

Steam Academy of Cincinnati
Hamilton County, Ohio

Final Audit

For the Period Ended
November 30, 2015



Dave Yost • Auditor of State

Board of Directors
STEAM Academy of Cincinnati
6000 Murray Ave
Cincinnati, Ohio 45227

We have reviewed the *Independent Auditor's Report* of the STEAM Academy of Cincinnati, Hamilton County, prepared by Rea & Associates, Inc., for the audit period July 1, 2014 through November 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 STEAM Academy of Cincinnati is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

June 2, 2016

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**Steam Academy of Cincinnati
Hamilton County, Ohio**

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March 29, 2016

To the Board of Trustees
STEAM Academy of Cincinnati
Hamilton County, Ohio
6000 Murray Ave
Cincinnati, Ohio 45227

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the STEAM Academy of Cincinnati, Hamilton County, Ohio, (the "Academy") as of and for the seventeen month period ended November 30, 2015, and the related notes to the financial statements.

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 responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 1 of the financial statements, the Academy prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, of the STEAM Academy of Cincinnati as of and for the seventeen month period ended November 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1, the Academy adopted new accounting guidance in 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.

As described in Note 11, the Academy ceased operations on September 14, 2015, based on a recommendation from their Sponsor. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 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.

Rea & Associates, Inc.

Cambridge, Ohio

Steam Academy of Cincinnati
Hamilton County, Ohio
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance
For the Period July 1, 2014 through November 30, 2015

OPERATING CASH RECEIPTS:	
State Aid	\$ 458,346
Casino Funds	2,969
Other Operating Receipts	15,355
Total Operating Cash Receipts	<u>476,670</u>
 OPERATING CASH DISBURSEMENTS:	
Purchased Services	659,572
Materials and Supplies	88,467
Capital Outlay	5,000
Other Operating Disbursements	19,569
Total Operating Cash Disbursements	<u>772,608</u>
 Excess of Cash Disbursements over Cash Receipts	 <u>(295,938)</u>
 NON-OPERATING CASH RECEIPTS (DISBURSEMENTS)	
Federal and State Subsidies	125,611
Loan Proceeds - Charter School Capital	262,100
Loan Proceeds - Other	140,690
Loan Principal Payments	(226,150)
Loan Interest Payments	(29,319)
Total Non-Operating Cash Receipts (Disbursements)	<u>272,932</u>
 Net Change in Fund Cash Balances	 (23,006)
Fund Cash Balances, July 1, 2014, restated	<u>23,006</u>
Fund Cash Balances, November 30, 2015	<u>\$ -</u>

See Accompanying Notes to the Financial Statements

Steam Academy of Cincinnati
Hamilton County, Ohio
Notes to the Financial Statements
For the Period July 1, 2014 through November 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Academy

STEAM Academy of Cincinnati (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through Fifth grade. The Academy is independent of any Academy and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may lease or acquire facilities as needed and contract for any services necessary for the operation of the Academy. The Academy is a federally recognized 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapter 1702.

The Academy was approved for operation for a period of five academic years commencing after July 1, 2013 and ending June 30, 2018. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On September 14, 2015 the Sponsor decided to close the Academy.

The Academy operates under the direction of a Governing Board that consists of not less than five individuals who are not owners or employees, or immediate relatives or owners or employees of any for-profit firm that operate or manage the Academy for the Governing Board. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy contracts with Mosaica Education, Inc. for management services including management of personnel and human resources, the program of instruction, technology, marketing, data management, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. See Note 10.

B. Basis of Accounting

Although required by Ohio Administrative Code 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the Academy has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. The basis of accounting is similar to the cash receipts and cash disbursements basis of accounting. Receipts are recognized when received rather than when they are earned, and disbursements are recognized when paid rather than when the liability is incurred.

C. Cash

Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Steam Academy of Cincinnati
Hamilton County, Ohio
Notes to the Financial Statements
For the Period July 1, 2014 through November 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provision set forth in the Ohio Revised Code Chapter 5705, other than the development of a five year forecast. The Academy's contract with its sponsor also requires an annual financial plan.

