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

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

OHIO AUDITOR OF STATE
**KEITH FABER**

**RICHARD ALLEN PREPARATORY**
**MONTGOMERY COUNTY**
**JUNE 30, 2020**

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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, 2020, 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 Richard Allen Preparatory, as of June 30, 2020, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

The Preparatory has a net position deficiency at June 30, 2020. Note 20 to the financial statements describes management's plans regarding this matter. We did not modify our opinion regarding this matter.

As discussed in Note 18 to the financial statements, the financial impact of COVID-19 and the continuing 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 January 5, 2023, 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

January 5, 2023

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
(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, 2020. 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 2020 are as follows:

- In total, net position was deficit $3,103,375 at June 30, 2020.
- The Preparatory had operating revenues of $3,752,035, operating expenses of $4,251,266 and non-operating revenues of $860,395 for fiscal year 2020.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 2020?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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 2020 and 2019.

**Net Position**

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 223,855 | $ 105,634 |
| Non-current assets | 199,770 | 164,541 |
| Total assets | 423,625 | 270,175 |
| **Deferred outflows of resources** | 953,277 | 1,010,410 |
| **Liabilities** | | |
| Current liabilities | 357,255 | 375,493 |
| Non-current liabilities | 3,209,642 | 2,881,252 |
| Total liabilities | 3,566,897 | 3,256,745 |
| **Deferred inflows of resources** | 913,380 | 1,488,379 |
| **Net Position** | | |
| Investment in capital assets | 11,138 | - |
| Restricted | 57,994 | - |
| Unrestricted (deficit) | (3,172,507) | (3,464,539) |
| Total net position (deficit) | $ (3,103,375) | $ (3,464,539) |

The net pension liability (NPL) is the largest single liability reported by the Preparatory at June 30, 2020 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27." The 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, 2020 and 2019, the Preparatory's net position totaled deficits of $3,103,375 and $3,464,539, respectively.

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

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

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

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

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

**Change in Net Position**

| | 2020 | 2019 |
|---|---|---|
| **Operating Revenues:** | | |
| State foundation | $ 2,730,808 | $ 2,778,698 |
| Services provided to other entities | 914,108 | 800,932 |
| Casino aid | 19,471 | 18,134 |
| Facilities funding | 87,648 | 71,007 |
| Total operating revenue | 3,752,035 | 3,668,771 |
| **Operating Expenses:** | | |
| Salaries | 2,447,489 | 2,423,943 |
| Benefits | 801,654 | 838,189 |
| Purchased services | 1,087,415 | 1,121,252 |
| Materials and supplies | 101,599 | 9,934 |
| Change in pension obligations | (213,567) | (814,894) |
| Other | 26,292 | 32,826 |
| Depreciation | 384 | - |
| Total operating expenses | 4,251,266 | 3,611,250 |
| **Non-operating Revenues:** | | |
| Federal and state grants | 848,040 | 669,311 |
| Other non-operating revenue | 10,262 | 5,934 |
| Contributions and donations | 2,093 | 761 |
| Total non-operating revenues | 860,395 | 676,006 |
| Change in net position | 361,164 | 733,527 |
| Net position (deficit) at beginning of year | (3,464,539) | (4,198,066) |
| Net position (deficit) at end of year | $ (3,103,375) | $ (3,464,539) |

Overall, expenses increased $640,016. This increase is primarily the result of the negative change in pension and OPEB obligations of ($213,567) in the current fiscal year compared to ($814,894) in fiscal year 2019. Fluctuations in the pension expense reported under GASB 68 and 75 makes it difficult to compare financial information between years.

The revenue generated by a community school is dependent on per-pupil allotment given by the state foundation, casino aid, facilities funding. The Preparatory also received state and federal grant monies through the Child Nutrition Breakfast & Lunch, Title I-A, Title II-A, Title IV-A, Title VI-B and Student wellness and success programs during fiscal year 2020. 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 debt obligations at June 30, 2020, or June 30, 2019.

