

BIO-MED SCIENCE ACADEMY STEM SCHOOL

PORTAGE COUNTY, OHIO

INITIAL AUDIT

For the Year Ended June 30, 2014





Dave Yost • Auditor of State

Board of Directors
Bio-Med Science Academy STEM School
4209 State Route 44
Rootstown, Ohio 44272

We have reviewed the *Independent Auditor's Report* of the Bio-Med Science Academy STEM School, Portage County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Bio-Med Science Academy STEM School is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

March 19, 2015

This page intentionally left blank.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor’s Report.....	1-2
Management’s Discussion and Analysis.....	3-6
Statement of Net Position – June 30, 2014	7
Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2014	8
Statement of Cash Flows For the Fiscal Year Ended June 30, 2014	9
Notes to the Financial Statements	10-19
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	20-21

INDEPENDENT AUDITOR'S REPORT

Bio-Med Science Academy STEM School
Portage County
4209 State Route 44
Rootstown, Ohio 44272

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Bio-Med Science Academy STEM School, Portage County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School'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 School'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 School's internal control. Accordingly, we express no 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 Bio-Med Science Academy STEM School, Portage County as of June 30, 2014, 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.

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*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014, on our consideration of the School'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 School's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.

November 21, 2014

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

As management of Bio-Med Science Academy STEM School (the School), we offer readers of the School's basic financial statements this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Financial Highlights

In August 2012, Bio-Med Science Academy, Inc. opened its doors to 70 freshmen students in a year round high school that followed a STEM (Science, Technology, Engineering and Math) curriculum. In April 2013, the school received a formal STEM designation from the State of Ohio. This new designation required the community school to close and open a new STEM school. The community school closed as of June 30, 2013 and Bio-Med Science Academy STEM School opened July 1, 2013. Students from the previous community school were transferred to the STEM school as sophomores and a new freshman class was added.

The School is housed and operated by Northeast Ohio Medical University (NEOMED) in Rootstown, Ohio. The School does not have any employees, but instead leases all teachers and administrators from NEOMED. All bills are initially paid by NEOMED and total expenses are billed to the School monthly for reimbursement. There was a \$1 management fee, but no rent or utility expenses charged to the School.

The School has receivables totaling \$16,838 for student fees, federal school lunch program, state casino revenue and other miscellaneous accounts receivable earned in 2014, but not received until after June 30, 2014. As of year end, the financial statements show a NEOMED advances payable for \$675,044 reflecting the expenses not yet reimbursed by the School. NEOMED understands that the School's funds will be limited during the start-up phase and is not expecting full reimbursement of the School's monthly expenses until maximum student enrollment in each of the four years of the program is achieved.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The *Statement of Net Position*, the *Statement of Revenues, Expenses and Changes in Fund Net Position* and the *Statement of Cash Flows* provide information about the School, including all financial resources and obligations.

Reporting the School Financial Activities

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

The *Statement of Net Position* presents information on all the School's assets and liabilities, with the difference being the net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* presents information showing how the School's net position changes during the year. This statement summarizes operating revenues and expenses, along with non-operating revenues and expenses.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

The *Statement of Cash Flows* allows financial statement users to assess the School's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories (as applicable): 1) Cash flows from operating activities, 2) Cash flows from non-capital financing activities, 3) Cash flows from capital and related financing activities, and 4) Cash flows from investing activities.

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

Finally, it should be noted that the School utilizes the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private sector companies in that it recognizes revenues and expenses when earned regardless of when cash is received or paid.

