



Rea & associates a *brighter* way

Cincinnati State STEM Academy
Hamilton County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2015



Dave Yost • Auditor of State

Board of Directors
Cincinnati State STEM Academy
3520 Central Parkway
Cincinnati, OH 45223

We have reviewed the Independent Auditor's Report of the Cincinnati State STEM Academy, Hamilton County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cincinnati State STEM Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 12, 2016

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**Cincinnati State STEM Academy
Hamilton County, Ohio**

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January 27, 2016

To the Board of Directors
Cincinnati State STEM Academy
Hamilton County, Ohio
3520 Central Parkway
Cincinnati, OH 45223

Independent Auditor's Report

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, 2015, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, Ohio as of June 30, 2015, and the changes in financial position and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 2, the Academy restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*." Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the Academy's Proportionate Share of the Net Pension Liability*, and *Schedule of the Academy's Contributions* on pages 3–9, 31, and 32, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2016 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

Kea & Associates, Inc.

Dublin, Ohio

Cincinnati State STEM Academy
Hamilton County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

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 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 information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key Financial Highlights for the Academy are as follows:

Total assets were \$35,206.

Total liabilities were \$1,433,044.

Total net position was (\$1,551,744).

Total operating and non-operating revenues were \$1,250,770 in 2015 compared to \$1,198,001 in 2014. Total operating expenses were \$1,260,085 in 2015 compared to \$1,212,103 in 2014.

USING THIS ANNUAL REPORT

This report consists of three parts: the required supplementary information, 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 2015. 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 is 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.

Cincinnati State STEM Academy
Hamilton County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

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, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the Academy's net position for fiscal year 2015 compared to fiscal year 2014.

Table 1 – Statement of Net Position

	2015	Restated 2014	Change
ASSETS:			
Cash	\$0	\$70,140	(\$70,140)
Intergovernmental Receivable	35,206	40,948	(5,742)
TOTAL ASSETS	35,206	111,088	(75,882)
Deferred Outflows of Resources	84,651	83,202	1,449
LIABILITIES:			
Accrued Salaries and Fringe Benefits	43,385	67,177	(23,792)
Accounts Payable	15,699	38,705	(23,006)
Net Pension Liability	1,373,960	1,630,838	(256,878)
TOTAL LIABILITIES	1,433,044	1,736,720	(303,676)
Deferred Inflows of Resources	238,557	0	238,557
NET POSITION:			
Unrestricted	(1,551,744)	(1,542,429)	(9,315)
TOTAL NET POSITION	(\$1,551,744)	(\$1,542,429)	(\$9,315)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the Academy's net position totaled \$(1,551,744). Current assets consist of cash and intergovernmental receivables. Cash decreased significantly due to certain one-time expenditures in FY15 and timing of receipt of state and federal grants. Intergovernmental receivables decreased due to the timing of when cash was received for services provided in fiscal year 2015. Current liabilities consist of salaries and fringe benefits payable, accounts payable at fiscal year-end. Salaries and Fringe Benefits payable decreased due to reduced accrual of teacher salaries at year-end. Accounts payable decreased year over year due to the timing of when invoices for fiscal year 2015 were paid compared to 2014. Management is monitoring the significant decrease in net position, exclusive of GASB 68 adjustments.

Cincinnati State STEM Academy
Hamilton County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

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.

Cincinnati State STEM Academy
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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

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).

Cincinnati State STEM Academy
Hamilton County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

Change in Net Position

Table 2 shows the changes in net position for fiscal year 2015 compared to fiscal year 2014 as well as a listing of revenues and expenses.

Table 2 – Change in Net Position

	<u>2015</u>	<u>2014</u>	<u>Change</u>
OPERATING REVENUES:			
State Foundation Payments	\$972,072	\$957,153	\$14,919
Other Revenues	32,261	7,523	24,738
NONOPERATING REVENUES AND EXPENSES			
Federal and State Grants	<u>246,437</u>	<u>233,325</u>	<u>13,112</u>
Total Revenues	<u><u>1,250,770</u></u>	<u><u>1,198,001</u></u>	<u><u>52,769</u></u>
OPERATING EXPENSES:			
Salaries & Wages	587,519	592,515	(4,996)
Fringe Benefits	237,055	253,512	(16,457)
Purchased Services	168,347	167,943	404
Material, Supplies, Textbooks	87,060	96,373	(9,313)
Other	<u>180,104</u>	<u>101,760</u>	<u>78,344</u>
Total operating expenses	<u>1,260,085</u>	<u>1,212,103</u>	<u>47,982</u>
CHANGE IN NET POSITION	<u><u>(\$9,315)</u></u>	<u><u>(\$14,102)</u></u>	<u><u>\$4,787</u></u>

