CINCINNATI STATE STEM ACADEMY
HAMILTON COUNTY

FINAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

Dave Yost • Auditor of State

CINCINNATI STATE STEM ACADEMY
HAMILTON COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Cincinnati State STEM Academy
Hamilton County
3520 Central Parkway
Cincinnati, Ohio 45223

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Cincinnati State STEM Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cincinnati State STEM Academy, Hamilton County as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 of the financial statements, the Academy closed due to lack of enrollment and funding effective June 30, 2016. This matter does not affect our opinion on these financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management’s discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board (GASB) considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. The Academy has omitted the schedules of net pension liabilities and pension contributions GASB Codification section P20.181 requires to be presented to supplement the basic financial statements. The auditor's opinion on the basic financial statements is not affected by the omitted information. We applied certain limited procedures to the *Management’s discussion and analysis* 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 *Management’s discussion and analysis* 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 July 24, 2017, on our consideration of the Academy’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy’s internal control over financial reporting and compliance.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

July 24, 2017

The intent of this discussion and analysis is to look at the Cincinnati State STEM Academy's (the "Academy) financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance. The Management's Discussion and Analysis (the MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain comparative financial information between the current fiscal year and the prior fiscal year are required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the Academy are as follows:

- Total assets and deferred outflows were $264,806
- Total liabilities and deferred inflows were $1,770,974
- Total net position was ($1,506,168)
- Total operating and non-operating revenues were $1,133,747 in 2016 compared to $1,250,770 in 2015. Total operating expenses were $1,088,171 in 2016 compared to $1,260,085 in 2015.

USING THIS ANNUAL REPORT

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how the Academy did financially during fiscal year 2016. These statements include all assets, deferred outflows of resources, liabilities and deferred inflow of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash was received or paid. These statements report the Academy's net position and changes in the net position. This change in net position is important because it tells the reader whether the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Nonfinancial factors include the Academy's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors. The Academy uses enterprise presentation for all of its activities.

During fiscal year 2015, the Academy implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Please see adoption of new accounting pronouncements in Note 2 to the financial statements for further details

Statement of Net Position

The Statement of Net Position answers the question of how the Academy did financially during the fiscal year. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash was received or paid.

Table 1 provides a summary of the Academy's net position for fiscal year 2016 compared to fiscal year 2015.

Table 1 – Statement of Net Position

	2016	2015	Change
ASSETS:			
Cash	$23,403	$0	$23,403
Intergovernmental Receivable	51,528	35,206	16,322
TOTAL ASSETS	74,931	35,206	39,725
Deferred Outflows	189,875	84,651	105,224
LIABILITIES:			
Accrued Salaries and Fringe Benefits	74,888	43,385	(31,503)
Accounts Payable	5,265	15,699	10,434
Net Pension Liability	1,562,057	1,373,960	(188,097)
TOTAL LIABILITIES	1,642,210	1,433,044	(209,166)
Deferred Inflows of Resources	128,764	238,557	109,793
NET POSITION:			
Unrestricted	(1,506,168)	(1,551,744)	45,576
TOTAL NET POSITION	($1,506,168)	($1,551,744)	$45,576

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Academy's net position totaled $(1,506,168). Current assets consist of cash and intergovernmental receivables. Cash increased significantly due certain one-time expenditures in FY15 not recurring and timing of receipt of state and federal grants. Intergovernmental receivables increase due increased state funding. Current liabilities consist of salaries and fringe benefits payable, accounts payable at fiscal yearend. Salaries and Fringe Benefits payable increased due increased salary accruals at year-end. Accounts payable decreased year over year due to the timing of when invoices for fiscal year 2016 were paid compared to 2015. Management is monitoring the significant decrease in net position, exclusive of GASB 68 adjustments.

During 2015, the Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*.

GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Academy's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer.* State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion.

Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from $5,207 to ($1,542,429).

Change in Net Position

Table 2 shows the changes in net position for fiscal year 2016 compared to fiscal year 2015 as well as a listing of revenues and expenses.

