in accounts receivable | | 8,446 |
| Decrease in intergovernmental receivable | | 29,457 |
| (Increase) in net OPEB asset | | (164,541) |
| Decrease in deferred outflows - pensions | | 495,483 |
| (Increase) in deferred outflows - OPEB | | (30,808) |
| (Decrease) in accounts payable | | (55,028) |
| Increase in accrued wages and benefits payable | | 21,576 |
| Increase in intergovernmental payable | | 37,790 |
| (Decrease) in net pension liability | | (867,019) |
| (Decrease) in net OPEB liability | | (469,275) |
| (Decrease) in deferred inflows - pensions | | (72,233) |
| Increase in deferred inflows - OPEB | | 293,499 |
| Net cash used in operating activities | $ | (715,132) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

## NOTE 1 - DESCRIPTION OF THE ENTITY

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

Effective August 1, 2017, the Preparatory 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 11 for additional detail on the contractual relationship between EMDG and the Preparatory.

The Preparatory 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 Preparatory 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 Preparatory. The Preparatory entered into a Sponsor Contract with a new sponsor, St. Aloysius, commencing July 1, 2018 through June 30, 2022.

The Preparatory operates under a self-appointing seven-member Board. The Preparatory'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 Preparatory had an enrollment of 364 full-time equivalent (FTE) students for fiscal year 2019.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Preparatory 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 Preparatory's significant accounting policies are described below.

### A. Basis of Presentation

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

## 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 Preparatory 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 School 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 Preparatory'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 Preparatory 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 Preparatory must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Preparatory 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 Preparatory, see Notes 7 and 8 for deferred outflows of resources related to the Preparatory'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 Preparatory, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the Preparatory's net pension liability and net OPEB liability/asset, see Notes 7 and 8, 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 Preparatory and its Sponsor. The contract between the Preparatory 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 Preparatory must submit a five-year forecast to its Sponsor annually.

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

**F. Cash**

Cash received by the Preparatory is reflected as "cash" on the statement of net position. All monies received by the Preparatory are maintained in demand deposit accounts. The Preparatory did not have any investments during fiscal year 2019.

**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 Preparatory maintains a capitalization threshold of $1,000. The Preparatory 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.

The Preparatory has no capital assets to report at June 30, 2019.

**H. Net Position**

Net position represents the difference between assets and deferred outflow of resources and liabilities and deferred inflow of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Preparatory or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**J. Intergovernmental Revenues**

The Preparatory 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 2019 school year totaled $2,867,839.

**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 Preparatory must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

The Preparatory 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 2019 school year totaled $669,311.

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

The Preparatory has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of June 30, 2019.

**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 2019, the Preparatory has implemented GASB Statement No. 83, "*Certain Asset Retirement Obligations*" and GASB Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Preparatory.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the School.

**NOTE 4 - DEPOSITS**

Custodial credit risk is the risk that, in the event of bank failure, the Preparatory's deposits may not be returned. The Preparatory does not have a deposit policy for custodial credit risk. At June 30, 2019, the carrying amount of the Preparatory's deposits was $3,997 and the bank balance was $13,352. 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, 2019, the Preparatory had $64,869 in accounts receivable and $36,768 in intergovernmental receivables. Accounts receivable consist of amounts due from the Richard Allen Academy for accrued payroll and benefits ($58,935) and miscellaneous amounts of ($5,934). Intergovernmental receivables consist of federal assistance (CCIP) which eligibility requirements have been met (earned) and amounts due from the School Employees Retirement System (SERS). All receivables are considered collectible in full.

**NOTE 6 - PAYABLES**

At June 30, 2019, the Preparatory had accounts payable, accrued wages and benefits, and an intergovernmental payable totaling $71,830, $204,663 and $99,000. Accounts payable includes amounts due to various vendors during the normal course of conducting operations. Accrued wages and benefits payable includes amounts due to employees for services for fiscal year 2019. The intergovernmental payable consists of an amount due to ODE and amounts due to SERS and the State Teachers Retirement System (STRS).

**NOTE 7 - 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 Preparatory'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.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

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

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

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire 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.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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 School 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The Preparatory's contractually required contribution to SERS was $57,146 for fiscal year 2019. Of this amount, $21,221 is reported as intergovernmental payable.

***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.

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 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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 2019, plan members were required to contribute 14% of their annual covered salary. The Preparatory was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The Preparatory's contractually required contribution to STRS was $205,724 for fiscal year 2019. Of this amount, $51,270 is reported as intergovernmental payable.

***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, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Preparatory's proportion of the net pension liability was based on the School's share of contributions to the pension plan relative to the projected contributions of all participating entities.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the net pension liability prior measurement date | 0.00616960% | 0.01335789% | |
| Proportion of the net pension liability current measurement date | 0.00739145% | 0.01023968% | |
| Change in proportionate share | 0.00122185% | -0.00311822% | |
| Proportionate share of the net pension liability | $ 423,322 | $ 2,251,474 | $ 2,674,796 |
| Pension expense | $ 42,371 | $ (223,270) | $ (180,899) |

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred outflows of resources** | | | |
| Differences between expected and actual experience | $ 23,216 | $ 51,973 | $ 75,189 |
| Changes of assumptions | 9,560 | 399,004 | 408,564 |
| Difference between employer contributions and proportionate share of contributions/ change in proportionate share | 41,975 | 157,765 | 199,740 |
| Contributions subsequent to the measurement date | 57,146 | 205,724 | 262,870 |
| Total deferred outflows of resources | $ 131,897 | $ 814,466 | $ 946,363 |

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred inflows of resources** | | | |
| Differences between expected and actual experience | $ - | $ 14,704 | $ 14,704 |
| Net difference between projected and actual earnings on pension plan investments | 11,730 | 136,528 | 148,258 |
| Difference between employer contributions and proportionate share of contributions/ change in proportionate share | 33,997 | 884,257 | 918,254 |
| Total deferred inflows of resources | $ 45,727 | $ 1,035,489 | $ 1,081,216 |

$262,870 reported as deferred outflows of resources related to pension resulting from Preparatory contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

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

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2020 | $ 40,911 | $ (246,448) | $ (205,537) |
| 2021 | 5,602 | 28,993 | 34,595 |
| 2022 | (13,890) | (92,428) | (106,318) |
| 2023 | (3,599) | (116,864) | (120,463) |
| Total | $ 29,024 | $ (426,747) | $ (397,723) |

***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, 2018, are presented below:

| | |
|---|---|
| Wage inflation | 3.00% |
| Future salary increases, including inflation | 3.50% to 18.20% |
| COLA or ad hoc COLA | 2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement |
| Investment rate of return | 7.50% net of investments expense, including inflation |
| Actuarial cost method | Entry age normal (level percent of payroll) |

For 2018, 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.

**NOTE 7 - 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 | 100.00 % | |

***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 Preparatory'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 (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Preparatory's proportionate share of the net pension liability | $ 596,281 | $ 423,322 | $ 278,308 |

**NOTE 7 - 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, 2018, actuarial valuation are presented below:

| | July 1, 2018 |
|---|---|
| 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) | 0.0%, effective July 1, 2017 |

For the July 1, 2018, 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, 2018 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 % | |

*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.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

***Discount Rate -*** The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. 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, 2018. 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, 2018.

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

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|---|---|---|
| Preparatory's proportionate share of the net pension liability | $ 3,287,982 | $ 2,251,474 | $ 1,374,212 |

**NOTE 8 - 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 Preparatory'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 Preparatory's obligation for this liability to annually required payments. The Preparatory cannot control benefit terms or the manner in which OPEB are financed; however, the Preparatory does receive the benefit of employees' services in exchange for compensation including OPEB.

**NOTE 8 - 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 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* on the statement of net position.

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

Health Care Plan Description - The Preparatory 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 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 fiscal year 2019, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was $21,600. 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 2019, the Preparatory's surcharge obligation was $1,131.

**NOTE 8 - 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. The Preparatory's contractually required contribution to SERS was $3,248 for fiscal year 2019. Of this amount, $1,917 is reported as intergovernmental payable.

***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, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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, 2019, 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, 2018, 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 Preparatory's proportion of the net OPEB liability/asset was based on the Preparatory'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:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the net OPEB liability prior measurement date | 0.00575900% | 0.01335789% | |
| Proportion of the net OPEB liability/asset current measurement date | 0.00744180% | 0.01023968% | |
| Change in proportionate share | 0.00168280% | -0.00311822% | |
| Proportionate share of the net OPEB liability | $ 206,456 | $ - | $ 206,456 |
| Proportionate share of the net OPEB asset | $ - | $ 164,541 | $ 164,541 |
| OPEB expense | $ 9,836 | $ (377,713) | $ (367,877) |

At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred outflows of resources** | | | |
| Differences between expected and actual experience | $ 3,370 | $ 19,218 | $ 22,588 |
| Difference between employer contributions and proportionate share of contributions/ change in proportionate share | 38,211 | - | 38,211 |
| Contributions subsequent to the measurement date | 3,248 | - | 3,248 |
| Total deferred outflows of resources | $ 44,829 | $ 19,218 | $ 64,047 |

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred inflows of resources** | | | |
| Differences between expected and actual experience | $ - | $ 9,586 | $ 9,586 |
| Net difference between projected and actual earnings on pension plan investments | 309 | 18,797 | 19,106 |
| Changes of assumptions | 18,548 | 224,200 | 242,748 |
| Difference between employer contributions and proportionate share of contributions/ change in proportionate share | 13,055 | 122,668 | 135,723 |
| Total deferred inflows of resources | $ 31,912 | $ 375,251 | $ 407,163 |

$3,248 reported as deferred outflows of resources related to OPEB resulting from Preparatory contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/asset in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2020 | $ (7,905) | $ (62,612) | $ (70,517) |
| 2021 | (4,475) | (62,612) | (67,087) |
| 2022 | 6,381 | (62,612) | (56,231) |
| 2023 | 6,512 | (58,341) | (51,829) |
| 2024 | 6,493 | (56,843) | (50,350) |
| Thereafter | 2,663 | (53,013) | (50,350) |
| Total | $ 9,669 | $ (356,033) | $ (346,364) |

**NOTE 8 - 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, 2018, 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 | 3.62% |
| Prior measurement date | 3.56% |
| Single equivalent interest rate, net of plan investment expense, including price inflation: | |
| Measurement date | 3.70% |
| Prior measurement date | 3.63% |
| Medical trend assumption: | |
| 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.

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

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

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:

| 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 | 100.00 % | |

***Discount Rate -*** The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. 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, 2026. 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, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (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 3.56% was used as of June 30, 2017. 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.

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

***Sensitivity of the Preparatory'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 (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

| | 1% Decrease (2.70%) | Current Discount Rate (3.70%) | 1% Increase (4.70%) |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB liability | $ 250,518 | $ 206,456 | $ 171,567 |

| | 1% Decrease (6.25 % decreasing to 3.75 %) | Current Trend Rate (7.25 % decreasing to 4.75 %) | 1% Increase (8.25 % decreasing to 5.75 %) |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB liability | $ 166,572 | $ 206,456 | $ 259,269 |

***Actuarial Assumptions - STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

| | July 1, 2018 | | July 1, 2017 |
|---|---|---|---|
| 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%, effective July 1, 2017 |
| Discounted rate of return | 7.45% | | N/A |
| Blended discount rate of return | N/A | | 4.13% |
| Health care cost trends | | | 6 to 11% initial, 4.50% ultimate |
| | Initial | Ultimate | |
| Medical | | | |
| Pre-Medicare | 6.00% | 4.00% | |
| Medicare | 5.00% | 4.00% | |
| Prescription Drug | | | |
| Pre-Medicare | 8.00% | 4.00% | |
| Medicare | -5.23% | 4.00% | |

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

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

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, 2018 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*** - 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). Valuation year per capita health care costs were updated.