Cincinnati State STEM Academy
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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implantation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$83,202 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows and deferred outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$51,750. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$	1,260,085
Pension expense under GASB 68		(51,750)
2015 contractually required contribution		<u>71,549</u>
Adjusted 2015 program expenses		1,279,884
Total 2014 program expenses under GASB 27		<u>1,212,103</u>
Increase in program expenses not related to pension	\$	<u><u>67,781</u></u>

The Academy's operating revenues increased slightly from 2014 to 2015 as a net result of reduced FTEs and offset higher State per pupil funding. Other revenues increased due to outside donations and one-time vendor credits. Non-operating revenues increased due to additional state & federal grant funds available. The Academy received the additional revenue through reimbursements for operating expenses, which targeted program outcomes. Salaries and wages decreased slightly due to reduced teaching and clerical expenses. Purchased Services stayed consistent and the Ohio Department of Education sponsorship fee was reclassified as Other.

BUDGETING HIGHLIGHTS

Unlike other public Academies located in the State of Ohio, community Academies 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 Academy's 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 an annual update.

Cincinnati State STEM Academy
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Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

SHORT-TERM DEBT

At fiscal yearend, 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 and is 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 citizen's, taxpayers, investors 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@cincinnati-state.edu.

Cincinnati State STEM Academy
Hamilton County, Ohio

Statement of Net Position
June 30, 2015

ASSETS:	
Cash	\$0
Intergovernmental Receivable	35,206
<i>Total Assets</i>	<u>35,206</u>
Deferred Outflows of Resources	
Pension	84,651
<i>Total Deferred Outflows of Resources</i>	<u>84,651</u>
LIABILITIES	
Current Liabilities:	
Accrued Salaries and Fringe Benefits	43,385
Accounts Payable	15,699
Total Current Liabilities	59,084
Non-Current Liabilities:	
Net Pension Liability	1,373,960
Total Non-Current Liabilities	<u>1,373,960</u>
<i>Total Liabilities</i>	<u>1,433,044</u>
Deferred Inflows of Resources	
Pension	238,557
<i>Total Deferred Inflows of Resources</i>	<u>238,557</u>
NET POSITION:	
Unrestricted	(1,551,744)
<i>Total Net Position</i>	<u><u>(\$1,551,744)</u></u>

See accompanying notes to the basic financial statements

Cincinnati State STEM Academy
Hamilton County, Ohio

Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Operating Revenues:	
State Foundation & Casino Payments	\$972,072
Other Revenues	<u>32,261</u>
<i>Total Operating Revenues</i>	<u>1,004,333</u>
Operating Expenses:	
Salaries & Wages	587,519
Fringe Benefits	237,055
Purchased Services	168,347
Material, Supplies, Textbooks	87,060
Other	<u>180,104</u>
<i>Total Operating Expenses</i>	<u>1,260,085</u>
<i>Operating Gain(Loss)</i>	<u>(255,752)</u>
Non-Operating Revenues:	
Federal & State Grants	<u>246,437</u>
<i>Total Non-Operating Revenues</i>	<u>246,437</u>
<i>Change in Net Position</i>	<u>(9,315)</u>
<i>Net Position- Beginning of year, restated (See note 2)</i>	<u>(1,542,429)</u>
<i>Net Position - End of year</i>	<u><u>(\$1,551,744)</u></u>

See accompanying notes to the basic financial statements

Cincinnati State STEM Academy
Hamilton County, Ohio

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Cash Flows from Operating Activities:	
Cash received from State of Ohio	\$952,302
Cash received from other revenues	32,261
Cash paid on behalf of the Academy for goods and services	<u>(1,306,883)</u>
Net cash provided by (used for) operating activities	<u>(322,320)</u>
Cash Flow from Non-Capital Financing Activities:	
Federal & State Grants Received	<u>252,179</u>
Net cash provided by noncapital financing activities	<u>252,179</u>
Net Change in Cash	(70,141)
Cash - Beginning of year	<u>70,141</u>
Cash - End of year	<u><u>\$0</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Activities:	
Operating Loss	(\$255,752)
Change in Accrued Salaries and Benefits, Accounts Payable Net Pension Liability, Deferred Inflows and Deferred Outflows:	
Accrued Salaries and Fringe Benefits	(23,792)
Accounts Payable	(23,006)
Net Pension Liability	(256,878)
Deferred Inflows	238,557
Deferred Outflows	(1,449)
Net Cash Used for Operating Activities:	<u><u>(\$322,320)</u></u>

See accompanying notes to the basic financial statements

Cincinnati State STEM Academy
Hamilton County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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 Directors (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 145 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.