Financial Analysis

The following tables indicate the School's financial analysis:

Table 1 – Statement of Net Position

	<u>6/30/2014</u>	<u>6/30/2013</u>
Assets		
Cash	\$ 31,914	\$ -
Federal School Lunch Program Receivable	2,007	-
State Casino Receivable	3,737	-
Other Miscellaneous Accounts Receivable	11,094	-
Capital Assets, Net	<u>31,965</u>	<u>-</u>
Total Assets	<u><u>80,717</u></u>	<u><u>-</u></u>
Liabilities		
NEOMED Advances Payable	675,044	-
Accrued Liabilities	<u>14,883</u>	<u>-</u>
Total Liabilities	<u>689,927</u>	<u>-</u>
Net Position		
Unrestricted	<u>(609,210)</u>	<u>-</u>
Total Net Position	<u><u>\$(609,210)</u></u>	<u><u>\$ -</u></u>

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

Over time, net position can serve as a useful indicator of a government's financial position. Fiscal year 2014 was the STEM School's first year so there is no prior year to compare. The negative net position of the School is due to the start-up costs of the program and less than full enrollment during the fiscal year. NEOMED has agreed to pay all expenses and receive reimbursement from the School as funds become available during this start-up period. Once full enrollment is reached, the School expects to be able to meet its current liabilities.

Table 2 – Statement of Revenues, Expenses and Changes in Fund Net Position

	<u>6/30/2014</u>	<u>6/30/2013</u>
Operating revenues	\$ 787,526	\$ -
Operating expenses	<u>1,396,736</u>	<u>-</u>
Changes in fund net position	(609,210)	-
Net position at the beginning of the year	<u>-</u>	<u>-</u>
Net position at the beginning of the year	<u>\$(609,210)</u>	<u>\$ -</u>

The School's revenues consisted of State Foundation (\$655,615) and Casino (\$7,772) payments, Federal School Lunch Program (\$9,536), Grants (\$74,126) and Student Class Fees (\$40,477).

A majority of the School's overall expenses, 74.4% were for the salaries and benefits of the School's staff.

Capital Assets

In FY14, the School was temporarily housed in one wing of the "C" building located on the campus of NEOMED. The School was housed at this location while its permanent home was being constructed in the NEW Center, the University's new health and wellness center which was finished August 2014. The School purchased very few capital assets in anticipation of this move. Most furniture and equipment used in FY14 was loaned to the School from NEOMED.

<u>Capital Assets (net of depreciation)</u>	<u>2014</u>	<u>2013</u>
Equipment	<u>\$31,965</u>	<u>\$ -</u>
Total	<u>\$31,965</u>	<u>\$ -</u>

More information about the School's capital assets is presented in Note 5 to the financial statements.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

Debt Administration

The School did not have any long-term debt.

NEOMED paid all payroll and expenses for the School and billed the School monthly for reimbursement. The \$675,044 in NEOMED – Advances Payable is the amount due to NEOMED at June 30, 2014 for salary, benefits and other expenses.

Current Financial Related Activities

The STEM School was created in April 2013 and opened for business July 1, 2013.

The School is funded through the State Foundation program, as it has no tax base to draw upon and cannot charge tuition, levy taxes, or issue bonds secured by tax revenues. In addition, a school fee is charged to students for consumable classroom supplies.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact: Kathryn Chudakoff, Fiscal Agent, Bio-Med Science Academy STEM School, 4209 State Route 44, Rootstown, Ohio, 44272.

Bio-Med Science Academy STEM School
Statement of Net Position
June 30, 2014

ASSETS

CURRENT ASSETS

Cash and equivalents	\$	31,914
Federal School Lunch Program Receivable		2,007
State Casino Receivable		3,737
Student Fee Receivable		8,332
Other misc accounts receivable		2,762

Total current assets	48,752
----------------------	--------

NONCURRENT ASSETS

Capital assets, net	31,965
---------------------	--------

Total noncurrent assets	31,965
-------------------------	--------

Total assets	80,717
--------------	--------

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

NEOMED - Advances Payable	675,044
Accrued liabilities	14,883

Total current liabilities	689,927
---------------------------	---------

NET POSITION

Unrestricted	(609,210)
--------------	-----------

Total net position	(609,210)
--------------------	-----------

Total liabilities and net position	\$ 80,717
------------------------------------	-----------

The accompanying notes to the financial statements are an integral part of this statement

Bio-Med Science Academy STEM School
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