Table 2 – Change in Net Position

	2016	2015	Change
OPERATING REVENUES:			
State Foundation Payments	$879,405	$972,072	($92,667)
Other Revenues	29,562	32,261	(2,699)
NONOPERATING REVENUES AND EXPENSES			
Federal and State Grants	224,780	246,437	(21,657)
Total Operating/Non-Operating Revenues	$1,133,747	1,250,770	(117,023)
OPERATING EXPENSES:			
Salaries & Wages	603,838	587,519	16,319
Fringe Benefits	220,986	237,055	(16,069)
Purchased Services	187,970	168,347	19,623
Material, Supplies, Textbooks	6,641	87,060	(80,419)
Other	68,736	180,104	(111,368)
Total Operating Expenses	1,088,171	1,260,085	(171,914)
CHANGE IN NET POSITION	45,576	(9,315)	54,891
NET POSITION– Beginning of Year Restated	(1,551,744)	(1,542,429)	
NET POSITION - End of year	($1,506,168)	(1,551,744)	

The Academy operating revenues decreased $95,366 from 2015 to 2016 as a result of reduced student enrollment and associated State per pupil funding. Non-operating revenues decreased in 2016 due to reduced state & federal grant funds available, also a result of reduced enrollment. Salaries and wages increased $16,319 due to increase administrative, teaching and clerical expenses. Purchased Services increased $19,623 due increased coaching contracts in the federal funds. Materials, Supplies and

Textbooks decreased $80,419 due to fewer laptops purchased. Other expenses decreased $111,368 due to one-time State Foundation FTE adjustments from FY14 and FY15 not recurring.

BUDGETING HIGHLIGHTS

Unlike other public high schools in the State of Ohio, charter public high schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705 (with the exception section 5705.391 – Five Year Forecasts), unless specifically provided in the contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe a budgetary process. The Academy must prepare and submit a detail budget for every fiscal year to the Board of Directors and its Sponsor. The five-year forecast is also submitted to the Ohio Department of Education annually with a semi-annual update.

SHORT-TERM DEBT

At fiscal year-end, there was no outstanding balance. For more information about the Academy's short-term borrowing, see Note 5 of the Basic Financial Statements.

CURRENT FINANCIAL ISSUES

The Academy is a state chartered high school funded through the State of Ohio Foundation Program. The Academy relies on this, as well as State and Federal grants, as its primary source of revenue.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our stakeholders and creditors with a general overview of the Academy's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information, contact Michael Geoghegan, Treasurer, 3520 Central Parkway, Cincinnati, OH, 45223, email: michael.geoghegan@cincinnatistate.edu.

This page intentionally left blank.

Cincinnati State STEM Academy
Hamilton County

Statement of Net Position
June 30, 2016

ASSETS:	
Cash	$23,403
Intergovernmental Receivable	51,528
TOTAL CURRENT ASSETS	74,931
Deferred Out Flows	189,875
TOTAL ASSETS And DEFERRED OUT FLOWS	264,806
LIABILITIES:	
Accrued Salaries and Fringe Benefits	74,888
Accounts Payable	5,265
Net Pension Liability	1,562,057
TOTAL LIABILITIES	1,642,210
Deferred In Flows	128,764
TOTAL LIABILITIES And DEFERRED IN FLOWS	1,770,974
NET POSITION:	
Unrestricted	(1,506,168)
TOTAL NET POSITION	($1,506,168)

See accompanying notes to the basic financial statements

Cincinnati State STEM Academy
Hamilton County

Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

OPERATING REVENUES:	
State Foundation & Casino Payments	$879,405
Other Revenues	29,562
Total Operating Revenues	908,967
OPERATING EXPENSES:	
Salaries & Wages	603,838
Fringe Benefits	220,986
Purchased Services	187,970
Material, Supplies, Textbooks	6,641
Other	68,736
Total operating expenses	1,088,171
Operating Gain(Loss)	(179,204)
NONOPERATING REVENUES AND EXPENSES	
Federal & State Grants	224,780
Total Non-operating Revenues	224,780
CHANGE IN NET POSITION	45,576
NET POSITION- Beginning of year	($1,551,744)
NET POSITION - End of year	($1,506,168)

See accompanying notes to the basic financial statements

Cincinnati State STEM Academy
Hamilton County

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from State of Ohio	$855,455
Cash received from other revenues	23,044
Cash paid on behalf of the Academy for goods and services	(1,058,816)
Net cash provided by (used for) operating activities	(180,317)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:	
Federal & State Grants Received	203,720
Net cash provided by noncapital financing activities	203,720
NET CHANGE IN CASH	23,403
CASH - Beginning of year	0
CASH - End of year	23,403
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Operating Gain (Loss)	(179,204)
Change in Assets and Liabilities:	
Intergovernmental Receivable	4,738
Accrued Salaries and Fringe Benefits	31,503
Accounts Payable	(10,434)
Net Pension Liability	188,097
Deferred Inflows	(109,793)
Deferred Outflows	(105,224)
NET CASH USED FOR OPERATING ACTIVITIES:	($180,317)

See accompanying notes to the basic financial statements

This page intentionally left blank.