***Benefit Term Changes Since the Prior Measurement Date*** - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

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 | 100.00 % | |

*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.

** The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

***Discount Rate -*** The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. 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, 2018.

***Sensitivity of the Preparatory'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, 2018, 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 (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB asset | $ 141,027 | $ 164,541 | $ 184,304 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB asset | $ 183,188 | $ 164,541 | $ 145,604 |

**NOTE 9 - RISK MANAGEMENT**

**A. Property and Liability**

The Preparatory 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 2019, the Preparatory maintained the following coverage through The Cincinnati Insurance Company:

| Coverage | Limits of Coverage |
|---|---|
| Property liability: | |
| Blanket building limit | $12,835,800 |
| Blanket business personal property limit | 324,000 |
| Blanket business income with extra expense | 988,200 |
| Deductible | 5,000 |

**NOTE 9 - RISK MANAGEMENT - (Continued)**

| Coverage – (continued) | Limits of Coverage |
|---|---|
| General liability: | |
| Each occurrence | 1,000,000 |
| General aggregate | 3,000,000 |
| Products – aggregate | 3,000,000 |
| Personal & advertising injury | 1,000,000 |
| Damages to rented premises, per occurrence | 100,000 |
| Medical payments | 10,000 |
| Property damage to borrowed equipment, per occurrence | 10,000 |
| Pollution exception – classrooms | 50,000 |
| | |
| Sexual misconduct or molestation liability: | |
| Each claim limit | $1,000,000 |
| Aggregate limit | 1,000,000 |
| Outside counseling service each claim limit | 5,000 |
| Outside counseling service aggregate limit | 5,000 |
| | |
| Ohio employers liability defense expenses: | |
| Bodily injury – each employee | 1,000,000 |
| Aggregate | 1,000,000 |
| | |
| Electronic data processing equipment (EDP): | |
| Blanket EDP property limit | 400,000 |
| | |
| Business automobile liability: | |
| Combined single limit | 1,000,000 |
| Medical payments | 5,000 |
| Uninsured motorists | 1,000,000 |
| | |
| Umbrella liability: | |
| Each occurrence | 3,000,000 |
| Aggregate | 3,000,000 |
| | |
| Cincinnati defender: | |
| Response expenses annual aggregate | 50,000 |
| Defense and liability annual aggregate | 50,000 |
| Identity recovery annual aggregate | 25,000 |
| | |
| Cincinnati network defender: | |
| Computer attack annual aggregate | 100,000 |
| Network security liability annual aggregate | 100,000 |
| | |
| Educators legal liability: | |
| Aggregate | 3,000,000 |
| Sublimit per organizational manager | 20,000 |
| Deductible | 5,000 |

**NOTE 9 - RISK MANAGEMENT - (Continued)**

| Coverage – (continued) | Limits of Coverage |
|---|---|
| Employment practices liability: | |
| Aggregate | 1,000,000 |
| Optional third party sublimit | 1,000,000 |
| Wage and hour defense sublimit | 100,000 |
| Immigration defense sublimit | 100,000 |
| Deductible | 5,000 |

Settled claims have not exceeded this coverage in any of the past three years, nor was there any significant reduction in insurance coverage from the prior year.

**B. Employee Insurance Benefits**

During fiscal year 2019, the Preparatory provided health, dental, vision and life insurance benefits to employees through Anthem.

**NOTE 10 - SPONSOR**

On July 1, 2013, the Preparatory 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 Preparatory from the State of Ohio foundation payments. The Sponsor is to provide oversight, monitoring, and technical assistance for the Preparatory. In June 2015, the Preparatory 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 Preparatory. The Preparatory 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 2019 totaled $69,390.

**NOTE 11 - MANAGEMENT COMPANY AGREEMENT**

**Educational Management and Development Group, LLC**

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

EMDG will provide the School 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.

## NOTE 11 - MANAGEMENT COMPANY AGREEMENT - (Continued)

As part of the terms of this Agreement, the "Continuing Fee" percentage of the Preparatory 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 School will reimburse EMDG for its payroll and other costs eligible for reimbursements. Teachers and support staff recommended by EMDG will be employees of the Preparatory. The Director of the Preparatory 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 Preparatory fails to remedy a material breach of the Agreement within thirty days after written notice from EMDG. The Preparatory may terminate the Agreement for cause or without cause, per terms of the Agreement. The Agreement will terminate upon termination of the Preparatory's Charter or substantial reduction in state and federal funding.

The Preparatory paid $384,048 to EMDG during fiscal year 2019 for management services.

## NOTE 12 - PURCHASED SERVICES

For fiscal year ended June 30, 2019, purchased services expenses were as follows:

| | |
|---|---|
| Instructional services | $ 42,136 |
| Professional development | 12,943 |
| Management services | 384,048 |
| Data processing services | (2,248) |
| Board stipends | (500) |
| Professional/legal services | 15,013 |
| Accounting/auditing services | (3,365) |
| Other professional services | 197,305 |
| Property services | 215,625 |
| Board meeting expenses | 231 |
| Communications | 110 |
| Utility services | 110,685 |
| Contracted food services | 133,627 |
| Instructional other tuition | 15,642 |
| Total | $ 1,121,252 |

## NOTE 13 - LONG-TERM OBLIGATIONS

The following changes occurred in the long-term obligations during fiscal year 2019:

| | Balance June 30, 2018 | Additions | Reductions | Balance June 30, 2019 | Amounts Due in One Year |
|---|---|---|---|---|---|
| Net pension liability: | | | | | |
| STRS | $ 3,173,195 | $ - | $ (921,721) | $ 2,251,474 | $ - |
| SERS | 368,620 | 54,702 | - | 423,322 | - |
| Total net pension liability | 3,541,815 | 54,702 | (921,721) | 2,674,796 | - |
| Net OPEB liability: | | | | | |
| STRS | 521,175 | - | (521,175) | - | - |
| SERS | 154,556 | 51,900 | - | 206,456 | - |
| Total net OPEB liability | 675,731 | 51,900 | (521,175) | 206,456 | - |
| Total long-term obligations | $ 4,217,546 | $ 106,602 | $ (1,442,896) | $ 2,881,252 | $ - |

*Net Pension Liability*
See Note 7 for information on the Preparatory’s net pension liability.

*Net OPEB Liability*
See Note 8 for information on the Preparatory’s net OPEB liability.

## NOTE 14 - OPERATING LEASE

Effective August 1, 2017, the Preparatory entered into an agreement with Cash Money Properties, LTD (Lessor) for the lease of classroom space. The initial term of the lease commenced August 1, 2017 and will expire on June 30, 2025. The Preparatory has the right to extend the initial lease term of the lease for two additional five- year periods by delivering written notice to the Lessor within 90-days prior to the expiration of the initial term, or an immediately subsequent renewal term, as applicable. The base rent lease payments are $4,500 per month. The Preparatory shall also pay to the Lessor additional rent for real and personal property taxes (if any) and special assessments, special service district levies, and all other taxes levied or imposed upon the leased premises which become due and payable. The Preparatory paid $49,500 to the Lessor during fiscal year 2019.

The amount of the future base rent lease payments required under the operating lease at June 30, 2019 is:

| Fiscal Year Ending | Amount |
|---|---|
| 2020 | $ 54,000 |
| 2021 | 54,000 |
| 2022 | 54,000 |
| 2023 | 54,000 |
| 2024 | 54,000 |
| 2025 | 54,000 |
| Total | $ 324,000 |

## NOTE 15 - RELATED PARTY TRANSACTIONS

The Governing Board of Richard Allen Preparatory served in the same capacity for the Richard Allen Academy for the fiscal year 2019, all of which were managed by the EMDG. Richard Allen Preparatory shares its Superintendent and the Treasurer/CFO with Richard Allen Academy.

The Superintendent serves as 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 Preparatory 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 School will reimburse EMDG for its payroll and other costs eligible for reimbursements. See Note 11 for details.

## NOTE 16 - CONTINGENCIES

### A. Grants

The Preparatory 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 Preparatory at June 30, 2019.

### 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.

The Preparatory owes $4,058 from the fiscal year 2019 reviews. This amount has been reported as an intergovernmental payable.

### C. Pending Litigation

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

## NOTE 17 - FEDERAL TAX STATUS

The Preparatory 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 Preparatory's tax-exempt status.

**NOTE 18 - MANAGEMENT PLAN**

Management merged the Richard Allen Preparatory and the Richard Allen Academy II 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 Preparatory to return to financial stability.

**NOTE 19 - SUBSEQUENT EVENTS**

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 ensuing emergency measures may impact subsequent periods of the Preparatory. The investments of the pension and other post-employment benefit plans in which the Preparatory participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Preparatory's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

In addition, the Preparatory’s former management company, IMR, filed for bankruptcy protection on March 22, 2018. This chapter 7 liquidation bankruptcy proceeding was terminated on January 6, 2021.

As disclosed in Note 13 of the fiscal year 2018 annual financial report, debt related to Charter School Capital was paid and the remaining balance was written off by Charter School Capital in April 2021. No payments were made by the Preparatory for this debt after June 30, 2018.