OPERATING REVENUES

State Foundation Payments	\$	655,615
State Casino Payments		7,772
Student Fees and Reimbursements		40,477
		703,864

OPERATING EXPENSES

Purchased Services	1,202,957	
Materials and Supplies	159,481	
Field trips and other student activities	21,982	
Other	8,764	
Depreciation	3,552	
		1,396,736

Total Operating Expenses	(692,872)
--------------------------	-----------

NONOPERATING REVENUES (EXPENSES)

State & Federal Grants	83,662	
		83,662

Increase/(decrease) in net position	(609,210)
-------------------------------------	-----------

Net position at the beginning of the year	-
---	---

Net position at the end of the year	\$ (609,210)
-------------------------------------	--------------

The accompanying notes to the financial statements are an integral part of this statement

Bio-Med Science Academy STEM School
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from the State of Ohio	\$ 659,650
Cash received from the misc student fees/reimbursements	32,146
Cash payments to management company	(702,972)
Cash payments for other operations	(286)
Net cash (used for) operating activities	(11,462)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	(35,517)
Net cash provided for capital and related financing activities	(35,517)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash received from grants and awards	78,893
Net cash provided for noncapital financing activities	78,893
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,914
CASH AND EQUIVALENTS AT THE BEGINNING OF THE YEAR	-
CASH AND EQUIVALENTS AT THE END OF THE YEAR	\$ 31,914
 RECONCILIATION OF OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	
Operating Loss	\$ (692,872)
Adjustments to reconcile operating loss to net cash and cash equivalents used in operating activities	
Depreciation	3,552
Changes in assets and liabilities	
Receivables	(12,069)
Accounts payable	675,044
Accrued liabilities	14,883
NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES	\$ (11,462)

The accompanying notes to the financial statements are an integral part of this statement

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Bio-Med Science Academy STEM School (the School), Portage County, is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702. The School is a year round school that provides a STEM (science, technology, engineering and math) curriculum. The School, which is a part of the State's education program, is independent of any public school district. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School.

As further described in Note 6 to the financial statements, the School has contracted with Northeast Ohio Medical University (NEOMED) to employ and facilitate the day-to-day management of the School. NEOMED is a legally separate state university, the results of which are not reflected in the financial statements.

The governing boards of NEOMED and the School have completely different members, and three members of the School's Board are appointed by NEOMED. In addition, up to four board members are nominated and elected from academic, community and business partners.

The School operates under a self-appointed Board of Directors (the Board). The School's Code of Regulations specifies that vacancies that arise on the Board are filled by the appointment of a successor director by a majority vote of the then-existing directors.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The School's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows. 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.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the School’s measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e. revenues) and decreases (i.e. expenses) in net position. The Statement of Cash Flows reflects how the School finances and meets cash flow needs. 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.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, STEM schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705. Ohio Revised Code Section 5705.391 does not require the School to prepare a five-year projection but the STEM school did prepare one in fiscal year 2014.

D. Cash and Investments

The School’s revenues are received into a demand deposit account and the School currently has no investments.

E. Capital Assets and Depreciation

Capital assets include land and infrastructure assets such as roads and sidewalks, buildings and improvements, and furniture and equipment with original cost of \$2,500 or more. Such assets are recorded at the date of acquisition, or if acquired by gift, at an estimated fair value at the date of donation.

Depreciation of School capital assets is calculated on a straight-line basis with a half year convention over the estimated useful life of the property as follows:

<u>Assets</u>	<u>Estimated Useful Life</u>
Buildings & Improvements	20-40 Years
Leasehold Improvement	Life of Lease
Infrastructure	20 Years
Equipment	5 Years
Furniture	10 Years

F. Operating Revenues and Expenses

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

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Intergovernmental Revenues

The School participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the period in which all eligibility requirements have been met.

H. Current Liabilities

Accrued liabilities include amounts payable to NEOMED for reimbursements due for expenses paid on behalf of the School in accordance with the School's management contract as further described in Note 6.