***Capital Assets***

The Preparatory had $11,138 in capital assets, net of depreciation, June 30, 2020. See Note 7 to the basic financial statements for detail.

**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, 2020

| | | |
|---|---|---|
| **Assets:** | | |
| Current assets: | | |
| Cash | $ | 35,144 |
| Receivables: | | |
| Accounts | | 112,642 |
| Intergovernmental | | 76,069 |
| Total current assets | | 223,855 |
| Non-current assets: | | |
| Net OPEB asset | | 188,632 |
| Depreciable capital assets, net | | 11,138 |
| Total non-current assets | | 199,770 |
| Total assets | | 423,625 |
| **Deferred outflows of resources:** | | |
| Pension | | 870,497 |
| OPEB | | 82,780 |
| Total deferred outflows of resources | | 953,277 |
| **Liabilities:** | | |
| Current liabilities: | | |
| Accounts payable | | 48,178 |
| Accrued wages and benefits | | 208,473 |
| Intergovernmental payable | | 100,604 |
| Total current liabilities | | 357,255 |
| Long-term liabilities: | | |
| Net pension liability | | 3,015,336 |
| Net OPEB liability | | 194,306 |
| Total long-term liabilities | | 3,209,642 |
| Total liabilities | | 3,566,897 |
| **Deferred inflows of resources:** | | |
| Pension | | 524,074 |
| OPEB | | 389,306 |
| Total deferred inflows of resources | | 913,380 |
| **Net position:** | | |
| Investment in capital assets | | 11,138 |
| Restricted for: | | |
| Restricted for state programs | | 12,248 |
| Restricted for federal programs | | 45,746 |
| Unrestricted (deficit) | | (3,172,507) |
| Total net position (deficit) | $ | (3,103,375) |

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, 2020

| | |
|---|---|
| **Operating revenues:** | |
| State foundation | $ 2,730,808 |
| Services provided to other entities | 914,108 |
| Casino aid. | 19,471 |
| Facilities funding | 87,648 |
| Total operating revenues | 3,752,035 |
| **Operating expenses:** | |
| Salaries | 2,447,489 |
| Benefits | 801,654 |
| Purchased services | 1,087,415 |
| Materials and supplies | 101,599 |
| Change in pension and OPEB obligations | (213,567) |
| Depreciation | 384 |
| Other | 26,292 |
| Total operating expenses. | 4,251,266 |
| Operating loss | (499,231) |
| **Non-operating revenues:** | |
| Federal and state grants | 848,040 |
| Other non-operating revenue | 10,262 |
| Contributions and donations | 2,093 |
| Total non-operating revenues | 860,395 |
| Change in net position. | 361,164 |
| **Net position (deficit) at beginning of year** | (3,464,539) |
| **Net position (deficit) at end of year** | $ (3,103,375) |

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, 2020

| | | |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from State foundation | $ | 2,737,586 |
| Cash received from services provided to other entities | | 860,401 |
| Cash received from casino aid | | 19,471 |
| Cash received from facilities funding | | 87,648 |
| Cash payments for salaries | | (2,443,095) |
| Cash payments for benefits | | (820,808) |
| Cash payments for purchased services | | (1,095,975) |
| Cash payments for materials and supplies | | (107,599) |
| Cash payments for other expenses | | (26,285) |
| Net cash used in operating activities | | (788,656) |
| **Cash flows from noncapital financing activities:** | | |
| Cash received from federal and state grants | | 815,981 |
| Cash received from contributions and donations | | 2,093 |
| Cash received from miscellaneous receipts | | 13,251 |
| Net cash provided by noncapital financing activities | | 831,325 |
| **Cash flows from capital and related financing activities:** | | |
| Acquisition of capital assets | | (11,522) |
| Net cash used in capital and related financing activities | | (11,522) |
| Net increase in cash | | 31,147 |
| **Cash at beginning of year** | | 3,997 |
| **Cash at end of year** | $ | 35,144 |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $ | (499,231) |
| Adjustments: | | |
| Depreciation | | 384 |
| Changes in assets, deferred outflows, liabilities, and deferred inflows: | | |
| (Increase) in accounts receivable | | (53,707) |
| (Increase) in intergovernmental receivable | | (4,297) |
| (Increase) in net OPEB asset | | (24,091) |
| Decrease in deferred outflows - pensions | | 75,866 |
| (Increase) in deferred outflows - OPEB | | (18,733) |
| (Decrease) in accounts payable | | (23,652) |
| Increase in accrued wages and benefits payable | | 3,810 |
| Increase in intergovernmental payable | | 1,604 |
| Increase in net pension liability | | 340,540 |
| (Decrease) in net OPEB liability | | (12,150) |
| (Decrease) in deferred inflows - pensions | | (557,142) |
| (Decrease) in deferred inflows - OPEB | | (17,857) |
| Net cash used in operating activities | $ | (788,656) |