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# REQUIRED SUPPLEMENTARY INFORMATION

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**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX FISCAL YEARS

| | **2019** | **2018** | **2017*** | **2016** |
|---|---|---|---|---|
| Preparatory's proportion of the net pension liability | 0.00739145% | 0.00616960% | 0.00728760% | 0.00227800% |
| Preparatory's proportionate share of the net pension liability | $ 423,322 | $ 368,620 | $ 533,385 | $ 129,985 |
| Preparatory's covered payroll | $ 183,267 | $ 192,350 | $ 248,914 | $ 137,140 |
| Preparatory's proportionate share of the net pension liability as a percentage of its covered payroll | 230.99% | 191.64% | 214.28% | 94.78% |
| Plan fiduciary net position as a percentage of the total pension liability | 71.36% | 69.50% | 62.98% | 69.16% |

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

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 Preparatory's measurement date, which is the prior year-end

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| | 2015 | 2014 |
|---|---|---|
| | 0.00260400% | 0.00260400% |
| | $ 131,787 | $ 154,852 |
| | $ 172,670 | $ 171,806 |
| | 76.32% | 90.13% |
| | 71.70% | 65.52% |

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**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX FISCAL YEARS

| | **2019** | **2018** | **2017*** | **2016** |
|---|---|---|---|---|
| Preparatory's proportion of the net pension liability | 0.01023968% | 0.01335789% | 0.01366018% | 0.00585207% |
| Preparatory's proportionate share of the net pension liability | $ 2,251,474 | $ 3,173,195 | $ 4,572,474 | $ 1,617,341 |
| Preparatory's covered payroll | $ 2,211,429 | $ 1,468,543 | $ 2,689,286 | $ 1,178,571 |
| Preparatory's proportionate share of the net pension liability as a percentage of its covered payroll | 101.81% | 216.08% | 170.03% | 137.23% |
| Plan fiduciary net position as a percentage of the total pension liability | 77.31% | 75.30% | 66.80% | 72.10% |

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

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 Preparatory's measurement date, which is the prior year-end

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| | 2015 | 2014 |
|---|---|---|
| | 0.00612584% | 0.00612584% |
| | $ 1,490,016 | $ 1,774,898 |
| | $ 1,121,508 | $ 1,393,054 |
| | 132.86% | 127.41% |
| | 74.70% | 69.30% |

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**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2019 | 2018 | 2017* | 2016* |
|---|---|---|---|---|
| Contractually required contribution | $ 57,146 | $ 24,741 | $ 26,929 | $ 34,848 |
| Contributions in relation to the contractually required contribution | (57,146) | (24,741) | (26,929) | (34,848) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 423,304 | $ 183,267 | $ 192,350 | $ 248,914 |
| Contributions as a percentage of covered payroll | 13.50% | 13.50% | 14.00% | 14.00% |

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2015 | | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 18,075 | $ | 23,932 | $ | 23,778 | $ | 13,505 | $ | 16,337 | $ | 6,600 |
| | (18,075) | | (23,932) | | (23,778) | | (13,505) | | (16,337) | | (6,600) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 137,140 | $ | 172,670 | $ | 171,806 | $ | 100,409 | $ | 129,968 | $ | 48,744 |
| | 13.18% | | 13.86% | | 13.84% | | 13.45% | | 12.57% | | 13.54% |

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2019 | 2018 | 2017* | 2016* |
|---|---|---|---|---|
| Contractually required contribution | $ 205,724 | $ 309,600 | $ 205,596 | $ 376,500 |
| Contributions in relation to the contractually required contribution | (205,724) | (309,600) | (205,596) | (376,500) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 1,469,457 | $ 2,211,429 | $ 1,468,543 | $ 2,689,286 |
| 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 Preparatory and Ricard Allen Academy II.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2015 | | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 165,000 | $ | 145,796 | $ | 181,097 | $ | 108,018 | $ | 76,351 | $ | 57,293 |
| | (165,000) | | (145,796) | | (181,097) | | (108,018) | | (76,351) | | (57,293) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 1,178,571 | $ | 1,121,508 | $ | 1,393,054 | $ | 830,908 | $ | 587,315 | $ | 440,715 |
| | 14.00% | | 13.00% | | 13.00% | | 13.00% | | 13.00% | | 13.00% |

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

| | **2019** | **2018** | **2017** |
|---|---|---|---|
| Preparatory's proportion of the net OPEB liability | 0.00744180% | 0.00575900% | 0.00660616% |
| Preparatory's proportionate share of the net OPEB liability | $ 206,456 | $ 154,556 | $ 188,300 |
| Preparatory's covered payroll | $ 183,267 | $ 192,350 | $ 248,914 |
| Preparatory's proportionate share of the net OPEB liability as a percentage of its covered payroll | 112.65% | 80.35% | 75.65% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 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 Preparatory's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Preparatory's proportion of the net OPEB liability/asset | 0.01023968% | 0.01335789% | 0.01366018% |
| Preparatory's proportionate share of the net OPEB liability/(asset) | $ (164,541) | $ 521,175 | $ 730,550 |
| Preparatory's covered payroll | $ 2,211,429 | $ 1,468,543 | $ 2,689,286 |
| Preparatory's proportionate share of the net OPEB liability/asset as a percentage of its covered payroll | 7.44% | 35.49% | 27.17% |
| Plan fiduciary net position as a percentage of the total OPEB liability/asset | 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 Preparatory's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2019 | 2018 | 2017* | 2016* |
|---|---|---|---|---|
| Contractually required contribution | $ 3,248 | $ 3,153 | $ - | $ - |
| Contributions in relation to the contractually required contribution | (3,248) | (3,153) | - | - |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 423,304 | $ 183,267 | $ 192,350 | $ 248,914 |
| Contributions as a percentage of covered payroll | 0.77% | 1.72% | 0.00% | 0.00% |

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2015 | | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 1,245 | $ | 309 | $ | 290 | $ | 516 | $ | 1,978 | $ | 238 |
| | (1,245) | | (309) | | (290) | | (516) | | (1,978) | | (238) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 137,140 | $ | 172,670 | $ | 171,806 | $ | 100,409 | $ | 129,968 | $ | 48,744 |
| | 0.91% | | 0.18% | | 0.17% | | 0.51% | | 1.52% | | 0.49% |

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2019 | 2018 | 2017* | 2016* |
|---|---|---|---|---|
| Contractually required contribution | $ - | $ - | $ - | $ - |
| Contributions in relation to the contractually required contribution | - | - | - | - |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 1,469,457 | $ 2,211,429 | $ 1,468,543 | $ 2,689,286 |
| Contributions as a percentage of covered payroll | 0.00% | 0.00% | 0.00% | 0.00% |

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| $ - | $ 11,215 | $ 13,931 | $ 8,309 | $ 5,873 | $ 4,407 |
| - | (11,215) | (13,931) | (8,309) | (5,873) | (4,407) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 1,178,571 | $ 1,121,508 | $ 1,393,054 | $ 830,908 | $ 587,315 | $ 440,715 |
| 0.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |

*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 year 2019.

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 2018-2019.

*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 year 2019.

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 2019.

(Continued)

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

*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 2017-2019.

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 rate 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 (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%.

*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.

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 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 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.

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## RICHARD ALLEN PREPARATORY
## MONTGOMERY COUNTY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2019

| **FEDERAL GRANTOR**<br>***Pass Through Grantor***<br>**Program / Cluster Title** | **Federal CFDA Number** | **Expenditures** | **Non-Cash Expenditures** |
|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | | |
| ***Passed Through Ohio Department of Education*** | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program | 10.553 | 36,952 | |
| National School Lunch Program | 10.555 | 124,503 | 3,190 |
| Total Child Nutrition Cluster | | 161,455 | 3,190 |
| Total U.S. Department of Agriculture | | **161,455** | **3,190** |
| **U.S. DEPARTMENT OF EDUCATION** | | | |
| ***Passed Through Ohio Department of Education*** | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 404,458 | |
| Special Education Cluster: | | | |
| Special Education Grants to States | 84.027 | 116,715 | |
| Supporting Effective Instruction State Grants | 84.367 | 92,685 | |
| Student Support and Academic Enrichment Program | 84.424 | 26,762 | |
| Total U.S. Department of Education | | **640,620** | |
| **Total Expenditures of Federal Awards** | | 802,075 | **3,190** |

*The accompanying notes are an integral part of this schedule.*

# NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## 2 CFR 200.510(b)(6)
## FOR THE FISCAL YEAR ENDED JUNE 30, 2019

### NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Richard Allen Preparatory (the School) under programs of the federal government for the fiscal year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School.

### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

### NOTE C – INDIRECT COST RATE

The School has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

### NOTE D - CHILD NUTRITION CLUSTER

The School commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School assumes it expends federal monies first.

### NOTE E – FOOD DONATION PROGRAM

The School reports commodities consumed on the Schedule at the entitlement value. The School allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

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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 Preparatory
Montgomery County
627 Salem Avenue
Dayton, Ohio 45402

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Richard Allen Preparatory, Montgomery County, (the Preparatory) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Preparatory's basic financial statements and have issued our report thereon dated November 17, 2022, wherein we noted that the Preparatory is facing financial difficulties and we noted the financial impact of COVID-19 and the ensuing emergency measures impact on subsequent periods of the Preparatory.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Preparatory'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 Preparatory'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 Preparatory'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 Preparatory'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 statement. 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 matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2019-001.

***Preparatory's Response to Finding***

The Preparatory's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not subject the Preparatory'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 Preparatory's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Preparatory's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

November 17, 2022

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Richard Allen Preparatory
Montgomery County
627 Salem Avenue
Dayton, Ohio 45402

To the Governing Board:

***Report on Compliance for the Major Federal Program***

We have audited Richard Allen Preparatory's (the Preparatory) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Preparatory's major federal program for the fiscal year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Preparatory's major federal program.

***Management's Responsibility***

The Preparatory's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to opine on the Preparatory's compliance for the Preparatory's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Preparatory's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Preparatory's major program. However, our audit does not provide a legal determination of the Preparatory's compliance.

***Opinion on the Major Federal Program***

In our opinion, the Preparatory complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2019.

***Report on Internal Control Over Compliance***

The Preparatory's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Preparatory's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Preparatory's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

November 17, 2022

**SCHEDULE OF FINDINGS**
**2 CFR § 200.515**
**JUNE 30, 2019**

## 1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---|---|---|
| *(d)(1)(i)* | **Type of Financial Statement Opinion** | Unmodified |
| *(d)(1)(ii)* | **Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?** | No |
| *(d)(1)(ii)* | **Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?** | No |
| *(d)(1)(iii)* | **Was there any reported material noncompliance at the financial statement level (GAGAS)?** | Yes |
| *(d)(1)(iv)* | **Were there any material weaknesses in internal control reported for major federal programs?** | No |
| *(d)(1)(iv)* | **Were there any significant deficiencies in internal control reported for major federal programs?** | No |
| *(d)(1)(v)* | **Type of Major Programs' Compliance Opinion** | Unmodified |
| *(d)(1)(vi)* | **Are there any reportable findings under 2 CFR § 200.516(a)?** | No |
| *(d)(1)(vii)* | **Major Programs (list):** | Title I Grants to Local Educational Agencies – CFDA #84.010 |
| *(d)(1)(viii)* | **Dollar Threshold: Type A\B Programs** | Type A: > $ 750,000<br>Type B: all others |
| *(d)(1)(ix)* | **Low Risk Auditee under 2 CFR § 200.520?** | No |

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

### FINDING NUMBER 2019-001

**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.

**FINDING NUMBER 2019-001**
**(Continued)**

For one month of fiscal year 2018, the Richard Allen Schools 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 Preparatory 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 Richard Allen Schools. 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 Richard Allen Schools, Dr. Thomas (Bozeman) had a pecuniary interest in the agreement between IMR and the Richard Allen Schools and in the agreement between EMDG and the Richard Allen Schools.

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

Additionally, on March 9, 2016, IMR transferred properties located at 627, 635, and 641 Salem Avenue to Cash Money Properties at no cost. Cash Money Properties is owned by Brian Adams, who also owned the Ohio Community School Consultants Ltd which served as the Treasurer for the Preparatory until April 15, 2018. The Preparatory then leased these properties for operations from Cash Money Properties. Michelle Thomas (Bozeman) authorized the transfer of these properties, signing the quitclaim deed as the Vice President of IMR.

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

**Officials' Response:** See corrective action plan on page 73.

**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.

**Auditor of State Conclusion (Continued):**

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.