Note 1 – Description of the Academy and Reporting Entity

Cincinnati State STEM Academy (the Academy), is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of Academy students in grades 9 through 12. The Academy, which is part of the State's education program, is independent of any school district and is non-sectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy contracts with Southwest Ohio Computer Association (SWOCA) for fiscal accounting support services. SWOCA is a jointly-governed organization.

On September 1, 2012, the Academy entered into a five-year contract with Ohio Department of Education's Office of School Sponsorship (the Sponsor) to be the Academy's sponsor. The contract expiration date is June 30, 2017. The contract is renewed subject to the Sponsor's determination that the Governing Authority of the Academy has satisfactorily complied with the applicable laws and sponsorship contract and that the Academy's progress in meeting the academic goals stated in the sponsorship contract is satisfactory.

The Academy operates under the direction of a six member Board of Trustees (the Board). The Board is responsible for carrying out the provisions of the Sponsor contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the Academy's instructional/support facility staffed by eight (8) certificated full-time teaching personnel, four (4) certificated administrative personnel and two (2) non-certificated personnel who provided services to 137 students during the fiscal year.

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus.

With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. The difference between total assets and deferred outflows of resources and liabilities and deferred inflows of resources is defined as net position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Note 2 – Summary of Significant Accounting Policies (Continued)

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. 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. Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

Adoption of New Standard - The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability The Statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statement, the Academy has reported $1,547,636 as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014. June 30, 2014 amounts have not been restated to reflect the impact of GASB 68 because the information is not available to calculate the impact on pension expense for the fiscal year ended June 30, 2014.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast which is to be updated on an annual basis.

D. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash into separate funds.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program which is reflected on the Statement of Revenues, Expenses, and Change in Net Position. Revenues received from these programs are recognized as operating revenue in the accounting period in which all eligibility requirements have been met.

Non-exchange transactions, in which the Academy receives value without directly giving equal in return, include grants, entitlements and contributions. Grants, entitlements and contributions are recognized as non-operating revenues in the accounting period in which the eligibility requirements have been met.

Note 2 – Summary of Significant Accounting Policies (Continued)

F. Operating and Non-Operating Revenues and Expenses
Operating revenues are those revenues that are generated directly by the Academy's primary mission. For the Academy, operating revenues include revenues paid through the State Foundation Program and Other Unrestricted Grants distributed from the State's proceeds of the tax on gross casino revenue. Operating expenses are necessary costs incurred to support the Academy's primary mission, including salaries, benefits, purchased services, materials and supplies, depreciation and other.

Non-operating revenues and expenses are those that are not generated directly by the Academy's primary mission. Various federal and state grants, interest earnings and expense, if any, and contributions comprise the non-operating revenues and expenses of the Academy. Interest and fiscal charges on outstanding obligations, as well as gains or loss on capital asset disposals, if any, comprise the non-operating expenses.

G. Accrued Liabilities Payable
The Academy has recognized certain liabilities on its Statement of Net Position relating to expenses, which are due but unpaid as of fiscal year-end, including: (1) Wages Payable – salary payments made after year-end to instructional, administrative and support staff for services rendered prior to the end of June, but whose payroll continues into the summer months based on the fiscal year 2016 contract. (2) Fringe Benefits - benefits associated with services rendered during fiscal year 2016 that were paid in the subsequent fiscal year. (3) Accounts Payable – invoice(s) for goods and services received as of fiscal year-end, which have not been paid.

H. Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers Retirement System of Ohio (STRS) and School Employees Retirement System of Ohio Pension Plan (SERS) and additions to/deductions from STRS' and SERS' fiduciary net position have been determined on the same basis as they are reported by STRS and SERS. STRS and SERS use the economic resources measurement focus and the full accrual basis of accounting.

Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. Deferred Outflows/Inflows of Resources
In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Academy did not have any deferred outflows of resources at fiscal year-end. In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents 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. The Academy had no deferred inflows of resources as of fiscal year end.

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

Note 2 – Summary of Significant Accounting Policies (Continued)

K. Economic Dependency
The Academy receives nearly 100% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

L. Restatement of Net Position
The Academy has reported $1,547,636 as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014. June 30, 2014 amounts have been restated from $5,207 to ($1,542,429) to reflect the impact of GASB 68.