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.

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 12 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 363 full-time equivalent (FTE) students for fiscal year 2020.

## 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.

### 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.

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

**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 8 and 9 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 8 and 9, respectively, for detail.

**E. Budgetary Process**

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032I. However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the 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 2020.

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

**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.

**H. Net Position**

Net position represents the difference between assets and deferred outflow of resources and liabilities and deferred inflow of resources. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the 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 2020 school year totaled $2,837,927.

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 Preparatory on a reimbursement basis.

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

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 2020 school year totaled $848,040.

**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, 2020.

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

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

**M. Estimates**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

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

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

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

**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, 2020, the carrying amount of the Preparatory's deposits was $35,144 and the bank balance was $66,460. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the non-profit corporation.

## NOTE 5 - RECEIVABLES

At June 30, 2020, the Preparatory had $112,642 in accounts receivable and $76,069 in intergovernmental receivables. Accounts receivables 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), amounts due from the School Employees Retirement System (SERS), amounts due from the State Teachers Retirement System (STRS) and amounts due from Ohio Bureau of Workers' Compensation. All receivables are considered collectible in full.

## NOTE 6 - PAYABLES

At June 30, 2020, the Preparatory had accounts payable, accrued wages and benefits, and intergovernmental payables totaling $48,178, $208,473, and $100,604, respectively. 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 2020. The intergovernmental payable consists of an amount due to ODE and amounts due to SERS.

## NOTE 7 - CAPITAL ASSETS

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

| | Balance 06/30/19 | Additions | Reductions | Balance 06/30/20 |
|---|---|---|---|---|
| Capital assets, being depreciated: | | | | |
| Leasehold improvements | $ - | $ 11,522 | $ - | $ 11,522 |
| Total capital assets being depreciated | - | 11,522 | - | 11,522 |
| Less: accumulated depreciation | | | | |
| Leasehold improvements | - | (384) | - | (384) |
| Total accumulated depreciation | - | (384) | - | (384) |
| Capital assets, net | $ - | $ 11,138 | $ - | $ 11,138 |

## NOTE 8 - DEFINED BENEFIT PENSION PLANS

***Net Pension Liability***

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

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

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* 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.

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

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

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

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Preparatory is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0%.

The Preparatory's contractually required contribution to SERS was $24,317 for fiscal year 2020. Of this amount, $9,690 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 28 years of service, or 33 years of service regardless of age.

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

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 8 - 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 2020, 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 2020 contribution rates were equal to the statutory maximum rates.

The Preparatory's contractually required contribution to STRS was $200,455 for fiscal year 2020. Of this amount, $52,831 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, 2019, 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.