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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# Richard Allen Preparatory

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**
**2 CFR 200.511(b)**
**JUNE 30, 2019**

| Finding Number | Finding Summary | Status | Additional Information |
|---|---|---|---|
| 2018-001 | Material Weakness – Net Pension Liability and Net OPEB Liability – The Preparatory placed scope restrictions on testing net pension liability and net OPEB Liability. | Fully Corrected | |
| 2018-002 | Noncompliance – Ohio Rev. Code § 102.03(E) and Ohio Rev. Code § 2921.42(A) – Potential conflict of interest involving Dr. Michelle Thomas (Bozeman) due to relationship with the Preparatory and management company. | Not Corrected | Repeated as Finding Number 2019-001 |

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# Richard Allen Preparatory

**CORRECTIVE ACTION PLAN**
**2 CFR § 200.511(c)**
**JUNE 30, 2019**

**Finding Number:** 2019-001

**Planned Corrective Action:** 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.

**Anticipated Completion Date:** Immediate

**Responsible Contact Person:** Todd Johnson, Treasurer

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**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY**

**REGULAR AUDIT**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

OHIO AUDITOR OF STATE
**KEITH FABER**

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY**
**JUNE 30, 2018**

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OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street
Columbus, Ohio 43215
ContactUs@ohioauditor.gov
(800) 282-0370

**INDEPENDENT AUDITOR'S REPORT**

Richard Allen Preparatory
Montgomery County
627 Salem Avenue
Dayton, Ohio 45402

To the Governing Board:

***Report on the Financial Statements***

We have audited the accompanying financial statements of Richard Allen Preparatory, Montgomery County, Ohio (the Preparatory), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Preparatory'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 Preparatory'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 Preparatory's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

***Basis for Qualified Opinion***

The Preparatory's management company did not provide the management company's general ledger or an agreed-upon procedures report on the management company's expenses for the Prepartory. This resulted in us not being able to gain assurance regarding the accuracy of the contribution amounts used to calculate the Preparatory's net pension liability and net OPEB liability. The net pension liability and net OPEB liability included in the Preparatory's basic financial statements represents 100 percent, 92 percent, 100 percent, and 45 percent of the deferred outflows, liabilities, deferred inflows and, expenses, respectively, of the Preparatory's financial statements.

***Qualified Opinion***

In our opinion, except for the possible effect of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Preparatory, as of June 30, 2018, 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 Preparatory has a net position deficiency at June 30, 2018. Note 19 to the financial statements describes management's plans regarding this matter. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. We did not modify our opinion regarding this matter. As discussed in Note 3 to the financial statements, during fiscal year 2018, the Preparatory adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions*. We did modify our opinion regarding this matter. As discussed in Note 3 to the financial statements, Richard Allen Academy II merged with the Preparatory on June 1, 2018. We did not modify our opinion regarding this matter. Also, as discussed in Note 21 to the financial statements, during fiscal year 2020, the financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods of the Preparatory. 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 November 17, 2022, on our consideration of the Preparatory'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 Preparatory's internal control over financial reporting and compliance.

Keith Faber
Auditor of State
Columbus, Ohio

November 17, 2022

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**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED

The discussion and analysis of the Richard Allen Preparatory's (the "Preparatory") financial performance provides an overall review of the Preparatory's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School'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 Preparatory's financial performance.

## Financial Highlights

Key financial highlights for 2018 are as follows:

- Effective June 1, 2018, Richard Allen Preparatory merged with Richard Allen Academy II (see Note 20 of the basic financial statements for detail).

- Net position was restated at the beginning of year as described in Note 3.B of the notes to the basic financial statements.

- In total, net position was deficit $4,198,066 at June 30, 2018.

- The Preparatory had operating revenues of $3,587,813, operating expenses of $2,536,716 and non-operating revenues and expenses of $757,380 and $21,490, respectively, for fiscal year 2018.

- A promissory note in the amount of $11,100 was forgiven during fiscal year 2018 and has been reported as a special item.

## 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 School's financial activities. The s*tatement of net position* and s*tatement of revenues, expenses and changes in net position* provide information about the activities of the Preparatory, including all short-term and long-term financial resources and obligations.

## Reporting the Preparatory'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 2018?" 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 Preparatory's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the *financial position* of the Preparatory 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 Preparatory 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 School's net pension liability and net OPEB liability.

The table below provides a summary of the Preparatory's net position for fiscal year 2018 and 2017. Net position (deficit) at June 30, 2017, has been restated as described in Note 3.B of the notes to the basic financial statements.

**Net Position**

| | 2018 | (Restated) 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 182,663 | $ 745,019 |
| Total assets | 182,663 | 745.019 |
| **Deferred outflows of resources** | 1,475,085 | 1.231.722 |
| **Liabilities** | | |
| Current liabilities | 371,155 | 87,775 |
| Non-current liabilities | 4,217,546 | 6.570.712 |
| Total liabilities | 4,588,701 | 6.658.487 |
| **Deferred inflows of resources** | 1,267,113 | 1.314.407 |
| **Net Position** | | |
| Unrestricted (deficit) | (4,198,066) | (5,996,153) |
| Total net position (deficit) | $ (4,198,066) | ($5,996,153) |

The net pension liability (NPL) is the largest single liability reported by the School at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27." For fiscal year 2018, the Preparatory 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 Preparatory'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.

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.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Preparatory'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 Preparatory 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 Preparatory'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, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Preparatory is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation and the merger with Richard Allen Academy II had the effect of restating net position (deficit) at June 30, 2017, from ($2,076,573) to ($5,996,153).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018 and 2017 (restated), the School's net position totaled deficits of ($4,198,066) and ($5,996,153), respectively.

Current assets represent cash and accounts and intergovernmental receivables. Current liabilities represent accounts, intergovernmental payables for professional services and accrued wages.

Long-term liabilities outstanding at June 30, 2018 represent the net pension liability (see Note 7 for detail) and the net OPEB liability (see Note 8 for detail). Refer to Note 13 for a summary of the changes in the School's long-term obligations during fiscal year 2018. Long-term liabilities decreased as a result of the reduction in net pension liability and net OPEB liability, the payment of promissory notes payable and the debt forgiveness of a promissory note payable during fiscal year 2018.

The table below shows the changes in net position for fiscal years 2018 and 2017.

**Change in Net Position**

| | 2018 | (Restated) 2017 |
|---|---|---|
| **Operating Revenues:** | | |
| State foundation | $ 2,529,511 | $ 2,854,306 |
| Services provided to other entities | 967,869 | - |
| Casino aid | 17,954 | 20,698 |
| Facilities funding | 64,719 | 74,482 |
| Miscellaneous | 7,760 | - |
| Total operating revenue | 3,587,813 | 2,949,486 |
| **Operating Expenses:** | | |
| Salaries | 2,021,298 | - |
| Benefits | 714,917 | - |
| Purchased services | 1,781,392 | 3,469,328 |
| Materials and supplies | 5,198 | - |
| Change in pension obligations | (2,097,820) | 71,261 |
| Other | 111,731 | 262 |
| Total operating expenses | 2,536,716 | 3,540,851 |
| **Non-operating Revenues (Expenses):** | | |
| Federal and state grants | 757,380 | 774,458 |
| Interest and fiscal charges | (21,490) | (75,858) |
| Total non-operating revenues (expenses) | 735,890 | 698,600 |
| **Special Item:** | | |
| Debt forgiveness | 11,100 | - |
| Change in net position | 1,798,087 | 107,235 |
| Net position (deficit) at beginning of year (restated) | (5,996,153) | N/A |
| Net position (deficit) at end of year | $ (4,198,066) | $ (5,996,153) |

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $159,541.

Overall, expenses decreased $1,004,135. The change in expenses is partially due to decreasing expenses related to the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. The Preparatory reported ($1,600,784) in pension expense and ($159,541) in OPEB expense mainly due to these benefit changes by the retirement systems.

Salaries and benefits expenses increased, while purchased services expenses decreased during fiscal year 2018, due to the change in the Preparatory's management company agreement. During fiscal year 2017 and for the month of July 2017, the Preparatory contracted with the Institute of Management and Resources, Inc. for management company services, which included employee services, reported as a purchased services expense. Effective August 1, 2017, the Preparatory contracted with Educational Management and Development Group for management company services and the School began providing employee services and paid those employees. Employee services provided by the Preparatory are reported in salaries and benefits expenses. The Preparatory also provides employee services for the Richard Allen Academy which is included in salaries and benefits expenses.

The revenue generated by a community school is dependent on per-pupil allotment given by the state foundation, casino aid, facilities funding. State foundation revenue decreased due to lower student enrollment during fiscal year 2018. The Preparatory also received federal grant monies through the Child Nutrition Breakfast & Lunch, Title I-A, Title I, Title II-A, Title IV-A and Title VI-B programs during fiscal year 2018. The Preparatory reports operating revenue for services provided to other entities, which is revenue received from the Richard Allen Academy for employee services.

### *Debt*

The Preparatory had no outstanding promissory notes payable at June 30, 2018.

The Preparatory drew down $61,000 from a line of credit with Ohio Community School Consultants and was repaid during fiscal year 2018. The Preparatory had a line of credit balance of $68,900 that was also repaid during fiscal year 2018. See Note 14 for detail.

### *Capital Assets*

The Preparatory had no capital assets to report at June 30, 2018, or June 30, 2017.

## Restrictions and Other Limitations

The future stability of the Preparatory is not without challenges. The Preparatory 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 Preparatory.

## Current Financial Related Activities

The Preparatory 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 Preparatory's students, the Preparatory will apply resources to best meet the needs of its students.

## Contacting the Preparatory's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Preparatory's finances and to show the Preparatory'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 PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2018