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 School did not have any deferred outflows of resources at fiscal year-end. In addition to liabilities, the statement of financial position reports 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 School had no deferred inflows of resources as of fiscal year end.

J. Use of Estimates

In preparing the financial statements, management is sometimes required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either by constitutional provisions or enabling legislation, or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School had no restrictions on net position as of June 30, 2014.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

NOTE 3 – CASH, EQUIVALENTS AND INVESTMENTS

Custodial credit risk is the risk that in the event of bank failure, the School 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 School. At June 30, 2014, the carrying amount of the School's bank deposits and cash on hand was \$31,914. The entire bank balance was covered by federal deposit insurance.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2014 consisted of federal school lunch program, state casino revenue, school fees and grant revenue. All receivables are considered collectible in full, due to the stable condition of these programs.

The following is a summary of accounts receivable at June 30, 2014:

	June 30, 2014
Federal School Lunch Program	\$ 2,007
State Casino Receivable	3,737
Student Fee Receivable	8,332
Miscellaneous Accounts Receivable	2,762
Total Accounts Receivable	\$ 16,838

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance 6/30/13	Additions	Deletions	Balance 6/30/14
Capital Assets Being Depreciated:				
Equipment	\$ -	\$ 35,517	\$ -	\$ 35,517
Total Capital Assets Being Depreciated	-	35,517	-	35,517
Less accumulated depreciation:				
Equipment	-	3,552	-	3,552
Total accumulated depreciation	-	3,552	-	3,552
Total Capital Assets, Net of Depreciation	\$ -	\$ 31,965	\$ -	\$ 31,965

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

NOTE 6 – AGREEMENT WITH NORTHEAST OHIO MEDICAL UNIVERSITY

The School has contracted with Northeast Ohio Medical University (NEOMED) to facilitate the day-to-day operations of the School. Per the agreement, NEOMED pays all costs associated with operating the School and bills the School monthly for expenses paid. Such costs include, but are not limited to: personnel (all teaching and administrative personnel are employees of NEOMED); insurance; pension and retirement benefits; curriculum materials, textbooks, computers and other equipment, software, supplies and legal services. NEOMED is also responsible for the maintenance of the School's facility and utilities. See Note 13 for the actual amount of actual direct and indirect expenses incurred by NEOMED on behalf of the School.

NOTE 7 – DEFINED BENEFIT PENSION PLANS

The School has contracted with NEOMED to provide all teaching and administrative personnel. Such personnel are employees of NEOMED, however, the School is responsible for monitoring and ensuring that NEOMED makes pension contributions on its behalf. The retirement systems consider NEOMED as the "Employer of Record", however the School is ultimately responsible for remitting retirement contributions to each of the systems noted below.

A. Ohio Public Employees Retirement System

Plan Description – NEOMED, on behalf of the School, participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the fiscal year ended June 30, 2014 members in the state and local divisions contributed 10% of covered payroll. The School employed no public safety members and no law enforcement members in the fiscal year ended June 30, 2014. The School's contribution rate for state and local members in calendar year 2013 was 13% of covered payroll. Effective January 1, 2014, the employer contribution rate for state and local members was 12% of covered payroll.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

The School's required contributions for pension obligations to the Traditional Pension Plan for the years ended June 30, 2014, 2013, and 2012 were \$10,520, \$0, and \$0, respectively; 100% has been contributed for 2014, 2013 and 2012.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This accounting standard replaces GASB Statement 27, and it is effective for employer fiscal years beginning after June 15, 2014.

B. State Teachers Retirement System

Plan Description – State Teachers Retirement System of Ohio (STRS Ohio) is 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 other school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

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 bi-weekly 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.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting the STRS Ohio website at www.strsoh.org, by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, or by calling toll-free 1-888-227-7877.

Funding Policy – Chapter 3307 of the Ohio 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 actual contributions made for the fiscal year ended June 30, 2014 were 11% of covered payroll for members and 14% for employers.