Note 3 – Deposits and Investments

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

At June 30, 2016, the carrying amount of the Academy's deposits was $23,403 and the bank balance was $44,508. The entire bank balance was covered by federal deposit insurance.

Note 4 – Intergovernmental Receivable

The Academy's receivable balance represents expected future reimbursements from Federal and State agencies for grant expenditures incurred during fiscal year 2016. The Academy recorded $23,950 for ode State Foundation, $5,596, $3,055 for ODE Casino Money, $5,896 for Title I, $12,061 for Special Education, Part B-IDEA and $48 for USDA Nutrition Program to intergovernmental receivables as of June 30, 2016.

Note 5 - Short-Term Debt

Cincinnati State STEM Academy entered into a Business Loan Agreement with PNC Bank on September 13, 2012 for a secured revolving line of credit of $200,000. There were no transactions during fiscal year 2015. There was a zero balance on June 30, 2015. Advances bear interest at the London Interbank Offered Rate (LIBOR) plus 3%. The revolving line of credit was extended from September 13, 2014 to September 12, 2015.

Note 6 – Risk Management

A. Property and Liability - The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the Academy contracted with Poignard Associates Inc., for insurance services. Property and general liability insurance coverage was as follows:

Note 6 – Risk Management (Continued)

Commercial Property Coverage (Coinsurance is 90%; $1,000 deductible):
Business Personal Property $100,000

Commercial General Liability:
Per Occurrence $1,000,000
Aggregate Total $2,000,000
Products and Completed Operations Aggregate $2,000,000
Personal and Advertising Injury $1,000,000
Damage to Rented Premises (each occurrence) $100,000
Medical Expense (any one person) $5,000

Commercial Automobile Coverage:
Combined Single Limit – Bodily Injury and Property Damage $1,000,000

Commercial Crime Coverage:
Employee Dishonesty ($250,000 limit/$2,500 deductible)
Forgery and Alteration ($100,000 limit/$2,500 deductible)
Computer Fraud ($100,000 limit/$2,500 deductible)
Funds Transfer Fraud ($100,000 limits/$2,500 deductible)
Personal Accounts Forgery or Alteration ($100,000 limits/$2,500 deductible)

Directors and Officers Liability:
Policy Damages Limit of Liability – Aggregate $1,000,000
IEP Hearing Limit of Liability – Aggregate for Claim Expense $50,000
Desegregation Limit of Liability – Aggregate for Claim Expense $100,000
Breach of Contract Limit of Liability – Aggregate for Claim Expenses $100,000
Breach of Fiduciary Duty Limit of Liability – Aggregate for Claim Expenses $25,000
Each Wrongful Act - $25,000
Each Employment Practices Violation $15,000
IEP Hearing $5,000
Umbrella Policy:
Each Occurrence $9,000,000
Annual Aggregate $9,000,000

There were no significant changes in coverage during the year. Settlement amount did not exceed coverage amounts.

B. Workers' Compensation - The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is determined by the State.

C. Employee Medical, Dental, Vision, Life, Short Term Disability and Employee Assistance Program Benefits - The Academy carries medical insurance through Humana; the Academy pays 85% of the medical insurance. Dental insurance is provided by Dental Care Plus; the Academy pays 100% of the dental insurance. Vision insurance is provided by Vision Care; the Academy pays 100% of the vision insurance.

Short term disability and employee assistance are also provided to the employees; the Academy pays 100% for both. The employee is responsible for the remainder of the premiums. The annual cost of medical, dental, and vision insurance are based on the employee's election of a single or family insurance plan.

Note 7 – Defined Benefit Pension Plans

(a) School Employees Retirement System

Plan Description - The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer Defined Benefit pension plan. 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 state statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, standalone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at www.ohsers.org under Employer/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2016, the allocation to pension and death benefits was 13.10%. The remaining 0.90% of the 14% employer contribution rate was allocated to the Health Care and Medicare B Funds.

The Academy's required contributions to SERS for the fiscal year ended June 30, 2015 and 2016 were $6,554 and $7,268 respectively; 15% and 15%. The entire amount has been contributed for fiscal year 2015 and 2016.

(b) State Teachers Retirement System

Plan Description - The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, academy, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215- 3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The

DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members may transfer to a different STRS Ohio retirement plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit", the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years.

Note 7 – Defined Benefit Pension Plans (Continued)

The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement.

Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated. Benefits were increased by 3% of the original base amount for DB Plan participants. The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed. A DB or Combined Plan member with five or more years' credited service that becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits.