E. Property, Plant and Equipment

Acquisitions of properties, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accounting financial statements.

F. Pensions

For purposes of measuring the net pension liability, 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.

G. Implementation of New Accounting Principles

During the period, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*.

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. See Note 3 for further information.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Academy.

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 Note 3 for further information.

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For the Period July 1, 2014 through November 30, 2015

2. CASH AND INVESTMENTS

State statutes classify monies held by the Academy into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Academy treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Directors has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts.

Protection of Academy's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in these divisions are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio and STAR Plus);

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7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed 25% of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At November 30, 2015 the bank balance and carrying value of the Academy's deposits was \$0. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

3. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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* were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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 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

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the net pension liability would be effective when the changes are legally enforceable.

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.

Age and service requirements for retirement are as follows:

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

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

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

One year after an effective benefit date, a benefit recipient is entitled to a 3% 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% of their annual covered salary and the Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18%. The remaining 0.82% of the 14% employer contribution rate was allocated to the Health Care Fund.

The Academy’s contractually required contribution to SERS was \$16,120 for period ended November 30, 2015.

Steam Academy of Cincinnati
Hamilton County, Ohio
Notes to the Financial Statements
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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.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year 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 year of service on August 1, 2026.

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

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

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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 1% July 1, 2014, and will be increased 1% each year until it reaches 14% on July 1, 2016. For the pension system fiscal year ended June 30, 2015, plan members were required to contribute 12% of their annual covered salary. The Academy was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The period ended November 30, 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$42,520 for period ended November 30, 2015.

4. POSTEMPLOYMENT BENEFITS

School Employees Retirement System

Plan Description – The Academy participates in two cost-sharing, multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B 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. A prescription drug plan is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code Section 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2015 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2015, 0.82% of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in

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aggregate more than 1.5% of the statewide SERS-covered payroll for the health care surcharge. For the year ending June 30, 2015, the actuarially determined amount was \$20,450.

Active members do not contribute to the postemployment benefit plans. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. 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.

The Academy's contributions for health care (including surcharge) for the periods ending 2015, and 2014 were \$40 and \$166, respectively; 100% has been contributed for all fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the current employer contribution to the Medicare B Fund. For pension system year end June 30, 2015, the actuarially required allocation was 0.76% of covered payroll. The Academy's contributions for Medicare Part B for the periods ending 2015 and 2014, were \$217 and \$900, respectively; 100% has been contributed for all years.

State Teachers Retirement System

Plan Description - The Academy contributes to the cost sharing, multiple-employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the financial report of STRS. 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 (888) 227-7877.

Funding Policy - Ohio law 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. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law. The Academy's contributions for health care for periods ending 2015 and 2014 were \$0 and \$1,045 respectively; 100% has been contributed for both years.

5. CHARTER SCHOOL CAPITAL

In September 2014, the Academy entered into an agreement with Charter School Capital to borrow against its future foundation payments. The amount borrowed was \$262,100. Total principal payments made during the period ended November 30, 2015 were \$226,150. The terms of the loan are amounts borrowed for a particular month's foundation payment are to be repaid over the course of the next three months following purchase. Total cost of funding paid during the year was \$8,637.

Steam Academy of Cincinnati
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	Principal Outstanding 6/30/2014	Additions	Reductions	Principal Outstanding 11/30/2015
Charter School Capital	\$0	\$262,100	(\$226,150)	\$ 35,950

6. PURCHASED SERVICES

For the period July 1, 2014 through November 30, 2015, purchased service expenses were as follows:

<u>Purchased Services</u>	<u>Amount</u>
Instruction	\$ 423,772
Non-Instruction	208,548
Audit & Accounting	6,545
Sponsor Fee	12,551
Other	143
Total	<u>\$ 664,997</u>

7. RISK MANAGEMENT

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; in injuries to employees; and natural disasters. During the period ended November 2015, the Academy contracted with Brown & Brown Insurance to provide insurance coverage with the Hartford Casualty Insurance Company.