The School's required contributions for pension obligations to STRS Ohio for the years ended June 30, 2014, 2013, and 2012 were \$88,360, \$0, and \$0, respectively; 100% has been contributed for 2014, 2013 and 2012.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

NOTE 8 – POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide the OPEB Plan to its eligible members and beneficiaries. Authority to establish and amend the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post retirement health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In the fiscal year ending June 30, 2014, state and local government employers contributed at a rate of 14% of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB.

OPERS’ Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 1% during calendar year 2013. The portion of employer contributions allocated to healthcare for members in the Combined Plan was 1% during calendar year 2013. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The School’s contributions allocated to fund post-employment healthcare benefits for the years ended June 30, 2014, 2013 and 2012 were \$1,384, \$0 and \$0, respectively; 100% has been contributed for 2014, 2013 and 2012.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

NOTE 8 – POSTEMPLOYMENT BENEFITS (continued)

Changes to the healthcare plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved healthcare changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the healthcare fund after the end of the transition period.

B. State Teachers Retirement System

Plan Description – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013 and 2012. The 14% employer contribution rate is the maximum rate established under Ohio law.

The School's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$6,797, \$0 and \$0, respectively; 100% has been contributed for fiscal years 2014, 2013 and 2012.

NOTE 9 – OTHER BENEFITS

NEOMED has contracted with a private carrier to provide employees within the School medical/surgical benefits. NEOMED pays a portion of the monthly premium for full-time employees and for part-time employees depending on the employee's status. The employees are responsible for the remaining amounts. NEOMED's and the employees' monthly premiums vary depending upon the family size and the level of coverage the employee selected.

NEOMED also allows employees to participate in 403(b) deferred annuities through seven vendors.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

NOTE 10 – RELATED PARTY TRANSACTIONS

As of June 30, 2014, the School has reimbursement for expenses payable to NEOMED of \$1,392,899. These payables are to cover expenses incurred by NEOMED on the School's behalf. The School had only limited capital assets as of June 30, 2014 and used the furniture and equipment made available by NEOMED. All fiscal services were performed by the NEOMED Controller and were billed to the School at an expense of \$1.

NOTE 11 – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School has contracted with a commercial insurance company for property and general liability insurance. Property coverage carries a \$1,000 deductible, with the School's contents insured for \$250,000. General liability coverage provides \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a \$2,500 deductible.

There were no claims reported in fiscal year 2014.

NOTE 12 – TAX EXEMPT STATUS

The School applied for its status as a tax exempt, non-profit organization under the Internal Revenue Code Section 501(c)(3). The application was still being processed by the IRS at June 30, 2014, but was approved on August 5, 2014.

NOTE 13 – MANAGEMENT COMPANY EXPENSES

As per the agreement with NEOMED (see Note 6), NEOMED pays the School's expenses and billed the School monthly for reimbursement. The related "purchased services" expense totaled \$1,392,899 for the year ended June 30, 2014.

**BIO-MED SCIENCE ACADEMY STEM SCHOOL
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(continued)**

NOTE 13 – MANAGEMENT COMPANY EXPENSES (continued)

NEOMED incurred the following actual direct and indirect expenses on behalf of the School during fiscal year 2014:

	<u>2014</u>
Salaries	\$ 791,338
Benefits	155,773
Retirement	107,061
Consulting	70,509
Legal	29,756
Insurance	3,458
Advertising	3,212
Materials & Supplies	202,107
Phone, Postage & Maintenance	5,035
Lunch Program	9,536
Miscellaneous	15,114
Total Purchased Services	<u>\$ 1,392,899</u>

The School agreed to pay NEOMED \$1 for management services as agreed to in the Management Services Agreement.

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

Bio-Med Science Academy STEM School
Portage County
4209 State Route 44
Rootstown, Ohio 44272

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 Bio-Med Science Academy STEM School, Portage County, (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School'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*.

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



Charles E. Harris and Associates, Inc.
November 21, 2014



Dave Yost • Auditor of State

BIO-MED SCIENCE ACADEMY STEM SCHOOL

PORTAGE 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
MARCH 31, 2015**