| | | |
|---|---|---|
| **Assets:** | | |
| Current assets: | | |
| Cash. . . . . . . . . . . . . . . . . . . . | $ | 18,708 |
| Receivables: | | |
| Accounts . . . . . . . . . . . . . . . . | | 67,381 |
| Intergovernmental. . . . . . . . . . . . | | 96,574 |
| Total assets . . . . . . . . . . . . . . . . . | | 182,663 |
| **Deferred outflows of resources:** | | |
| Pension . . . . . . . . . . . . . . . . . . . | | 1,441,846 |
| OPEB . . . . . . . . . . . . . . . . . . . . | | 33,239 |
| Total deferred outflows of resources . . . . | | 1,475,085 |
| **Liabilities:** | | |
| Current liabilities: | | |
| Accounts payable . . . . . . . . . . . . . | | 126,858 |
| Accrued wages and benefits . . . . . . . . . | | 183,087 |
| Intergovernmental payable . . . . . . . . | | 61,210 |
| Total current liabilities. . . . . . . . . . . . | | 371,155 |
| Long-term liabilities: | | |
| Net pension liability (See Note 7). . . . . | | 3,541,815 |
| Net OPEB liability (See Note 8) . . . . . | | 675,731 |
| Total long-term liabilities . . . . . . . . . . | | 4,217,546 |
| Total liabilities. . . . . . . . . . . . . . . . | | 4,588,701 |
| **Deferred inflows of resources:** | | |
| Pension . . . . . . . . . . . . . . . . . . . | | 1,153,449 |
| OPEB . . . . . . . . . . . . . . . . . . . . | | 113,664 |
| Total deferred inflows of resources . . . . . | | 1,267,113 |
| **Net position:** | | |
| Unrestricted (deficit) . . . . . . . . . . . . | | (4,198,066) |
| Total net position (deficit). . . . . . . . . . | $ | (4,198,066) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | |
|---|---|
| **Operating revenues:** | |
| State foundation | $ 2,529,511 |
| Services provided to other entities | 967,869 |
| Casino aid. | 17,954 |
| Facilities funding | 64,719 |
| Miscellaneous. | 7,760 |
| Total operating revenues | 3,587,813 |
| **Operating expenses:** | |
| Salaries | 2,021,298 |
| Benefits | 714,917 |
| Purchased services | 1,781,392 |
| Materials and supplies | 5,198 |
| Change in pension and OPEB obligations | (2,097,820) |
| Other | 111,731 |
| Total operating expenses. | 2,536,716 |
| Operating income | 1,051,097 |
| **Non-operating revenues (expenses):** | |
| Federal and state grants | 757,380 |
| Interest and fiscal charges | (21,490) |
| Total non-operating revenues (expenses) | 735,890 |
| Income before special item. | 1,786,987 |
| **Special item:** | |
| Debt forgiveness | 11,100 |
| Change in net position. | 1,798,087 |
| **Net position (deficit) at beginning of year (restated)** | (5,996,153) |
| **Net position (deficit) at end of year** | $ (4,198,066) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash received from State foundation | $ 2,536,381 |
| Cash received from services provided to other entities | 900,488 |
| Cash received from casino aid | 17,954 |
| Cash received from facilities funding | 64,719 |
| Cash received from other operations | 7,760 |
| Cash payments for salaries | (1,870,943) |
| Cash payments for benefits | (665,632) |
| Cash payments for purchased services | (1,452,645) |
| Cash payments for materials and supplies | (5,198) |
| Cash payments for other expenses | (111,731) |
| Net cash used in operating activities | (578,847) |
| **Cash flows from noncapital financing activities:** | |
| Cash received from federal and state grants | 732,351 |
| Cash received from line of credit | 61,000 |
| Principal retirement on line of credit | (129,900) |
| Principal retirement on notes | (46,406) |
| Interest and fiscal charges | (21,490) |
| Net cash provided by noncapital financing activities | 595,555 |
| Net increase in cash | 16,708 |
| **Cash at beginning of year (restated)** | 2,000 |
| **Cash at end of year** | $ 18,708 |
| **Reconciliation of operating income to net cash used in operating activities:** | |
| Operating income | $ 1,051,097 |
| Changes in assets, deferred outflows, liabilities, and deferred inflows: | |
| Decrease in security deposit | 8,956 |
| Decrease in accounts receivable | 219,449 |
| (Increase) in intergovernmental receivable | (51,433) |
| (Increase) in deferred outflows - pensions | (281,883) |
| (Increase) in deferred outflows - OPEB | (33,239) |
| Increase in accounts payable | 112,317 |
| Increase in accrued wages and benefits payable | 183,087 |
| Increase in intergovernmental payable | 46,501 |
| (Decrease) in net pension liability | (1,564,044) |
| (Decrease) in net OPEB liability | (243,119) |
| (Decrease) in deferred inflows - pensions | (140,200) |
| Increase in deferred inflows - OPEB | 113,664 |
| Net cash used in operating activities | $ (578,847) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## NOTE 1 - DESCRIPTION OF THE ENTITY

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

The Preparatory contracted with the Institute of Management and Resources, Inc. (IMR) through July 31, 2017, for a variety of services including management consulting, Education Management Information System (EMIS), monitoring and consulting, technology and operational support, teacher training, supervision of certified and non-certified personnel and assistance in grant applications, and any other services requested by the Preparatory. In addition, all employees of the Preparatory were IMR employees and were subsequently contracted to the Preparatory. See Note 11.A for additional detail on the contractual relationship between IMR and the Preparatory.

Effective August 1, 2017, the Preparatory 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 11.B for additional detail on the contractual relationship between EMDG and the Preparatory. For the period August 1, 2017 through June 30, 2018, the Preparatory provided employee services and paid those employees.

Effective June 1, 2018, Richard Allen Preparatory merged with Richard Allen Academy II (see Note 20 for detail).

The Preparatory 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 Preparatory 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 Preparatory. The Preparatory entered into a Sponsor Contract with a new sponsor, St. Aloysius, commencing July 1, 2018 through June 30, 2022.

The Preparatory operates under a self-appointing seven-member Board. The Preparatory'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 Preparatory had an enrollment of 332 full-time equivalent (FTE) students for fiscal year 2018.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Preparatory 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 Preparatory's significant accounting policies are described below.

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

**A. Basis of Presentation**

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

**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 Preparatory 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 Preparatory 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 Preparatory'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 Preparatory 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 Preparatory must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Preparatory 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 Preparatory, see Notes 7 and 8 for deferred outflows of resources related to the Preparatory's net pension liability and net OPEB liability, 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 Preparatory, deferred inflows of resources include the net difference between projected and actual earnings on pension plan investments related to the Preparatory's net pension liability and net OPEB liability, see Notes 7 and 8, respectively, for detail.

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

### 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 Preparatory and its Sponsor. The contract between the Preparatory 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 Preparatory must submit a five-year forecast to its Sponsor annually.

### F. Cash

Cash received by the Preparatory is reflected as “cash” on the statement of net position. All monies received by the Preparatory are maintained in demand deposit accounts. The Preparatory did not have any investments during fiscal year 2018.

### 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 fair market value as of the date received. The Preparatory maintains a capitalization threshold of $1,000. The Preparatory does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are expensed.

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

The Preparatory has no capital assets to report at June 30, 2018.

### H. Net Position

Net position represents the difference between assets and deferred outflow of resources and liabilities and deferred inflow of resources. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Preparatory or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

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

**J. Intergovernmental Revenues**

The Preparatory 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 2018 school year totaled $2,612,184.

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 Preparatory must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

The Preparatory 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 2018 school year totaled $757,380.

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

The Preparatory has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of June 30, 2018.

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

For purposes of measuring the net pension/OPEB liability, 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.

**N. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. During fiscal year 2018, IMR forgave an $11,100 demand promissory note payable that was outstanding at June 30, 2017. The note was issued to address cash flow issues that arose during the initial start-up phase. The debt forgiveness has been reported as a special item on the statement of revenues, expenses and changes in net position.

## NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

### A. Change in Accounting Principles

For fiscal year 2018, the Preparatory has implemented GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", GASB Statement No. 81 *"Irrevocable Split-Interest Agreements"* GASB Statement No. 85*, "Omnibus 2017"* and GASB Statement No. 86, "*Certain Debt Extinguishments*".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the Preparatory's postemployment benefit plan disclosures, as presented in Note 8 to the basic financial statements, and added required supplementary information. See Note 3.B. for the effect of GASB Statement No. 75 on net position at June 30, 2017.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Preparatory.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Preparatory.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Preparatory.

### B. Restatement of Net Position

During fiscal year 2018, Richard Allen Preparatory merged with Richard Allen Academy II, as detailed in Note 20 to the basic financial statements. In accordance with GASB Statement No. 69, the net position (deficit) of Richard Allen Academy II at June 30, 2017, is reflected as a restatement to the beginning net position (deficit) of Richard Allen Preparatory as a result of the government merger.

## NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

A net position restatement is required as a result of the government merger and to implement GASB Statement No 75. Net position (deficit) at June 30, 2017, has been restated as follows:

| | |
|---|---|
| Net position (deficit) as previously reported | $ (2,076,573) |
| Government merger | (3,000,730) |
| GASB Statement No. 75: | |
| Net OPEB liability | (918,850) |
| Restated net position (deficit) at June 30, 2017 | $ (5,996,153) |

The Preparatory made no restatement for deferred inflows/outflows of resources related to OPEB as the information needed to generate these restatements was not applicable or available.

In addition to the above, cash as reported on the statement of cash flows has been restated from $1,000 to $2,000 as a result of the merger with Richard Allen Academy II.

## NOTE 4 - DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the Preparatory's deposits may not be returned. The Preparatory does not have a deposit policy for custodial credit risk. At June 30, 2018, the carrying amount of the Preparatory's deposits was $18,708 and the bank balance was $36,532. 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, 2018, the Preparatory had $67,381 in accounts receivable and $96,574 in intergovernmental receivables. Accounts receivable consist of amounts due from the Richard Allen Academy for accrued payroll and benefits. Intergovernmental receivables consist of federal assistance (CCIP) which eligibility requirements have been met (earned) and amounts due from the School Employees Retirement System (SERS). All receivables are considered collectible in full.

## NOTE 6 - PAYABLES

At June 30, 2018, the Preparatory had accounts payable, accrued wages and benefits, and an intergovernmental payable totaling $126,858, $183,087 and $61,210. Accounts payable includes amounts due to various vendors during the normal course of conducting operations. Accrued wages and benefits payable includes amounts due to employees for services for fiscal year 2018. The intergovernmental payable consists of an amount due to ODE, and amounts due to SERS and the State Teachers Retirement System (STRS).

## NOTE 7 - DEFINED BENEFIT PENSION PLANS

The Preparatory contracted with IMR for the period July 1, 2017 through July 31, 2017 (See Note 11.A) to provide employee services and to pay those employees. However, these contract services do not relieve the Preparatory of the obligation for remitting pension contributions. For the period August 1, 2017 through June 30, 2018, the Preparatory provided employee services and paid those employees. The retirement systems consider the Preparatory as the Employer-of-Record and the Preparatory ultimately responsible for remitting retirement contributions to the systems noted below.

### 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 Preparatory'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 Preparatory's obligation for this liability to annually required payments. The Preparatory cannot control benefit terms or the manner in which pensions are financed; however, the Preparatory 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* and any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on the statement of net position.

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

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

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Age and service requirements for retirement are as follows:

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

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

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

A three-year cost-of-living adjustment (COLA) suspension is in effect for all retirees for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W (the measure of inflation used by Social Security), not greater than 2.5%, with a floor of 0%.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Preparatory is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The Preparatory's contractually required contribution to SERS was $24,741 for fiscal year 2018.

**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.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2% 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 that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The Preparatory was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Preparatory’s contractually required contribution to STRS was $309,600 for fiscal year 2018.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**Pension Liability, Pension Expense, and Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pension**

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Preparatory's proportion of the net pension liability was based on the Preparatory's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the net pension liability prior measurement date* | 0.00728760% | 0.01366018% | |
| Proportion of the net pension liability current measurement date | 0.00616960% | 0.01335789% | |
| Change in proportionate share | -0.00111800% | -0.00030229% | |
| Proportionate share of the net pension liability | $ 368,620 | $ 3,173,195 | $ 3,541,815 |
| Pension expense | $ (27,290) | $ (1,573,494) | $ (1,600,784) |

*Includes both Richard Allen Preparatory and Richard Allen Academy II's proportionate shares to reflect the government merger.