**NOTE 8 - 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 | 0.00739145% | 0.01023968% | |
| Proportion of the net pension liability current measurement date | 0.00830152% | 0.01138915% | |
| Change in proportionate share | 0.00091007% | 0.00114947% | |
| Proportionate share of the net pension liability | $ 496,695 | $ 2,518,641 | $ 3,015,336 |
| Pension expense | $ 114,449 | $ (30,413) | $ 84,036 |

At June 30, 2020, 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 | $ 12,595 | $ 20,507 | $ 33,102 |
| Changes of assumptions | - | 295,862 | 295,862 |
| Difference between employer contributions and proportionate share of contributions/ change in proportionate share | 53,113 | 263,648 | 316,761 |
| Contributions subsequent to the measurement date | 24,317 | 200,455 | 224,772 |
| Total deferred outflows of resources | $ 90,025 | $ 780,472 | $ 870,497 |

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred inflows of resources** | | | |
| Differences between expected and actual experience | $ - | $ 10,904 | $ 10,904 |
| Net difference between projected and actual earnings on pension plan investments | 6,376 | 123,099 | 129,475 |
| Difference between employer contributions and proportionate share of contributions/ change in proportionate share | 14,238 | 369,457 | 383,695 |
| Total deferred inflows of resources | $ 20,614 | $ 503,460 | $ 524,074 |

$224,772 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, 2021.

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

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

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2021 | $ 39,500 | $ 104,280 | $ 143,780 |
| 2022 | 2,403 | (29,821) | (27,418) |
| 2023 | (424) | (59,024) | (59,448) |
| 2024 | 3,615 | 61,122 | 64,737 |
| Total | $ 45,094 | $ 76,557 | $ 121,651 |

***Actuarial Assumptions - SERS***

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

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

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

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

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

For 2019, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash | 1.00 % | 0.50 % |
| US Equity | 22.50 | 4.75 |
| International Equity | 22.50 | 7.00 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 8.00 |
| Real Assets | 15.00 | 5.00 |
| Multi-Asset Strategies | 10.00 | 3.00 |
| Total | 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 | Current Discount Rate | 1% Increase |
|---|---|---|---|
| Preparatory's proportionate share of the net pension liability | $ 696,047 | $ 496,695 | $ 329,513 |

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

***Actuarial Assumptions - STRS***

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

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

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

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

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

| Asset Class | Target Allocation* | Long-Term Expected Real Rate of Return ** |
|---|---|---|
| Domestic Equity | 28.00 % | 7.35 % |
| International Equity | 23.00 | 7.55 |
| Alternatives | 17.00 | 7.09 |
| Fixed Income | 21.00 | 3.00 |
| Real Estate | 10.00 | 6.00 |
| Liquidity Reserves | 1.00 | 2.25 |
| Total | 100.00 % | |

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

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

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

***Discount Rate -*** The discount rate used to measure the total pension liability was 7.45% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

***Sensitivity of the 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 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%) or one-percentage-point higher (8.45%) than the current rate:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| Preparatory's proportionate share of the net pension liability | $ 3,680,714 | $ 2,518,641 | $ 1,534,888 |

**NOTE 9 - DEFINED BENEFIT OPEB PLANS**

***Net OPEB Liability/Asset***

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

The net OPEB liability/asset represents the 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 9 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

The proportionate share of each plan's unfunded/funded benefits is presented as a long-term *net OPEB liability* or *net OPEB asset* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in intergovernmental payable 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 the fiscal year ended June 30, 2020, SERS did not allocate any employer contributions to post-employment health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was $19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the Preparatory's surcharge obligation was $1,857.

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

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Preparatory's contractually required contribution to SERS was $1,857 for fiscal year 2020. Of this amount, $1,857 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, 2021. 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, 2020, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability/asset was measured as of June 30, 2019, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The 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/asset prior measurement date | 0.00744180% | 0.01023968% | |
| Proportion of the net OPEB liability/asset current measurement date | 0.00772653% | 0.01138915% | |
| Change in proportionate share | 0.00028473% | 0.00114947% | |
| Proportionate share of the net OPEB liability | $ 194,306 | $ - | $ 194,306 |
| Proportionate share of the net OPEB asset | $ - | $ 188,632 | $ 188,632 |
| OPEB expense | $ 6,745 | $ (77,719) | $ (70,974) |