A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries. Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions.

Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers. Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2016, were 11% of covered payroll for members and 14% for employers. The Academy's required contributions for

Note 7 – Defined Benefit Pension Plans (Continued)

pension obligations to the DB Plan for the fiscal year ended June 30, 2015 and 2016 were $64,995 and $68,412 respectively; 13% and 14%. The entire amount has been contributed for fiscal year 2013 and 2016.

Note 8 – Post-employment Benefits

(a) School Employees Retirement System
Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans. Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium.

The Medicare Part B monthly premium for calendar year 2016 was $104.90 for most participants, but could be as high as $335.70 per month depending on their income. SERS' reimbursement to retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2016, the actuarially required allocation is .76%. The Academy's contributions for the years ended June 30, 2013 and 2016 were $49 and $394, respectively. The entire amount has been contributed for fiscal year 2013 and 2016.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs,

Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

Active members do not make contributions to the postemployment benefit plans. The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2015, the health care allocation is .14%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. 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 2016, the minimum compensation level was established at $23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions assigned to health care, including the surcharge, for the years ended June 30, 2015 and 2016 were $921 and $211, respectively. The entire amount has been contributed for fiscal years 2015 and 2016. The SERS Retirement Board establishes 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. The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report.*

Note 8 – Post-employment Benefits (Continued)

The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

(b) State Teachers Retirement System

Plan Description - The Academy contributes to the cost-sharing, Multiple Employer Postemployment Benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined Pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by calling 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post employment health care for year ended June 30, 2016. The 14% employer contribution rated is the maximum rate established.

The Academy's contributions for health care for the fiscal years ended June 30, 2015 and 2016 was $3,726 and $4,887 respectively; 1% and 1%. The entire amount has been contributed for fiscal 2015 and 2016.

Note 9 – Contingencies

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. The effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2016, if
applicable, cannot be determined at this time. However, in the opinion of the Academy, any such disallowed claims will not have a material adverse effect on the financial position of the Academy at fiscal year-end.

The School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, the Academy must comply with the minimum hours of instruction, instead of a minimum number school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments as of June 30, 2016 Foundation funding for schools; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable or a liability of the Academy.

Note 10 – Contracted Services

The Academy and the Academy agreed to abide by both the fiscal services & food services contracts through June 30, 2015. The Academy is a party to a fiscal services agreement with Cincinnati State Technical & Community Academy, where the Academy is co-located. The following are the terms set forth by the contract for fiscal services:

Note 10 – Contracted Services (Continued)

1) Cincinnati State Technical & Community Academy will provide fiscal services for Cincinnati State STEM Academy according to the standards set forth by the Ohio Department of Education and all other required reporting requirements in state and federal law.
2) All designated parties will attend all needed training for compliance with all provisions of state and federal law.
3) Cincinnati State STEM Academy agrees to provide compensation to Cincinnati State Technical and Community Academy not to exceed $50,000.00 in payments.
4) Michael Geoghegan will act as the Academy Treasurer and point of contact for all fiscal matters for Cincinnati State STEM Academy under the direction of the Superintendent.

5) In this MOU, Cincinnati State Technical & Community Academy agrees to provide payroll support, tax preparation, audit support, budgets, and any other fiscal services requested by Cincinnati State STEM Academy.

The contract period for fiscal services is July 1, 2014 through June 30, 2016.

The Academy has entered into a food services agreement with Cincinnati State Technical and Community Academy Midwest Culinary Institute to provide breakfast and lunches for the students attending Cincinnati State STEM Academy according to the standards set forth in the National School Breakfast and Lunch Program.

1) All designated parties will attend all needed training for compliance with all provisions of the National School Breakfast and Lunch Program.
2) Cincinnati State STEM Academy agrees to provide compensation for meals provided directly to students each day at the federal reimbursement rate per meal at $2.86 per lunch and $1.55 per breakfast.
3) Meals will be served in Room 143 Lower Mezzanine
4) All menus will be presented to Cincinnati State STEM Academy 30 days in advance of food service to ensure compliance with the National School Breakfast and Lunch Program.

The contract period for the food services agreements is August 1, 2014 through July 30, 2016.

Note 11 – Operating Leases – Lessee and Lessor

The Academy entered into a Property Lease Agreement for the building located at 3520 Central Parkway, Cincinnati, OH, 45223 with Cincinnati State Technical & Community Academy (Lessee) that was updated in FY 2015. The term of the lease is two years, commencing on July 1, 2014. The Academy and the Academy have revised the lease agreement for the fiscal years 2015 and 2016 requiring only a $5,000 annual lease payment in return for the STEM Academy serving as a lab for the Academy's developmental education, retention and completion programs. .