At June 30, 2018, the Preparatory reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred outflows of resources** | | | |
| Differences between expected and actual experience | $ 15,866 | $ 122,533 | $ 138,399 |
| Changes of assumptions | 19,062 | 694,013 | 713,075 |
| Difference between School contributions and proportionate share of contributions/ change in proportionate share | 19,383 | 236,648 | 256,031 |
| School contributions subsequent to the measurement date | 24,741 | 309,600 | 334,341 |
| Total deferred outflows of resources | $ 79,052 | $ 1,362,794 | $ 1,441,846 |

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred inflows of resources** | | | |
| Differences between expected and actual experience | $ - | $ 25,574 | $ 25,574 |
| Net difference between projected and actual earnings on pension plan investments | 1,751 | 104,718 | 106,469 |
| Difference between School contributions and proportionate share of contributions/ change in proportionate share | 60,608 | 960,798 | 1,021,406 |
| Total deferred inflows of resources | $ 62,359 | $ 1,091,090 | $ 1,153,449 |

$334,341 reported as deferred outflows of resources related to pension resulting from Preparatory contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2019 | $ 764 | $ (205,450) | $ (204,686) |
| 2020 | 8,478 | (62,996) | (54,518) |
| 2021 | (8,695) | 193,178 | 184,483 |
| 2022 | (8,595) | 37,372 | 28,777 |
| Total | $ (8,048) | $ (37,896) | $ (45,944) |

**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.

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

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

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, 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 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The 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 | 100.00 % | |

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

***Sensitivity of the Preparatory'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 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Preparatory's proportionate share of the net pension liability | $ 511,549 | $ 368,620 | $ 248,888 |

**Actuarial Assumptions - STRS Ohio**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

| | July 1, 2017 | July 1, 2016 |
|---|---|---|
| Inflation | 2.50 percent | 2.75 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment rate of return | 7.45 percent, net of investment expenses, including inflation | 7.75 percent, net of investment expenses, including inflation |
| Payroll increases | 3 percent | 3.5 percent |
| Cost-of-living adjustments (COLA) | 0.0 percent, effective July 1, 2017 | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date. |

**NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)**

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent 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 percent of rates for males and 100 percent 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.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return * |
|---|---|---|
| Domestic Equity | 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 % | |

*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.

## NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

***Discount Rate -*** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

***Sensitivity of the Preparatory's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -*** The following table presents the Preparatory's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the Preparatory'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 percent) or one-percentage-point higher (8.45 percent) than the current rate:

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|---|---|---|
| Preparatory's proportionate share of the net pension liability | $ 4,548,668 | $ 3,173,195 | $ 2,014,566 |

## NOTE 8 - DEFINED BENEFIT OPEB PLANS

The Preparatory contracted with IMR for the period July 1, 2017 through July 31, 2017 (See Note 11.A) to provide employee services and to pay those employees. However, these contract services do not relieve the Preparatory of the obligation for remitting OPEB contributions. For the period August 1, 2017 through June 30, 2018, the Preparatory provided employee services and paid those employees. The retirement systems consider the Preparatory as the Employer-of-Record and the Preparatory ultimately responsible for remitting retirement contributions to the systems noted below.

### Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability 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.

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

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

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. Resulting adjustments to the net OPEB liability 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 benefits is presented as a long-term *net OPEB liability* and any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on the statement of net position.

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

Health Care Plan Description - The Preparatory 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 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 105I. 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.

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

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 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Preparatory's surcharge obligation was $2,237.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate, is the total amount assigned to the Health Care Fund. The Preparatory's contractually required contribution to SERS was $3,153 for fiscal year 2018. Of this amount, $2,237 is reported as intergovernmental payable.

**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, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS 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 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Preparatory's proportion of the net OPEB liability was based on the Preparatory'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:

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

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the net OPEB liability prior measurement date* | 0.00660616% | 0.01366018% | |
| Proportion of the net OPEB liability current measurement date | 0.00575900% | 0.01335789% | |
| Change in proportionate share | -0.00084716% | -0.00030229% | |
| Proportionate share of the net OPEB liability | $ 154,556 | $ 521,175 | $ 675,731 |
| OPEB expense | $ 1,804 | $ (161,345) | $ (159,541) |

*Includes both Richard Allen Preparatory and Richard Allen Academy II's proportionate shares to reflect the government merger.

At June 30, 2018, the Preparatory reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred outflows of resources** | | | |
| Differences between expected and actual experience | $ - | $ 30,086 | $ 30,086 |
| School contributions subsequent to the measurement date | 3,153 | - | 3,153 |
| Total deferred outflows of resources | $ 3,153 | $ 30,086 | $ 33,239 |

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred inflows of resources** | | | |
| Net difference between projected and actual earnings on pension plan investments | $ 408 | $ 22,276 | $ 22,684 |
| Changes of assumptions | 14,667 | 41,983 | 56,650 |
| Difference between School contributions and proportionate share of contributions/ change in proportionate share | 20,473 | 13,857 | 34,330 |
| Total deferred inflows of resources | $ 35,548 | $ 78,116 | $ 113,664 |

$3,153 reported as deferred outflows of resources related to OPEB resulting from Preparatory contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2019 | $ (12,834) | $ (9,862) | $ (22,696) |
| 2020 | (12,834) | (9,862) | (22,696) |
| 2021 | (9,778) | (9,862) | (19,640) |
| 2022 | (102) | (9,862) | (9,964) |
| 2023 | - | (4,293) | (4,293) |
| Thereafter | - | (4,289) | (4,289) |
| Total | $ (35,548) | $ (48,030) | $ (83,578) |

**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.

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

| | |
|---|---|
| Wage inflation | 3.00 percent |
| Future salary increases, including inflation | 3.50 percent to 18.20 percent |
| Investment rate of return | 7.50 percent net of investments expense, including inflation |
| Municipal bond index rate: | |
| Measurement date | 3.56 percent |
| Prior measurement date | 2.92 percent |
| Single equivalent interest rate, net of plan investment expense, including price inflation: | |
| Measurement date | 3.63 percent |
| Prior measurement date | 2.98 percent |
| Medical trend assumption: | |
| Medicare | 5.50 to 5.00 percent |
| Pre-Medicare | 7.50 to 5.00 percent |

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

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 percent, 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.

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

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:

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

***Discount Rate -*** The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. 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 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent 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 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. 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.

***Sensitivity of the Preparatory'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 (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

| | 1% Decrease (2.63%) | Current Discount Rate (3.63%) | 1% Increase (4.63%) |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB liability | $ 186,647 | $ 154,556 | $ 129,133 |

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

| | 1% Decrease (6.5 % decreasing to 4.0 %) | Current Trend Rate (7.5 % decreasing to 5.0 %) | 1% Increase (8.5 % decreasing to 6.0 %) |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB liability | $ 125,411 | $ 154,556 | $ 193,131 |

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

| | |
|---|---|
| Inflation | 2.50 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 |
| Investment rate of return | 7.45 percent, net of investment expenses, including inflation |
| Payroll increases | 3 percent |
| Cost-of-living adjustments (COLA) | 0.0 percent, effective July 1, 2017 |
| Blended discount rate of return | 4.13 percent |
| Health care cost trends | 6 to 11 percent initial, 4.5 percent ultimate |

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

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

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. 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. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent 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. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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 | 100.00 % | |

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25 percent 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 liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. 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 blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

***Sensitivity of the Preparatory's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate -*** The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability 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 (3.13%) | Current Discount Rate (4.13%) | 1% Increase (5.13%) |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB liability | $ 699,670 | $ 521,175 | $ 380,107 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB liability | $ 362,090 | $ 521,175 | $ 730,550 |

**NOTE 9 - RISK MANAGEMENT**

**A. Property and Liability**

The Preparatory 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 2018, the Preparatory maintained the following coverage through The Cincinnati Insurance Company:

| Coverage | Limits of Coverage |
|---|---|
| Property liability: | |
| Blanket building limit | $12,835,800 |
| Blanket business personal property limit | 324,000 |
| Blanket business income with extra expense | 988,200 |
| Deductible | 5,000 |
| General liability: | |
| Each occurrence | 1,000,000 |
| General aggregate | 3,000,000 |
| Products – aggregate | 3,000,000 |
| Personal & advertising injury | 1,000,000 |
| Damages to rented premises, per occurrence | 100,000 |
| Medical payments | 10,000 |
| Property damage to borrowed equipment, per occurrence | 10,000 |
| Pollution exception – classrooms | 50,000 |

**NOTE 9 - RISK MANAGEMENT - (Continued)**

| Coverage – (continued) | Limits of Coverage |
|---|---|
| Sexual misconduct or molestation liability: | |
| Each claim limit | $1,000,000 |
| Aggregate limit | 1,000,000 |
| Outside counseling service each claim limit | 5,000 |
| Outside counseling service aggregate limit | 5,000 |
| Ohio employers liability defense expenses: | |
| Bodily injury – each employee | 1,000,000 |
| Aggregate | 1,000,000 |
| Electronic data processing equipment (EDP): | |
| Blanket EDP property limit | 400,000 |
| Business automobile liability: | |
| Combined single limit | 1,000,000 |
| Medical payments | 5,000 |
| Uninsured motorists | 1,000,000 |
| Umbrella liability: | |
| Each occurrence | 3,000,000 |
| Aggregate | 3,000,000 |
| Cincinnati defender: | |
| Response expenses annual aggregate | 50,000 |
| Defense and liability annual aggregate | 50,000 |
| Identity recovery annual aggregate | 25,000 |
| Cincinnati network defender: | |
| Computer attack annual aggregate | 100,000 |
| Network security liability annual aggregate | 100,000 |
| Educators legal liability: | |
| Aggregate | 3,000,000 |
| Sublimit per organizational manager | 20,000 |
| Deductible | 5,000 |
| Employment practices liability: | |
| Aggregate | 1,000,000 |
| Optional third party sublimit | 1,000,000 |
| Wage and hour defense sublimit | 100,000 |
| Immigration defense sublimit | 100,000 |
| Deductible | 5,000 |

Settled claims have not exceeded this coverage in any of the past three years, nor was there any significant reduction in insurance coverage from the prior year.

**NOTE 9 - RISK MANAGEMENT - (Continued)**

**B. Employee Insurance Benefits**

As part of the management agreement with the IMR for the period July 1, 2017 through July 31, 2017, insurance benefits were paid by IMR (see Note 11.A).

Effective August 1, 2017, the Preparatory provided health, dental, vision and life insurance benefits to employees through Anthem.

**NOTE 10 - SPONSOR**

On July 1, 2013, the Preparatory 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 Preparatory from the State of Ohio foundation payments. The Sponsor is to provide oversight, monitoring, and technical assistance for the Preparatory. In June 2015, the Preparatory 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 Preparatory. The Preparatory 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 2018 totaled $77,340.

**NOTE 11 - MANAGEMENT COMPANY AGREEMENTS**

**A. Institute of Management and Resources, Inc.**

On September 1, 2006, the Preparatory entered into an agreement with the Institute of Management and Resources, Inc. (IMR), a non-profit corporation, to provide management services. The original agreement with IMR was through June 30, 2013. In October 2013, the Preparatory entered into a new management agreement with IMR. The terms of the new agreement called for the payment of 94 percent of all state aid and 100 percent of federal grants with the term ending June 30, 2020. The Board also hired its own Treasurer to oversee payments to IMR and to assist it with financial oversight. The Preparatory's management contract with IMR was terminated effective July 31, 2017.

The management agreement provided that IMR perform functions that were reasonably required to manage the operation of the Preparatory; ensure students received services which were in accordance with applicable educational standards; make every effort to ensure the Preparatory complied with the requirements of any applicable statue, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction; acquired all necessary licenses and permits; maintained all student and financial records required by federal, state and local laws and regulations, as well as protect the confidentiality of those records; acted as the Preparatory's agent in making deposits and disbursements promptly; provided for all expenses of operating the Preparatory, including lease payments for the school building, equipment and operating supplies needed in the operation of the Preparatory, from its management fee. IMR was responsible for hiring qualified teachers and all other employees which were subsequently contracted to operate the Preparatory.