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

At June 30, 2020, 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 | $ 2,852 | $ 17,102 | $ 19,954 |
| Net difference between projected and actual earnings on OPEB plan investments | 468 | - | 468 |
| Changes of assumptions | 14,192 | 3,965 | 18,157 |
| Difference between employer contributions and proportionate share of contributions/ change in proportionate share | 35,722 | 6,622 | 42,344 |
| Contributions subsequent to the measurement date | 1,857 | - | 1,857 |
| Total deferred outflows of resources | $ 55,091 | $ 27,689 | $ 82,780 |

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred inflows of resources** | | | |
| Differences between expected and actual experience | $ 42,687 | $ 9,597 | $ 52,284 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 11,847 | 11,847 |
| Changes of assumptions | 10,888 | 206,812 | 217,700 |
| Difference between employer contributions and proportionate share of contributions/ change in proportionate share | 5,637 | 101,838 | 107,475 |
| Total deferred inflows of resources | $ 59,212 | $ 330,094 | $ 389,306 |

$1,857 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, 2021. 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: | | | |
| 2021 | $ (8,896) | $ (64,994) | $ (73,890) |
| 2022 | 2,159 | (64,994) | (62,835) |
| 2023 | 2,295 | (60,245) | (57,950) |
| 2024 | 2,274 | (58,581) | (56,307) |
| 2025 | (1,714) | (55,238) | (56,952) |
| Thereafter | (2,096) | 1,647 | (449) |
| Total | $ (5,978) | $ (302,405) | $ (308,383) |

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

***Actuarial Assumptions - SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

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

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

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

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

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

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

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

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

**NOTE 9 - 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 (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB liability | $ 235,851 | $ 194,306 | $ 161,273 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB liability | $ 155,678 | $ 194,306 | $ 245,555 |

***Actuarial Assumptions - STRS***

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

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

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

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

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

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

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

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

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

| Asset Class | Target Allocation* | Long-Term Expected Real Rate of Return ** |
|---|---|---|
| Domestic Equity | 28.00 % | 7.35 % |
| International Equity | 23.00 | 7.55 |
| Alternatives | 17.00 | 7.09 |
| Fixed Income | 21.00 | 3.00 |
| Real Estate | 10.00 | 6.00 |
| Liquidity Reserves | 1.00 | 2.25 |
| Total | 100.00 % | |

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

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

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

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

***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, 2019, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB asset | $ 160,960 | $ 188,632 | $ 211,897 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| Preparatory's proportionate share of the net OPEB asset | $ 213,900 | $ 188,632 | $ 157,684 |

**NOTE 10 - 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 2020, the Preparatory maintained the following coverage through the Alliance of Nonprofits for Insurance Company:

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

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

| Coverage | Limits of Coverage |
|---|---|
| Improper Sexual Conduct Limits: | |
| Aggregate limit | $1,000,000 |
| Each occurrence | 1,000,000 |

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

**B. Employee Insurance Benefits**

During fiscal year 2020, the Preparatory provided health, dental, vision and life insurance benefits to employees through Anthem.

**NOTE 11 - 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 2020 totaled $89,185.

**NOTE 12 - MANAGEMENT COMPANY AGREEMENT**

**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.

**NOTE 12 - 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 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 $385,827 to EMDG during fiscal year 2020 for management services.

**NOTE 13 - PURCHASED SERVICES**

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

| | |
|---|---|
| Instructional services | $ 195,534 |
| Management services | 385,827 |
| Data processing services | 22,634 |
| Professional/legal services | 35,042 |
| Accounting/auditing services | (1,635) |
| Other professional services | (16,348) |
| Property services | 120,362 |
| Travel expenses | 222 |
| Communications | 1,270 |
| Utility services | 108,399 |
| Contracted food services | 227,744 |
| Instructional other tuition | 5,232 |
| Pupil transportation services | 3,132 |
| Total | $ 1,087,415 |