General Liability:

Each Occurrence	\$ 1,000,000
Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Automobile Liability:	
Bodily Injury Limit	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	10,000,000
Aggregate Limit	10,000,000

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Settled claims have not exceeded this commercial coverage in any of the past two years and there has not been a significant reduction in coverage from the prior year.

8. CONTINGENCIES

A. Grants

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 is 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. However, the effect of any such disallowed claims on the overall financial position of the Academy at November 30, 2015, if applicable, cannot be determined at this time.

B. Litigation

The Academy is not party to any claims or lawsuits that would, in the Academy's opinion, have a material effect of the basic financial statements.

C. School Academy Funding

Academy Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school Academy's must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school Academy's, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

9. SPONSOR

The Academy was approved for operation under a contract with its sponsor, Ohio Council of Community Schools, for a period of five academic years commencing July of 2013. As part of this contract, the Sponsor is entitled to 3% of the total state foundation funds. Total amount due and paid during the reporting period was \$12,551.

10. RELATED PARTY TRANSACTIONS/MANAGEMENT COMPANY

The Academy contracted with Mosaica Education, Inc. for variety of services including management of personnel and human resources, board relations, financial management, marketing, technology services, the program of instruction, purchasing, strategic planning, public relations, financial reporting, recruiting, compliance issues, budgets, contracts, and equipment and facilities. Financial management services include, but are not limited to, financial statement, budget preparation, accounts payable, and payroll preparation.

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For the Period July 1, 2014 through November 30, 2015

Per the management agreement with the Academy, Mosaica Education, Inc. is entitled to a management fee that is equivalent to 12.5% of Academy revenue. The management fee for the reporting period was \$70,753.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual cost incurred for the Academy by Mosaica Education, Inc. These expenses include rent, salaries of Mosaica Education, Inc employees working at the Academy, and other costs related to providing educational and administration services. The total expenses billed by Mosaica Education Inc. during the reporting period were \$534,593.48. At November 30, 2015, the Academy had payables to Mosaica Education, Inc. in the amount of \$623,447.

Payroll	\$	356,779
Management Fees		81,317
Interest		10,341
Advance		129,488
Miscellaneous		45,522
Total		\$ 623,447

11. CLOSURE OF ACADEMY

Fiscal 2014 was a startup year for the Academy. Enrollment ended at 58 students as of June 30, 2015. The Academy ceased operations and was closed by the sponsor in on September 14, 2015. The Academy has followed the closing procedures prescribed by the Ohio Department of Education (ODE). Those procedures included official notification to ODE, retirement systems, the students and the community of the Academy’s decision to close. Once all costs and liabilities are known, the Academy will pay its final costs and any residual cash balances remaining will be remitted to ODE per Ohio Revised Code 3314.074, and the account will be closed.

12. SUBSEQUENT EVENTS

After the audit period, the Academy repaid funds owed to the State for monies it had received in July 2015 prior to the Academy electing to close. Since the monies received were for the fiscal year 2016 operations, the Academy was not entitled to keep these monies. In January 2016, a repayment was made to the Ohio Department of Education for \$22,650 to settle the total obligation owed. The funds necessary to make this payment were provided to the Academy by its Sponsor, the Ohio Council of Community Schools.

Steam Academy of Cincinnati
Hamilton County, Ohio
Notes to the Financial Statements
For the Period July 1, 2014 through November 30, 2015

13. RESTATEMENT OF NET POSITION/FUND CASH BALANCES

Net position/Fund Cash Balances has been restated at June 30, 2014, to change from generally accepted accounting principles to the regulatory basis of accounting, as allowed by Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). The adjustments had the following effect on net position as previously reported:

Net Position, June 30, 2014	\$ (308,484)
Adjustments:	
Removal of Assets	(10,514)
Removal of Liabilities	<u>342,004</u>
Beginning Fund Cash Balance, July 1, 2014	<u><u>\$ 23,006</u></u>

14. ADVANCES PAYABLE

During the period, the Academy received advances totaling \$137,190 from Mosaica Education, Inc., the Academy’s management company, as described in Note 10, and \$3,500 from Massa Financial Solutions, LLC, the Academy’s treasurer, to continue to liquidate any balances owed. No interest is due on the advances, and no payments have been made to either party.