Cincinnati State STEM Academy
Hamilton County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 – Summary of Significant Accounting Policies (Continued)

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 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.

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.

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.

Cincinnati State STEM Academy
Hamilton County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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

The Academy has recognized certain current 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 2015 contract. (2) Fringe Benefits - benefits associated with services rendered during fiscal year 2015 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 pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of the financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in note 7.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applied to a future period and will not be recognized until that time. For the Academy, deferred inflows of resources include pension. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position. (See note 7)

Cincinnati State STEM Academy
Hamilton County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 – Summary of Significant Accounting Policies (Continued)

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. All net position balances reported for the fiscal year end 2015 represent an unrestricted deficit.

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. Change in Accounting Principles and Restatement of Net Position

For fiscal year 2015, the Academy implemented the Governmental Accounting Standards Board (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—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government 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 provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported. The implementation of these pronouncements had the following effect on net position as reported June 30, 2014:

Net position June 30, 2014	\$5,207
Adjustments:	
Net Pension Liability	(1,630,838)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>83,202</u>
Restated Net Position June 30, 2014	<u><u>(\$1,542,429)</u></u>

Other than employer contributions subsequent to the measurement date, the Academy made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

Cincinnati State STEM Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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, 2015, the carrying amount of the Academy's deposits was \$0 and the bank balance was \$30,092. 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 2015. The Academy recorded \$15,727 for Title I; \$13,623 for Special Education, Part B-IDEA, \$1,900 for Title II-A, and \$3,956 for Other to intergovernmental receivables as of June 30, 2015.

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, 2013 to September 13, 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:

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

Cincinnati State STEM Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 6 – Risk Management (Continued)

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 amounts did not exceed coverage amounts in the prior three years.

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.

Cincinnati State STEM Academy
Hamilton County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans

(a) Net Pension Liability

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

The net pension liability represents the Academy’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year would be included in accrued/salary and fringe benefits on the accrual basis of accounting.

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

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

Cincinnati State STEM Academy
Hamilton County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

(b) Plan Description - School Employees Retirement System (SERS) (Continued)

Age and service requirements for retirement are as follows:

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

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

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

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy’s contractually required contribution to SERS was \$6,554 for fiscal year 2015.

(c) Plan Description – State Teachers Retirement System (STRS)

Plan Description – Academy licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

Cincinnati State STEM Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

(c) Plan Description – State Teachers Retirement System (STRS) (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

Cincinnati State STEM Academy
Hamilton County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

(c) Plan Description – State Teachers Retirement System (STRS) (Continued)

The Academy’s contractually required contribution to STRS was \$64,995 for fiscal year 2015.

(d) 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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$111,441	\$1,262,519	\$1,373,960
Proportion of the Net Pension Liability	0.002220%	0.00519%	
Pension Expense	\$6,524	\$45,226	\$51,750

At June 30, 2015, the Academy 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	\$948	\$12,154	\$13,102
Academy contributions subsequent to the measurement date	6,554	64,995	71,549
Total Deferred Outflows of Resources	\$7,502	\$77,149	\$84,651
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$18,087	\$220,470	\$238,557
Total Deferred Inflows of Resources	\$18,087	\$220,470	\$238,557

Cincinnati State STEM Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans

(d) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$71,549 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, 2016. 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:			
2016	(\$4,285)	(\$52,079)	(\$56,364)
2017	(4,285)	(52,079)	(56,364)
2018	(4,285)	(52,079)	(56,364)
2019	(4,284)	(52,079)	(56,363)
Total	(\$17,139)	(\$208,316)	(\$225,455)

(e) 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.

Cincinnati State STEM Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

(e) Actuarial Assumptions – SERS (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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 averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
 Total	 <u>100.00 %</u>	

Cincinnati State STEM Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

(e) Actuarial Assumptions – SERS (Continued)

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$159,362	\$111,441	\$71,323

(f) Actuarial Assumptions – STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1 or later, 2 percent COLA paid on fifth anniversary of retirement d

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

Cincinnati State STEM Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)

(f) Actuarial Assumptions – STRS (Continued)

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	 <u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the Academy’s Proportionate Share of the Net Pension Liability to Changes in the

Discount Rate The following table presents the Academy’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Academy's proportionate share of the net pension liability	\$1,805,402	\$1,262,519	\$808,012

Cincinnati State STEM Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plans (Continued)
(g) Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. The contribution rate is 6.2 percent of wages. As of June 30, 2015, there were no members that elected Social Security.