## NOTE 14 - LONG-TERM OBLIGATIONS

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

| | Balance June 30, 2019 | Additions | Reductions | Balance June 30, 2020 | Amounts Due in One Year |
|---|---|---|---|---|---|
| Net pension liability: | | | | | |
| STRS | $ 2,251,474 | $ 267,167 | $ - | $ 2,518,641 | $ - |
| SERS | 423,322 | 73,373 | - | 496,695 | - |
| Total net pension liability | 2,674,796 | 340,540 | - | 3,015,336 | - |
| Net OPEB liability: | | | | | |
| SERS | 206,456 | - | (12,150) | 194,306 | - |
| Total net OPEB liability | 206,456 | - | (12,150) | 194,306 | - |
| Total long-term obligations | $ 2,881,252 | $ 340,540 | $ (12,150) | $ 3,209,642 | $ - |

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

*Net OPEB Liability*
See Note 9 for information on the Preparatory's net OPEB liability.

## 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 $49,500 to the Lessor during fiscal year 2020.

The amount of the future base rent lease payments required under the operating lease at June 30, 2020 is:

| Fiscal Year Ending | Amount |
|---|---|
| 2021 | $ 54,000 |
| 2022 | 54,000 |
| 2023 | 54,000 |
| 2024 | 54,000 |
| 2025 | 54,000 |
| Total | $ 270,000 |

## NOTE 16 - RELATED PARTY TRANSACTIONS

The Governing Board of Richard Allen Preparatory served in the same capacity for the Richard Allen Academy for the fiscal year 2020, both 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 Superintendent was also the corporate Secretary for IMR. 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 Preparatory will reimburse EMDG for its payroll and other costs eligible for reimbursements. See Note 12 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, 2020.

### B. State Foundation Funding

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

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

The Preparatory owes $10,919 from the fiscal year 2020 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 18 - COVID-19

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

## NOTE 19 - 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 20 - 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 21 - SUBSEQUENT EVENT

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

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

**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 SEVEN FISCAL YEARS

| | 2020 | 2019 | 2018 | 2017* |
|---|---|---|---|---|
| Preparatory's proportion of the net pension liability | 0.00830152% | 0.00739145% | 0.00616960% | 0.00728760% |
| Preparatory's proportionate share of the net pension liability | $ 496,695 | $ 423,322 | $ 368,620 | $ 533,385 |
| Preparatory's covered payroll | $ 423,304 | $ 183,267 | $ 192,350 | $ 248,914 |
| Preparatory's proportionate share of the net pension liability as a percentage of its covered payroll | 117.34% | 230.99% | 191.64% | 214.28% |
| Plan fiduciary net position as a percentage of the total pension liability | 70.85% | 71.36% | 69.50% | 62.98% |

* Amounts were restated in fiscal year 2018 to reflect the June 1, 2018 merger between Richard Allen 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

| 2016 | 2015 | 2014 |
|---|---|---|
| 0.00227800% | 0.00260400% | 0.00260400% |
| $ 129,985 | $ 131,787 | $ 154,852 |
| $ 137,140 | $ 172,670 | $ 171,806 |
| 94.78% | 76.32% | 90.13% |
| 69.16% | 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 SEVEN FISCAL YEARS

| | **2020** | **2019** | **2018** | **2017*** |
|---|---|---|---|---|
| Preparatory's proportion of the net pension liability | 0.01138915% | 0.01023968% | 0.01335789% | 0.01366018% |
| Preparatory's proportionate share of the net pension liability | $ 2,518,641 | $ 2,251,474 | $ 3,173,195 | $ 4,572,474 |
| Preparatory's covered payroll | $ 1,469,457 | $ 2,211,429 | $ 1,468,543 | $ 2,689,286 |
| Preparatory's proportionate share of the net pension liability as a percentage of its covered payroll | 171.40% | 101.81% | 216.08% | 170.03% |
| Plan fiduciary net position as a percentage of the total pension liability | 77.40% | 77.31% | 75.30% | 66.80% |

* Amounts were restated in fiscal year 2018 to reflect the June 1, 2018 merger between Richard Allen 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

| 2016 | 2015 | 2014 |
|---|---|---|
| 0.00585207% | 0.00612584% | 0.00612584% |
| $ 1,617,341 | $ 1,490,016 | $ 1,774,898 |
| $ 1,178,571 | $ 1,121,508 | $ 1,393,054 |
| 137.23% | 132.86% | 127.41% |
| 72.10% | 74.70% | 69.30% |