March 29, 2016

To the Board of Trustees
STEAM Academy of Cincinnati
Hamilton County, Ohio
6000 Murray Ave.
Cincinnati, Ohio 45227

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the STEAM Academy of Cincinnati, Hamilton County, Ohio (the "Academy") as of and for the period ended November 30, 2015, and the related notes to the financial statements and have issued our report thereon dated March 29, 2016, wherein we issued an adverse opinion on the Academy's accompanying financial statements because they do not present fairly the financial position, results of operations and cash flows, in accordance with accounting principles generally accepted in the United States of America. In addition, we also noted that the Academy ceased operations effective September 14, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are disclosed on the accompanying schedule of findings as items 2015-001 and 2015-002.

Academy's Response to Findings

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

Purpose of this Report

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

Rea & Associates, Inc.

Cambridge, Ohio

**STEAM ACADEMY OF CINCINNATI
HAMILTON COUNTY, OHIO**

**SCHEDULE OF FINDINGS
November 30, 2015**

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

FINDING #2015-001

Material Non-Compliance – Financial Reporting

Criteria: Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form of the report, the public office shall submit its report to the form utilized by public office. Ohio Administrative Code Section 117-2-13 further clarifies the requirements of Ohio Rev. Code 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles. GASB Statement 34, “Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments” requires the Academy’s basic financial statements and required supplementary information (RSI) consist of the following:

- Management’s Discussion and Analysis – Providing management’s analytical overview of the School District’s financial activities.
- Basic Financial Statements – The basic financial statements will consist of a statement of net position, statement of revenues, expenses, and changes in net position, as well as a statement of cash flows, prepared on the economic resources measurement focus and the accrual basis of accounting. These statements will report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses, and gains and losses of the Academy.
- Required Supplementary Information – Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions.

Condition: The Academy did not prepare its financial statements in accordance with Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-02-03(B).

Cause: For the period ended November 30, 2015, the Academy prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omits assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and net position, and disclosures that, while material, cannot be determined at this time.

Effect: Pursuant to Ohio Rev. Code Section 117.38, the Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report.

STEAM ACADEMY OF CINCINNATI
HAMILTON COUNTY, OHIO

SCHEDULE OF FINDINGS(Continued)
November 30, 2015

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

FINDING #2015-001

Material Non-Compliance – Financial Reporting (continued)

Recommendation: We recommend the Academy review the standards and ensure preparation of its financial statements in accordance with AICPA's *Audit and Accounting Guide Audits of State and Local Governments*. We also recommend the Academy prepare its financial statements in accordance with Ohio Administrative Code and Ohio Revised Code.

Management's Response: Due to the Academy closing and not having sufficient resources available to complete the required GAAP filing and implementation of GASB 68 and 71, the Academy elected to prepared cash-basis statements only.

FINDING #2015-002

Material Non-Compliance – Records Retention

Criteria: Ohio Rev. Code section 149.41 authorizes the Academy to develop its own records commission and rules. The Board of Trustees has adopted a data and records retention policy which states, in part, all records are the property of the Academy and are not removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the Board of Trustees. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

Condition: During the performance of audit procedures, we noted various checks in which the corresponding invoice was not maintained or could not be produced. The successor treasurer was able to contact all applicable vendors to produce a valid invoice to support the expenses, except for two checks totaling \$273.

Cause: Due to turnover in the Academy's treasurer position documents were not properly maintained and could not be located.

Effect: Failure to maintain approved invoices can lead to non-compliance and improper financial reporting.

Recommendation: We recommend the Academy maintain all records in accordance with the ORC and Board of Trustee policies.

Management's Response: The Academy agrees with the auditor's recommendation.

**STEAM ACADEMY OF CINCINNATI
HAMILTON COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
PERIOD ENDED NOVEMBER 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Noted Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2014-001	ORC 149.41 - Not following Record Retention policy	No	Repeated as Finding Number 2015-002
2014-002	Timeliness of Bank Reconciliations	Yes	Corrected

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Dave Yost • Auditor of State

STEAM ACADEMY OF CINCINNATI

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
JUNE 14, 2016**