Note 12 - Cost-sharing Defined Benefit Pension Plans

Plan Description - The Academy participates in the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS), statewide, cost-sharing, multiple-employer defined benefit public employee retirement systems governed by the Ohio Revised Code (ORC) that covers substantially all employees of the Academy. Each system has multiple retirement plan options available to its members, ranging from three in STRS and one in SERS. Each system provides retirement, survivor, and disability benefits to plan members and their beneficiaries.

Note 12 - Cost-sharing Defined Benefit Pension Plans (Continued)

The systems also each provide postemployment healthcare benefits (including Medicare B premiums) to retirees and beneficiaries who elect to receive those benefits.

Each retirement system issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. The reports may be obtained by contacting:

State Teachers Retirement System of Ohio
275 E. Broad Street
Columbus, Ohio 43215
(888) 227-7877
www.strsoh.org
School Employees Retirement System
300 East Broad Street, Suite 100
Columbus, Ohio 43215
(800) 878-5853
www.ohsers.org

Benefits Provided

STRS - Plan benefits are established under Chapter 3307 of the Revised Code, as amended by Substitute Senate Bill 342 in 2012, gives the Retirement Board the authority to make future adjustments to the member contribution rate, retirement age and service requirements, and the COLA as the need or opportunity arises, depending on the retirement system's funding progress.

Any member may retire who has (1) five years of service credit and attained age 60; (2) 25 years of service credit and attained age 55; or (3) 30 years of service credit regardless of age. Beginning August 1, 2015, eligibility requirements for an unreduced benefit will change. The maximum annual retirement allowance, payable for life considers years of credited service, final average salary (3-5 years) and multiplying by a factor ranging from 2.2 percent to 2.6 percent with 0.1 percent incremental increases for years greater than 30-31, depending on retirement age.

A defined benefit plan or combined plan member with five or more years of credited service who is determined to be disabled (illness or injury preventing individual's ability to perform regular job duties for at least 12 months) may receive a disability benefit.

Additionally, 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 10 years of qualifying service credit to apply for disability benefits.

A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the plan. Death benefit coverage up to $2,000 can be purchased by participants in all three of the plans. Various other benefits are available to members' beneficiaries.

SERS - Plan benefits are established under Chapter 3309 of the Revised Code, as amended by Substitute Senate Bill 341 in 2012. The requirements to retire depend on years of service (5 to 40 years) and from attaining the age of 60 to 67 (one group does not have an age requirement), depending on when the employee became a member. Member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 2.2 percent to 2.5 percent. Members also

Note 12 - Cost-sharing Defined Benefit Pension Plans (Continued)

covered by STRS, STRS, Ohio Police and Fire, or Ohio State Highway Patrol have separate considerations in how the benefits are determined.

The Death Benefit Fund pays $1,000 to a designated beneficiary of a deceased retiree or disability benefit recipient as allowed under ORC Section 3309.50.

Contributions - State retirement law requires contributions by covered employees and their employers, and Chapter 3307 of the ORC limits the maximum rate of contributions. The retirement boards of the systems individually set contributions rates within the allowable limits.

The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Under these provisions, each Academy's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Member contributions are 10 percent of gross wages for all plans, set at the maximums authorized by the ORC. The plans' 2015 contribution rates on covered payroll to each system are:

	Employer Contribution Rate			
	Pension	Postretirement Healthcare	Death Benefits	Total
SERS	13.05 %	0.90 %	0.05 %	14.00 %
STRS	13.00 %	1.00 %	0.00 %	14.00 %

In 2016, the contribution rates for SERS were the same as presented above for 2015 and the STRS rates were 14 percent for pension and zero percent for post-retirement healthcare and death benefits.