Note 8 – Post-employment Benefits

(a) School Employees Retirement System

Health Care Plan Description – The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014 and 2013 were \$332, \$921, and \$211, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

Cincinnati State STEM Academy
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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 8 – Post-employment Benefits (Continued)

(b) State Teachers Retirement System

Plan Description – The Academy participates in the cost sharing multiple employer defined benefit Health 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 visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014 and 2013 were \$0, \$4,887 and \$3,726, respectively; 100 percent has been contributed for the fiscal years.

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, 2015, 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 2014-2015 school year, the Traditional Schools must comply with the minimum hours of instruction, instead of minimum number school days each year resulting in subsequent FTE adjustments from ODE. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by schools, which has extended beyond year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments as of June 30, 2015. Foundation funding for the Academy has not been finalized; 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 College 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 College, where the Academy is co-located. The following are the terms set forth by the contract for fiscal services:

- 1) Cincinnati State Technical & Community College 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.

Cincinnati State STEM Academy
Hamilton County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 10 – Contracted Services (Continued)

- 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 College not to exceed \$50,000 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 College 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 College 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 College (Lessee) that was updated in FY 2015. The term of the lease is two years, commencing on July 1, 2014. The Academy and the College 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.

Cincinnati State STEM Academy
Hamilton County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12 – Purchased Services

During the fiscal year, purchased service expenses for the services rendered by various vendors were as follows:

Food Services	\$	44,283
Contract Services - SWOCA		27,450
Marketing		17,331
Psychological Services		15,064
Tutoring/Coaching Services		14,763
Fiscal Services		13,908
Legal Services		12,034
Payroll - ADP		5,547
Facilities Lease		5,000
Temporary Clerical		4,293
Other		3,511
Transportation		3,077
Internet		1,200
Professional Development		886
		<u>886</u>
	\$	<u>168,347</u>

Cincinnati State STEM Academy
Hamilton County, Ohio
Required Supplementary Information
Schedule of the Academy's Proportionate Share of the Net Pension Liability
Last Two Fiscal Years (1)

School Employees Retirement System (SERS)

	<u>2014</u>	<u>2013</u>
Proportion of the Net Pension Liability	0.00220 %	0.00220 %
Proportionate Share of Net Pension Liability	111,441	130,984
Covered Employee Payroll	63,065	47,005
Proportionate Share of Net Pension Liability As a Percentage of Covered Employee Payroll	176.7%	278.7%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

State Teachers Retirement System (STRS)

	<u>2014</u>	<u>2013</u>
Proportion of the Net Pension Liability	0.00519054 %	0.00519054 %
Proportionate Share of Net Pension Liability	1,262,519	1,499,855
Covered Employee Payroll	529,450	446,662
Proportionate Share of Net Pension Liability As a Percentage of Covered Employee Payroll	238.5%	335.8%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available

Cincinnati State STEM Academy
Hamilton County, Ohio
Required Supplementary Information
Schedule of the Academy's Contributions
Last Three Fiscal Years (1)

<i>School Employees Retirement System (SERS)</i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions in relation to contractually Required contribution	\$ 6,554	\$ 8,927	\$ 6,595
Contribution Deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Employee Payroll	\$ 49,727	\$ 68,669	\$ 50,731
Contribution % of covered Payroll	13.18%	13.00%	13.00%

<i>State Teachers Retirement System (STRS)</i>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions in relation to contractually Required contribution	\$ 64,995	\$ 74,246	\$ 54,430
Contribution Deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Employee Payroll	\$ 464,250	\$ 571,123	\$ 418,692
Contribution % of covered Payroll	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available

January 27, 2016

To the Board of Directors
Cincinnati State STEM Academy
Hamilton County, Ohio
3520 Central Parkway
Cincinnati, OH 45223

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Cincinnati State STEM Academy, Hamilton County, Ohio (the "Academy") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated January 27, 2016, in which we noted the Academy restated the June 30, 2014 net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*."

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Dublin, Ohio

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Dave Yost • Auditor of State

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
APRIL 26, 2016**