The Preparatory paid $162,584 to IMR for management services during fiscal year 2018.

There were amounts due to/from IMR reported at June 30, 2017. IMR filed for bankruptcy protection on March 22, 2018. Likely due to the progression of the bankruptcy proceedings, there is no asset (receivable) or liability (payable) related to IMR reported for the Preparatory at June 30, 2018.

**NOTE 11 - MANAGEMENT COMPANY AGREEMENTS - (Continued)**

**B. Educational Management and Development Group, LLC**

Effective August 1, 2017, the Preparatory 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 Preparatory 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.

As part of the terms of this Agreement, the "Continuing Fee" percentage of the Preparatory 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 Preparatory will reimburse EMDG for its payroll and other costs eligible for reimbursements. Teachers and support staff recommended by EMDG will be employees of the Preparatory. The Director of the Preparatory 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 Preparatory fails to remedy a material breach of the Agreement within thirty days after written notice from EMDG. The Preparatory may terminate the Agreement for cause or without cause, per terms of the Agreement. The Agreement will terminate upon termination of the Preparatory's Charter or substantial reduction in state and federal funding.

The Preparatory paid $414,897 to EMDG during fiscal year 2018 for management services.

## NOTE 12 - PURCHASED SERVICES

For fiscal year ended June 30, 2018, purchased services expenses were as follows:

| | |
|---|---|
| Instructional services | $ 93,261 |
| Health services | 28,879 |
| Management services | 870,386 |
| Sponsor fees | 77,340 |
| Data processing services | 23,763 |
| Board stipends | 12,395 |
| Professional/legal services | 138,379 |
| Accounting/auditing services | 50,279 |
| Property services | 123,872 |
| Board meeting expenses | 93 |
| Communications | 13,413 |
| Utility services | 107,001 |
| Contracted food services | 242,331 |
| Total | $ 1,781,392 |

## NOTE 13 - LONG-TERM OBLIGATIONS

The long-term obligations at June 30, 2017, were restated to include the liabilities of the Richard Allen Academy II to reflect the merger and for the net OPEB liability, as described in Note 3. The following changes occurred in the long-term obligations during fiscal year 2018:

| | (Restated) Balance June 30, 2017 | Additions | Reductions | Balance June 30, 2018 | Amounts Due in One Year |
|---|---|---|---|---|---|
| Net pension liability: | | | | | |
| STRS | $ 4,572,474 | $ - | $ (1,399,279) | $ 3,173,195 | $ - |
| SERS | 533,385 | - | (164,765) | 368,620 | - |
| Total net pension liability | 5,105,859 | - | (1,564,044) | 3,541,815 | - |
| Net OPEB liability: | | | | | |
| STRS | 730,550 | - | (209,375) | 521,175 | - |
| SERS | 188,300 | - | (33,744) | 154,556 | - |
| Total net OPEB liability | 918,850 | - | (243,119) | 675,731 | - |
| Promissory notes payable: | | | | | |
| Operating loan - IMR | 28,100 | - | (28,100) | - | - |
| Charter School Capital | 449,139 | - | (449,139) | - | - |
| Total promissory notes payable | 477,239 | - | (477,239) | - | - |
| Total long-term obligations | $ 6,501,948 | $ - | $ (2,284,402) | $ 4,217,546 | $ - |

## NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

*Net Pension Liability*
See Note 7 for information on the Preparatory's net pension liability.

*Net OPEB Liability*
See Note 8 for information on the Preparatory's net OPEB liability.

*Promissory Notes Payable*
During fiscal year 2016, the Preparatory's management company, IMR, provided the Preparatory with a promissory note to address cash flow issues. There was no interest associated with the loan. During fiscal year 2018, $17,000 was paid back and $11,100 was forgiven.

In May 2017, IMR, on behalf of the Preparatory, entered into an agreement with Charter School Capital for a promissory note in the amount of $455,000, at an interest rate of 11% for 60 months, with a balance due of $419,733 at June 30, 2018. However, a portion of this promissory note has since been repaid and the remainder has been written off by Charter School Capital. No payments were made by the Preparatory after June 30, 2018 in retiring this debt; therefore, the full amount has been eliminated from the long-term obligation debt table above.

## NOTE 14 - LINE OF CREDIT

In April 2015, the Preparatory entered into an agreement with Charter School Capital to borrow against its future foundation payments. The original amount borrowed was $191,278. At June 30, 2018, the Preparatory has repaid all borrowed amounts. The imputed interest rate was 18% per annum. Below is the summary of the obligation:

| | June 30, 2017 | Additions | Reductions | June 30, 2018 |
|---|---|---|---|---|
| Line of credit | $ 68,900 | $ - | $ (68,900) | $ - |

The Preparatory drew down $61,000 during fiscal year 2018 from a line of credit with Ohio Community Schools Consultants, the former Treasurer's company. This was also repaid by the Preparatory during fiscal year 2018.

## NOTE 15 - OPERATING LEASE

Effective August 1, 2017, the Preparatory entered into an agreement with Cash Money Properties, LTD (Lessor) for the lease of classroom space. The initial term of the lease commenced August 1, 2017 and will expire on June 30, 2025. The Preparatory has the right to extend the initial lease term of the lease for two additional five- year periods by delivering written notice to the Lessor within 90-days prior to the expiration of the initial term, or an immediately subsequent renewal term, as applicable. The base rent lease payments are $4,500 per month. The Preparatory shall also pay to the Lessor additional rent for real and personal property taxes (if any) and special assessments, special service district levies, and all other taxes levied or imposed upon the leased premises which become due and payable. The Preparatory paid $54,000 to the Lessor during fiscal year 2018.

**NOTE 15 - OPERATING LEASE - (Continued)**

The amount of the future base rent lease payments required under the operating lease at June 30, 2018 is:

| Fiscal Year Ending | Amount |
|---|---|
| 2019 | $ 49,500 |
| 2020 | 54,000 |
| 2021 | 54,000 |
| 2022 | 54,000 |
| 2023 | 54,000 |
| 2024 | 54,000 |
| 2025 | 54,000 |
| Total | $ 373,500 |

**NOTE 16 - RELATED PARTY TRANSACTIONS**

The Governing Board of Richard Allen Preparatory served in the same capacity for the Richard Allen Academy, Richard Allen Academy II (merged with Richard Allen Preparatory), and Richard Allen Academy III (merged with Richard Allen Academy) Community Schools for the fiscal year 2018, all of which were managed by IMR through July 31, 2017 and EMDG for the period of August 1, 2017 through June 30, 2018. Total compensation to Board members was $12,395. Richard Allen Preparatory shares its Superintendent and the Treasurer/CFO with Richard Allen Academy.

The Superintendent was also the corporate secretary for IMR and serves as Executive Director of EMDG. The Treasurer/CFO is not an employee of IMR or EMDG (nor has no other affiliation with either IMR or EMDG) and has a separate contract with the Board.

For July 2017, the Preparatory paid IMR a management fee of 94 percent of the state revenue of the Preparatory after a deduction of SERS, STRS, and audit adjustments. The Preparatory paid IMR another 100 percent of grant expenses incurred on behalf of the Preparatory. See Note 11.A for details.

Beginning in August 2017, the Preparatory 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 Preparatory will reimburse EMDG for its payroll and other costs eligible for reimbursements. See Note 11.B for details.

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The Preparatory 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 Preparatory at June 30, 2018.

**NOTE 17 - CONTINGENCIES - (Continued)**

**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 Preparatory for fiscal year 2018.

As a result of the fiscal year 2018 Final #1 and Final #2 reviews, the Preparatory owes $15,332 to ODE and owes $19 to ODE, respectively. These amounts have been recorded as an intergovernmental payable at June 30, 2018.

**C. Pending Litigation**

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

**NOTE 18 - FEDERAL TAX STATUS**

The Preparatory 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 Preparatory's tax-exempt status.

**NOTE 19 - MANAGEMENT PLAN**

Management merged the Richard Allen Preparatory and the Richard Allen Academy II 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 Preparatory to return to financial stability.

**NOTE 20 - GOVERNMENT MERGER**

Effective June 1, 2018, Richard Allen Preparatory merged with Richard Allen Academy II. Upon the government merger, Richard Allen Academy II's charter contract with its Sponsor, ODE terminated. On June 1, 2018, the financial reporting entity of the combined entity is the Richard Allen Preparatory.

Richard Allen Academy II transferred its net position to Richard Allen Preparatory, and the effect of the government merger is reflected as a restatement to the beginning net position of Richard Allen Preparatory at July 1, 2017. The merger occurred for consolidation of educational programs for increased efficiency and to address accountability matters.

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

## NOTE 21 - SUBSEQUENT EVENTS

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 ensuing emergency measures may impact subsequent periods of the Preparatory. The investments of the pension and other post-employment benefit plans in which the Preparatory participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Preparatory's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

The Preparatory's former management company, IMR, filed for bankruptcy protection on March 22, 2018. This chapter 7 liquidation bankruptcy proceeding was terminated on January 6, 2021.

Debt related to Charter School Capital, as identified in Note 13, was paid and the remaining balance was written off by Charter School Capital in April 2021. No payments were made by the Preparatory for this debt after June 30, 2018.

# REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

| | 2018 | (Restated) * 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Preparatory's proportion of the net pension liability | 0.00616960% | 0.00728760% | 0.00227800% | 0.00260400% | 0.00260400% |
| Preparatory's proportionate share of the net pension liability | $ 368,620 | $ 533,385 | $ 129,985 | $ 131,787 | $ 154,852 |
| Preparatory's covered payroll | $ 192,350 | $ 248,914 | $ 137,140 | $ 172,670 | $ 171,806 |
| Preparatory's proportionate share of the net pension liability as a percentage of its covered payroll | 191.64% | 214.28% | 94.78% | 76.32% | 90.13% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.50% | 62.98% | 69.16% | 71.70% | 65.52% |

* Amounts were restated to reflect the merger between Richard Allen Preparatory and Richard Allen Academy II.

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 Preparatory's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

| | 2018 | (Restated) * 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Preparatory's proportion of the net pension liability | 0.01335789% | 0.01366018% | 0.00585207% | 0.00612584% | 0.00612584% |
| Preparatory's proportionate share of the net pension liability | $ 3,173,195 | $ 4,572,474 | $ 1,617,341 | $ 1,490,016 | $ 1,774,898 |
| Preparatory's covered payroll | $ 1,468,543 | $ 2,689,286 | $ 1,178,571 | $ 1,121,508 | $ 1,393,054 |
| Preparatory's proportionate share of the net pension liability as a percentage of its covered payroll | 216.08% | 170.03% | 137.23% | 132.86% | 127.41% |
| Plan fiduciary net position as a percentage of the total pension liability | 75.30% | 66.80% | 72.10% | 74.70% | 69.30% |

* Amounts were restated to reflect the merger between Richard Allen Preparatory and Richard Allen Academy II.