**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

| | 2020 | 2019 | 2018 | 2017* |
|---|---|---|---|---|
| Contractually required contribution | $ 24,317 | $ 57,146 | $ 24,741 | $ 26,929 |
| Contributions in relation to the contractually required contribution | (24,317) | (57,146) | (24,741) | (26,929) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 173,693 | $ 423,304 | $ 183,267 | $ 192,350 |
| Contributions as a percentage of covered payroll | 14.00% | 13.50% | 13.50% | 14.00% |

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

| 2016* | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| $ 34,848 | $ 18,075 | $ 23,932 | $ 23,778 | $ 13,505 | $ 16,337 |
| (34,848) | (18,075) | (23,932) | (23,778) | (13,505) | (16,337) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 248,914 | $ 137,140 | $ 172,670 | $ 171,806 | $ 100,409 | $ 129,968 |
| 14.00% | 13.18% | 13.86% | 13.84% | 13.45% | 12.57% |

**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

| | 2020 | 2019 | 2018 | 2017* |
|---|---|---|---|---|
| Contractually required contribution | $ 200,455 | $ 205,724 | $ 309,600 | $ 205,596 |
| Contributions in relation to the contractually required contribution | (200,455) | (205,724) | (309,600) | (205,596) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 1,431,821 | $ 1,469,457 | $ 2,211,429 | $ 1,468,543 |
| 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

| 2016* | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| $ 376,500 | $ 165,000 | $ 145,796 | $ 181,097 | $ 108,018 | $ 76,351 |
| (376,500) | (165,000) | (145,796) | (181,097) | (108,018) | (76,351) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 2,689,286 | $ 1,178,571 | $ 1,121,508 | $ 1,393,054 | $ 830,908 | $ 587,315 |
| 14.00% | 14.00% | 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 FOUR FISCAL YEARS

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Preparatory's proportion of the net OPEB liability | 0.00772653% | 0.00744180% | 0.00575900% | 0.00660616% |
| Preparatory's proportionate share of the net OPEB liability | $ 194,306 | $ 206,456 | $ 154,556 | $ 188,300 |
| Preparatory's covered payroll | $ 423,304 | $ 183,267 | $ 192,350 | $ 248,914 |
| Preparatory's proportionate share of the net OPEB liability as a percentage of its covered payroll | 45.90% | 112.65% | 80.35% | 75.65% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 15.57% | 13.57% | 12.46% | 11.49% |

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

Amounts presented for each fiscal year were determined as of the 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 FOUR FISCAL YEARS

| | **2020** | **2019** | **2018** | **2017** |
|---|---|---|---|---|
| Preparatory's proportion of the net OPEB liability/asset | 0.01138915% | 0.01023968% | 0.01335789% | 0.01366018% |
| Preparatory's proportionate share of the net OPEB liability/(asset) | $ (188,632) | $ (164,541) | $ 521,175 | $ 730,550 |
| Preparatory's covered payroll | $ 1,469,457 | $ 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 | (12.84%) | (7.44%) | 35.49% | 27.17% |
| Plan fiduciary net position as a percentage of the total OPEB liability/asset | 174.70% | 176.00% | 47.10% | 37.33% |

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

Amounts presented for each fiscal year were determined as of the 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

| | 2020 | 2019 | 2018 | 2017* |
|---|---|---|---|---|
| Contractually required contribution | $ 1,857 | $ 3,248 | $ 3,153 | $ - |
| Contributions in relation to the contractually required contribution | (1,857) | (3,248) | (3,153) | - |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 173,693 | $ 423,304 | $ 183,267 | $ 192,350 |
| Contributions as a percentage of covered payroll | 1.07% | 0.77% | 1.72% | 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

| 2016* | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| $ - | $ 1,245 | $ 309 | $ 290 | $ 516 | $ 1,978 |
| - | (1,245) | (309) | (290) | (516) | (1,978) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 248,914 | $ 137,140 | $ 172,670 | $ 171,806 | $ 100,409 | $ 129,968 |
| 0.00% | 0.91% | 0.18% | 0.17% | 0.51% | 1.52% |