The Academy's required and actual contributions to the plans are:

	2016	2015	2014
SERS	$ 7,359	$ 6,554	$ 8,927
STRS	77,292	64,995	74,246
Total	$ 84,651	$ 71,549	$ 83,173

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2016, the Academy reported a liability for its proportionate share of the net pension liability of STRS and SERS. The net pension liability was measured as of July 1, 2015 for STRS and June 30, 2016 for the SERS. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Academy's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

			Net Pension Liability		**Proportionate Share Percent**	
Plan		**Measurement Date**	**2016**	**2015**	**2016**	**2015**
Change	SERS	June 30	$ 99,628	$ 111,441	0.00175 %	0.00220 %
	STRS	June 30	1,462,430	1,262,519	0.00529	0.00519
Total Net Pension Liability			$ 1,562,058	$1,373,960		

Note 12 - Cost-sharing Defined Benefit Pension Plans (Continued)

For the years ended June 30, 2016 and 2015, the Academy recognized pension expense of $57,461 and $51,750, respectively. At June 30, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflow of Resources:	SERS	STRS	Total
Difference between expected and actual experience	$1,604	$ 66,668	$ 68,272
Changes in proportion and the difference between Academy Contributions and proportionate share of contributions		37,043	37,043
Academy contributions subsequent to measurement date	7,268	77,292	84,560
Total Deferred Outflow of Resources	8,872	181,003	189,875
Deferred Inflow of Resources:			
Net difference between projected and actual earnings on investments	3,301	105,176	108,477
Changes in proportion and the difference between Academy Contributions and proportionate share of contributions	20,287	-	20,287
Total Deferred Inflow of Resources	$23,588	$105,176	$128,764

$84,560 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2017	($5,496)	($366)	($5,863)
2018	(5,496)	(366)	(5,862)
2019	(5,496)	(366)	(5,862)
2020	(5,496)	(366)	(5,862)
Total	($21,984)	($1,465)	($23,449)

Actuarial Assumptions - The total pension liability is based on the results of an actuarial valuation determined using the following actuarial assumptions, applied to all periods included in the measurement:

This space intentionally left blank

Note 12 - Cost-sharing Defined Benefit Pension Plans (Continued)

	SERS - As of June 30, 2015	STRS - As of July 1, 2015
Valuation date	June 30, 2015	July 1, 2015
Actuarial cost method	Entry age normal	Entry age normal
Cost of living	3.0 percent	2.0 percent
Salary increases, including inflation	4.0 percent - 22.0 percent	2.75 percent - 12.25 percent
Inflation	3.25 percent	2.75 percent
Investment rate of return Net of pension plan investment expense	7.75 percent	7.75 percent
Experience study date	Period of 5 years ended June 30, 2010	Period of 5 years ended July 1, 2012
Mortality basis	1994 Group Annuity Mortality Tables set back one year for both men and women. Special mortality tables are used for the period after disability retirement.	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent for STRS and SERS. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contribution will be made at contractually required rates for all plans.

Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

This space intentionally left blank

Note 12 - Cost-sharing Defined Benefit Pension Plans (Continued)

STRS

Long-term Investment Category Expected Real	Target Allocation	Long-term Expected Real Rate of Return
Rate of Return		
Domestic Equity	31.00 %	5.50 %
0.00 %		
International Equity	26.00 %	5.35 %
5.50 %		
Alterations	14.00 %	5.50 %
5.50 %		
Fixed Income	18.00 %	1.25 %
1.50 %		
Real Estate	10.00 %	4.25 %
10.00 %		
Liquidity Reserves	1.00 %	0.50 %
5.00 %		
Total	100.00 %	
7.50 %		

SERS

Investment Category	Target Allocation
Cash	1.00 %
U.S. Stocks	22.50 %
Non-U.S. Stocks	22.50 %
Fixed Income	19.00 %
Private Equity	10.00 %
Real Estate	10.00 %
Hedge Funds	15.00 %
Total	100.00 %

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Academy, calculated using the discount rate listed below, as well as what the Academy's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

Plan	1.00 Percent Decrease		Current Discount Rate		1.00 Percent Increase	
SERS	6.75 %	$ 138,465	7.75 %	$ 99,628	8.75 %	$ 67,345
STRS	6.75 %	2,030,830	7.75 %	1,462,430	8.75 %	980,972
		$2,169,295		$ 1,562,058		$1,048,317

Pension Plan Fiduciary Net Position - Detailed information about the Plan's fiduciary net position is available in separately issued STRS and SERS financial reports.

Note 13 – Subsequent Event

At its July 2016 Board meeting, the Board of Education of the Cincinnati State STEM Academy voted to close the Academy effective June 30, 2016. The Academy's sponsor, the Ohio Department of Education Office of School Options, concurred with the decision and is working with the Treasurer/CFO for final disposition of the Academy's assets and liabilities. Any remaining cash balances will be remitted to either Cincinnati State Technical and Community College or the Ohio Department of Education Office of School Sponsorships.

This page intentionally left blank.