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 Preparatory's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2018 | (Restated) * 2017 | (Restated) * 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 24,741 | $ 26,929 | $ 34,848 | $ 18,075 |
| Contributions in relation to the contractually required contribution | (24,741) | (26,929) | (34,848) | (18,075) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 183,267 | $ 192,350 | $ 248,914 | $ 137,140 |
| Contributions as a percentage of covered payroll | 13.50% | 14.00% | 14.00% | 13.18% |

* Amounts were restated to reflect the merger between Richard Allen Preparatory and Richard Allen Academy II.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 23,932 | $ | 23,778 | $ | 13,505 | $ | 16,337 | $ | 6,600 | $ | 3,623 |
| | (23,932) | | (23,778) | | (13,505) | | (16,337) | | (6,600) | | (3,623) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 172,670 | $ | 171,806 | $ | 100,409 | $ | 129,968 | $ | 48,744 | $ | 36,819 |
| | 13.86% | | 13.84% | | 13.45% | | 12.57% | | 13.54% | | 9.84% |

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2018 | (Restated) * 2017 | (Restated) * 2016 | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 309,600 | $ 205,596 | $ 376,500 | $ 165,000 |
| Contributions in relation to the contractually required contribution | (309,600) | (205,596) | (376,500) | (165,000) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 2,211,429 | $ 1,468,543 | $ 2,689,286 | $ 1,178,571 |
| Contributions as a percentage of covered payroll | 14.00% | 14.00% | 14.00% | 14.00% |

* Amounts were restated to reflect the merger between Richard Allen Preparatory and Richard Allen Academy II.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 145,796 | $ | 181,097 | $ | 108,018 | $ | 76,351 | $ | 57,293 | $ | 29,117 |
| | (145,796) | | (181,097) | | (108,018) | | (76,351) | | (57,293) | | (29,117) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 1,121,508 | $ | 1,393,054 | $ | 830,908 | $ | 587,315 | $ | 440,715 | $ | 223,977 |
| | 13.00% | | 13.00% | | 13.00% | | 13.00% | | 13.00% | | 13.00% |

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

| | 2018 | 2017 |
|---|---|---|
| Preparatory's proportion of the net OPEB liability | 0.00575900% | 0.00660616% |
| Preparatory's proportionate share of the net OPEB liability | $ 154,556 | $ 188,300 |
| Preparatory's covered payroll | $ 192,350 | $ 248,914 |
| Preparatory's proportionate share of the net OPEB liability as a percentage of its covered payroll | 80.35% | 75.65% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 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 Preparatory's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

| | 2018 | 2017 |
|---|---|---|
| Preparatory's proportion of the net OPEB liability | 0.01335789% | 0.01366018% |
| Preparatory's proportionate share of the net OPEB liability | $ 521,175 | $ 730,550 |
| Preparatory's covered payroll | $ 1,468,543 | $ 2,689,286 |
| Preparatory's proportionate share of the net OPEB liability as a percentage of its covered payroll | 35.49% | 27.17% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 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 Preparatory's measurement date, which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2018 | 2017* | 2016* | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ 3,153 | $ - | $ - | $ 1,245 |
| Contributions in relation to the contractually required contribution | (3,153) | - | - | (1,245) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 183,267 | $ 192,350 | $ 248,914 | $ 137,140 |
| Contributions as a percentage of covered payroll | 1.72% | 0.00% | 0.00% | 0.91% |

* Include contributions of Richard Allen Preparatory and Richard Allen Academy II to reflect the merger.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $ 309 | $ 290 | $ 516 | $ 1,978 | $ 238 | $ 1,658 |
| (309) | (290) | (516) | (1,978) | (238) | (1,658) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 172,670 | $ 171,806 | $ 100,409 | $ 129,968 | $ 48,744 | $ 36,819 |
| 0.18% | 0.17% | 0.51% | 1.52% | 0.49% | 4.50% |

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

| | 2018 | 2017* | 2016* | 2015 |
|---|---|---|---|---|
| Contractually required contribution | $ - | $ - | $ - | $ - |
| Contributions in relation to the contractually required contribution | - | - | - | - |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 2,211,429 | $ 1,468,543 | $ 2,689,286 | $ 1,178,571 |
| Contributions as a percentage of covered payroll | 0.00% | 0.00% | 0.00% | 0.00% |

* Include contributions of Richard Allen Preparatory and Richard Allen Academy II to reflect the merger.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| | 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 11,215 | $ | 13,931 | $ | 8,309 | $ | 5,873 | $ | 4,407 | $ | 2,240 |
| | (11,215) | | (13,931) | | (8,309) | | (5,873) | | (4,407) | | (2,240) |
| $ | - | $ | - | $ | - | $ | - | $ | - | $ | - |
| $ | 1,121,508 | $ | 1,393,054 | $ | 830,908 | $ | 587,315 | $ | 440,715 | $ | 223,977 |
| | 1.00% | | 1.00% | | 1.00% | | 1.00% | | 1.00% | | 1.00% |

PENSION

*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%.

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 year 2018.

*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.

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.

(Continued)

## OTHER POSTEMPLOYMENT BENEFITS (OPEB)

### *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 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 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.

### *STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts 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.

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.

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OHIO AUDITOR OF STATE
KEITH FABER

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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 Preparatory
Montgomery County
627 Salem Avenue
Dayton, Ohio 45402

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Richard Allen Preparatory, Montgomery County, (the Preparatory) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Preparatory's basic financial statements and have issued our report thereon dated November 17, 2022, wherein we noted that the Preparatory is facing financial difficulties and the Preparatory merged its operations with Richard Allen Academy II Community School on June 1, 2018. We noted the Preparatory adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions. We noted the financial impact of COVID-19 and the ensuing emergency measures impact on subsequent periods of the Preparatory. We qualified our opinion on the financial statements because the Preparatory's management company did not provide adequate documentation to support information provided to the retirement systems, which was used to calculate the Preparatory's proportionate share of its net pension liability and net OPEB liability.

## *Internal Control Over Financial Reporting*

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the Preparatory'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 statement. 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 matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-002.

***Preparatory's Response to Findings***

The Preparatory's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the Preparatory's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

***Purpose of this Report***

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

Keith Faber
Auditor of State
Columbus, Ohio

November 17, 2022

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

### FINDING NUMBER 2018-001

**MATERIAL WEAKNESS – NET PENSION LIABILITY AND NET OPEB LIABILITY**

The Preparatory's 2018 financial statements reported deferred outflows for pension and other postemployment benefits (OPEB), net pension liability and net OPEB liability, and deferred inflows for pension and OPEB on the statement of net position. Additionally, the Preparatory reported pension and OPEB expense on the statement of revenues, expenses and changes in net position. These amounts are based on the Preparatory's proportionate share of net pension liability and net OPEB liability accounts for each pension system and changes in proportionate share from one year to the next year, along with any payments made by the Preparatory to the pension systems subsequent to the measurement date.

Completeness and accuracy of the Preparatory's proportionate share of the net pension liability and net OPEB liability is verified by testing underlying payroll records at the Preparatory and verifying that the Preparatory is correctly reporting its payroll along with census information to the retirement systems. The measurement date related to net pension liability and OPEB liability is the previous fiscal year-end (June 30, 2017 for a June 30, 2018 year-end). The Preparatory's 2017 audit opinion was qualified because the Preparatory's management company did not provide auditors with the management company's general ledger to reconcile amounts to payroll information that was provided. During 2017, Richard Allen Academy III Community School was selected for census data testing, again the management company refused to provide auditors with a copy of its general ledger. Additionally, the management company did not have agreed upon procedures (AUP) performed that would have covered payroll and census data. This resulted in a scope limitation since we were unable to gain sufficient, competent audit evidence supporting the Preparatory's net pension liability and net OPEB liability and the related deferred outflows and inflows of resources.

The Preparatory's Board should have developed the management company contract to verify that the management company is accountable for complying with all federal and state requirements. Failure to do so could result in modification of the Preparatory's financial statement opinion, additional audit cost, and actions by the retirement systems against the Preparatory.

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

### FINDING NUMBER 2018-002

**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.

**FINDING NUMBER 2018-002**
**(Continued)**

For one month of fiscal year 2018, the Richard Allen Schools 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 Preparatory 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 Richard Allen Schools. 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 Richard Allen Schools, Dr. Thomas (Bozeman) had a pecuniary interest in the agreement between IMR and the Richard Allen Schools and in the agreement between EMDG and the Richard Allen Schools.

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

Additionally, on March 9, 2016, IMR transferred properties located at 627, 635, and 641 Salem Avenue to Cash Money Properties at no cost. Cash Money Properties is owned by Brian Adams, who also owned the Ohio Community School Consultants Ltd which served as the Treasurer for the Preparatory until April 15, 2018. The Preparatory then leased these properties for operations from Cash Money Properties. Michelle Thomas (Bozeman) authorized the transfer of these properties, signing the quitclaim deed as the Vice President of IMR.

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

**Officials' Response:** See response within the fiscal year 2019 corrective action plan on page 73.

**Auditor of State Conclusion:** See conclusion within the fiscal year 2019 schedule of findings on page 68.

# Richard Allen Preparatory

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
## JUNE 30, 2018

| Finding Number | Finding Summary | Status | Additional Information |
|---|---|---|---|
| 2017-001 | Material Weakness – Net Pension Liability – The Preparatory placed scope restrictions on testing net pension liability. | Not Corrected | Repeated as Finding Number 2018-001 |
| 2017-002 | Noncompliance and Material Weakness – Financial Statement Misstatements - Ohio Rev. Code § 3314.03(B)(5) – There were adjusted financial statement errors. | Fully Corrected | |
| 2017-003 | Noncompliance – Ohio Rev. Code § 102.03(E) and Ohio Rev. Code § 2921.42(A) – Potential conflict of interest involving Dr. Michelle Thomas due to relationship with the Preparatory and management company. | Not Corrected | Repeated as Finding Number 2018-002 |
| 2017-004 | Noncompliance - Ohio Rev. Code § 3314.03(A)(8), 3314.024(A), and Ohio Rev. Code § 3314.024(D) – The Preparatory's management company received more than 20% of the Preparatory's revenue, but failed to provide a detailed accounting of costs. | Finding No Longer Valid | The Preparatory entered into an agreement with another management company in early fiscal year 2018 and less than 20% of the Preparatory's revenue was paid to the management company. |
| 2017-005 | Noncompliance/Finding for Recovery – Management Company agreement and Ohio Rev. Code § 117.28 – The Preparatory's management company was overpaid based on the contract agreement and a finding for recovery was issued. | Finding No Longer Valid | The Preparatory's management company was not overpaid in fiscal year 2018 or 2019; however, the Preparatory's former management company was involved in a bankruptcy case and is now a non-functioning entity. Therefore, this finding was not repaid. |
| | | | |

| | | | |
|---|---|---|---|
| 2017-006 | Noncompliance – Debt Covenant Violation – Merger of Richard Allen Schools, cancellation of management company contract, and former management company filing for chapter 11 bankruptcy protection violated debt covenant with Charter School Capital. | Finding No Longer Valid | The described instances violated the applicable debt covenant; however, a portion of the related debt has been subsequently paid off after the audit period and the remaining debt balance has been subsequently written off by Charter School Capital after the audit period. |

OHIO AUDITOR OF STATE
KEITH FABER

**RICHARD ALLEN PREPARATORY**

**MONTGOMERY 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 5/11/2023**

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