**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

| | **2020** | **2019** | **2018** | **2017*** |
|---|---|---|---|---|
| Contractually required contribution | $ - | $ - | $ - | $ - |
| Contributions in relation to the contractually required contribution | - | - | - | - |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Preparatory's covered payroll | $ 1,431,821 | $ 1,469,457 | $ 2,211,429 | $ 1,468,543 |
| 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

| 2016* | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| $ - | $ - | $ 11,215 | $ 13,931 | $ 8,309 | $ 5,873 |
| - | - | (11,215) | (13,931) | (8,309) | (5,873) |
| $ - | $ - | $ - | $ - | $ - | $ - |
| $ 2,689,286 | $ 1,178,571 | $ 1,121,508 | $ 1,393,054 | $ 830,908 | $ 587,315 |
| 0.00% | 0.00% | 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%. There were no changes in benefit terms from the amounts previously reported for fiscal years 2019-2020.

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

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

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

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

(Continued)

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 2017-2020.

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

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

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

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

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OHIO AUDITOR OF STATE
KEITH FABER

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Columbus, Ohio 43215
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(800) 282-0370

**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, 2020, and the related notes to the financial statements, which collectively comprise the Preparatory's basic financial statements and have issued our report thereon dated January 5, 2023, wherein we noted that the Preparatory is facing financial difficulties and we also noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the 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 statements. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2020-001.

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

The Preparatory's response to the finding identified in our audit is described in the accompanying schedule of findings. 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
Auditor of State
Columbus, Ohio

January 5, 2023

**SCHEDULE OF FINDINGS**
**JUNE 30, 2020**

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

### FINDING NUMBER 2020-001

**NONCOMPLIANCE**

**Ohio Rev. Code § 102.03 (E)** states no public official or employee shall solicit or accept anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

**Ohio Rev. Code § 2921.42(A)(4)**, states, in part, no public official shall knowingly have an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which the public official is connected.

In previous periods, the Preparatory 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 the Preparatory. Dr. Thomas (Bozeman) may have violated Ohio Rev. Code § 2921.42(A)(4) because as a public official in her role as the Superintendent of the Preparatory, Dr. Thomas (Bozeman) had a pecuniary interest in the agreement between EMDG and the Preparatory.

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

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:** The School strongly objects to this finding as it pertains to alleged ethics matters involving the School's chief administrator. As in prior years, the Auditor indicates that a "referral will be made to the Ohio Ethics Commission." No prior referrals have resulted in an ethics finding against Dr. Bozeman (former Thomas), however, which is not surprising because none have occurred. The School again raises the question of how an operator—which, as Ohio law provides, can include an "individual" managing day-to-day operations by contract with an independent governing authority—can fulfill a school's chief administrator role when considering the Auditor's position that such administrators cannot be connected with the operator. The proposed finding fails to address this conflict with R.C. 3314.02(A)(8)(a). Consistent with Ohio community school law, a staff member of the operator—regardless of position with the operator—who fulfills the operator's contractual duties to manage the day-to-day operations of a school does not have a conflict of interest under R.C. 102.03 or R.C. 2921.42 where the school's independent governing authority has permissibly delegated such operational responsibility. Accordingly, this baseless allegation should be removed from the Audit Report.

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

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

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

# Richard Allen Preparatory

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

| Finding Number | Finding Summary | Status | Additional Information |
|---|---|---|---|
| 2019-001 | Noncompliance – Ohio Rev. Code § 102.03(E) and Ohio Rev. Code § 2921.42(A)(4) – Potential conflict of interest involving Dr. Michelle Thomas (Bozeman) due to relationship with the Preparatory and management company. | Not Corrected | Repeated as Finding Number 2020-001 |

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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 6/1/2023**

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