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

Cincinnati State STEM Academy
Hamilton County
3520 Central Parkway
Cincinnati, Ohio 45223

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Cincinnati State STEM Academy, Hamilton County, (the Academy) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated July 24, 2017 wherein we noted the Academy closed due to lack of enrollment and funding on June 30, 2016.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242
Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577
www.ohioauditor.gov

Academy's Response to Findings

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

Purpose of this Report

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

Dave Yost
Auditor of State

Columbus, Ohio

July 24, 2017

CINCINNATI STATE STEM ACADEMY
HAMILTON COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2016

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

FINDING NUMBER 2016-001

Material Weakness

Lack of Internal Controls Over Accounting and Financial Reporting

Academy management is responsible for preparing and fairly presenting their financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP); this includes designing, implementing, and maintaining internal controls relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.
We identified the following conditions related to the Academy's financial statements and accounting records for which the Academy did not make corrections to the financial statements or accounting records:

- The Academy overstated Federal & State Grants and understated State Foundation & Casino Payments by $10,348;

- The Academy did not reverse out prior year GAAP entries properly which resulted in Salaries & Wages being overstated by $43,385, Federal & State Grants being overstated by $31,250 and Other Revenue being overstated by $3,956;

- The Academy understated Fringe Benefits by $3,803;

- During 2015 the Academy had a negative Cash Balance of $4,376 which was reported as $0 per the 2015 Statement of Net Position but was not pulled forward to 2016 as a Negative Cash Implicitly Financed;

- The Academy did not present required supplemental information for pension funds.

We identified the following conditions related to the Academy's financial statements and accounting records for which the Academy made corrections to the financial statements and accounting records, where appropriate:

- The Academy did not properly report Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – Deficiencies included: the Academy did not properly calculate Net Pension Liability and related Deferred Inflows and Outflows; the Academy presented no required supplementary information relating to schedules of net pension liabilities and pension contributions, the Academy did not present footnote disclosures accurately (see descriptions of the pension reporting errors in the following section):

    - Net Pension Liability was understated by $203,259

    - Deferred Outflows for Pension was understated by $105,224

    - Deferred Inflows for Pension was overstated by $109,793

    - Pension Expense was overstated by $11,758

FINDING NUMBER 2016-001
(Continued)

- The footnote disclosures did not accurately report the following:
  - SERS and STRS were not presented separately for deferred inflows and outflows
  - Deferred Outflows Difference between Expected and Actual Experience
  - Deferred Outflows Changes in Proportion and the Difference between Academy Contributions and Proportionate Share of Contributions
  - Deferred Inflows Net Difference between Projected and Actual Earnings on Pension Plan Investments
- The Academy did not accurately report cash flows:
  - GAAP amounts were used for Cash Flows from Operating Activities, the cash used for operating activities was understated by $30,469;
  - GAAP amounts were used for Cash Flows from Non-capital Financing Activities, the cash provided by non-capital financing activities was understated by $21,060;
  - Cash End of Year did not agree to total Cash and Cash Equivalents per the Statement of Net Position. The Cash End of Year was overstated by $51,528;
  - The Operating Loss used to reconcile Operating Loss to Cash Used for Operating Activities was understated by $39,328;
  - The Academy did not include Intergovernmental Receivable changes from 2015 to 2016 in the Changes in Assets & Liabilities reconciliation in the amount of $4,738;
  - The Academy understated Changes in Accrued Salaries & Fringe Benefits from 2015 to 2016 by $63,006;
  - The Academy understated Changes in Pension Liability from 2015 to 2016 by $172,935;
  - The Academy understated Changes in Accounts Payable by $4,377;
  - The Academy overstated Deferred Inflows by $129,563;
  - The Academy overstated Deferred Outflows by $106,634;

Lack of internal controls over accounting and financial reporting increases the risk that errors, omissions, theft or fraud could occur and not be detected in a timely manner.

We recommend that the Academy exercise due care when posting entries to the financial records and during financial statement preparation to accurately reflect the Academy's financial activity and financial position, and to ensure that the notes to the financial statements are complete and accurate.

FINDING NUMBER 2016-001
(Continued)

Officials' Response:

The Board of Education of the Cincinnati State STEM Academy voted to close the Academy effective June 30, 2016 when it ceased to be an ongoing entity. Based on that, the Auditor of State's finding and management comments related to financial reporting are appreciated but no longer relevant. What is important is that all the cash has been accounted for, payables satisfied and no findings for return of any state and/or federal monies.

This page intentionally left blank.

CINCINNATI STATE STEM ACADEMY

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 10, 2017