

STEAM Academy of Dayton
Montgomery County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2015



Dave Yost • Auditor of State

Board of Directors
STEAM Academy of Dayton
219 E Maple St Ste 202
North Canton, OH 44720

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

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

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

Dave Yost
Auditor of State

May 31, 2016

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**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Basic Financial Statements	12
Required Supplementary Information:	
Schedule of the Academy's Proportionate Share of the Net Pension Liability	30
Schedule of the Academy's Contributions	32
Independent Auditors' Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34
Schedule of Prior Audit Findings.....	36

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March 29, 2016

To the Board of Trustees
STEAM Academy of Dayton
Montgomery County, Ohio
545 Odlin Ave.
Dayton, Ohio 45405

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the STEAM Academy of Dayton, Montgomery County, Ohio, (the "Academy") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the STEAM Academy of Dayton, Montgomery County, Ohio as of June 30, 2015, and the changes in financial position and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 3, the Academy restated the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68." Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 18 to the financial statements, the Academy has suffered recurring losses from operations through its second year and has a net position deficit of \$454,147 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability and related accruals totaling \$135,107. Note 18 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the *Schedule of the Academy's Proportionate Share of the Net Pension Liability*, and *Schedule of the Academy's Contributions* on pages 3-7, 30-31, and 32-33, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated 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 DAYTON
MONTGOMERY COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015*

The discussion and analysis of STEAM Academy of Dayton's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

Key highlights for fiscal year 2015 are as follows:

- Total revenue increased to \$1,721,950 as compared to \$1,126,481 in fiscal year 2014.
- Operating expenses increased to \$1,974,211 as compared to \$1,350,838 in fiscal year 2014.
- The Academy had an operating loss of \$(523,403) as compared to \$(224,356) in fiscal year 2014.
- Net position decreased to \$(454,147) as compared to restated net position of \$(169,282) in fiscal year 2014.
- During 2015, the Academy implemented GASB 68, which increased beginning net position as previously reported by \$65,866.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts; required supplemental information, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, all liabilities, and deferred inflows of resources are included on the statement of net position. The statement of net position answers the question of how well the Academy performed financially during 2015. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net position. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Financial Analysis of the Academy as a Whole

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from the governmental-wide financial statements is included in the discussion and analysis.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)*

Table 1 provides a summary of Academy's net position for 2015 compared to 2014:

Table 1 Net Position			
	2015	Restated 2014	Change
Assets:			
Current Assets	\$ 44,663	\$ 24,834	19,829
Capital Assets	177,475	210,052	(32,577)
Total Assets	222,138	234,885	(12,747)
 Deferred Outflows of Resources	 1,115,412	 65,866	 1,049,546
 Liabilities:			
Current & Long Term Liabilities	496,457	470,034	26,423
Net Pension Liability	1,103,220	-	1,103,220
Total Liabilities	1,599,677	470,034	1,129,643
 Deferred Inflows of Resources	 192,020	 -	 192,020
 Net Position:			
Net Invested in Capital Assets	103,383	101,410	1,973
Unrestricted	(557,530)	(270,692)	(286,838)
Total Net Position (Deficit)	\$ (454,147)	\$ (169,282)	(284,865)

Results of fiscal year 2015 indicate a deficit in net position of \$454,147. The Academy finished fiscal 2015 with 194 students.

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

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)*

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

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

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

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

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

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from (\$235,148) to (\$169,282).

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)*

Table 2 reflects the change in net position for fiscal year 2015 compared to 2014.

Table 2
Change in Net Position

Operating Revenues:	<u>2015</u>	<u>2014</u>	<u>Change</u>
State Aid	\$ 1,450,808	\$ 1,121,481	329,327
Miscellaneous	-	5,000	(5,000)
Total Operating Revenues	<u>1,450,808</u>	<u>1,126,481</u>	<u>324,327</u>
Operating Expenses:			
Purchased Services	1,791,269	1,154,629	636,640
Depreciation	32,576	32,576	-
General Supplies	124,564	135,529	(10,965)
Other Operating Expenses	<u>25,802</u>	<u>28,103</u>	<u>(2,301)</u>
Total Operating Expenses	<u>1,974,211</u>	<u>1,350,837</u>	<u>623,374</u>
Operating Loss	(523,403)	(224,356)	(299,047)
Nonoperating Revenues and Expenses:			
Federal and State Restricted Grants	271,142	-	271,142
Interest Expense	<u>(32,604)</u>	<u>(10,791)</u>	<u>(21,813)</u>
Net Nonoperating Revenues and Expenses	<u>238,539</u>	<u>(10,791)</u>	<u>249,330</u>
Change in Net Position	<u>\$ (284,865)</u>	<u>\$ (235,148)</u>	<u>(49,717)</u>

At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain rent, management services, other operating expenses and invoices for payroll of Academy staff.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 operating expenses still include pension expense of \$65,866 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)*

Under GASB 68, the 2015 statements report pension expense of \$299,851. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 operating expenses under GASB 68	\$ 1,974,211
Pension expense under GASB 68	(299,851)
2015 contractually required contribution	<u>98,878</u>
Adjusted 2015 operating expenses	1,773,238
Total 2014 operating expenses under GASB 27	<u>1,350,837</u>
Increase in operating expenses not related to pension	<u>\$ 422,401</u>

Budgeting

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.

Capital Assets

The Academy invested \$177,475 in capital assets (net of accumulated depreciation) for its leasehold improvements, furniture and equipment. For further information, regarding the Academy's capital assets, refer to Note 6 of the basic financial statements.

Debt

The Academy entered into several capital leases during the fiscal year 2014 for the purchase of furniture, equipment, security, cabling, paging and telephone systems. As of June 30, 2015 the balance of these leases was \$74,092. For further information, regarding the Academy's capital lease obligations, refer to Note 14 of the basic financial statements.

Economic Factors

The Academy is experiencing financial difficulty; see Note 18 for further information.

Operations

The Academy is a public school established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through eighth grade. The Academy is independent of any school district 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.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions concerning this report, please contact the administrative office of STEAM Academy of Dayton, 545 Odlin Avenue Dayton, Ohio 45405.

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**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**STATEMENT OF NET POSITION
JUNE 30, 2015**

Assets:

Current assets:

Cash and Cash Equivalents	\$	4,074
Intergovernmental Receivable		31,589
Prepaid Expense		9,000
Total current assets		44,663

Noncurrent assets:

Capital Assets, net of Accumulated Depreciation		177,475
Total noncurrent assets		177,475

Total assets		222,138
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Deferred Outflows of Resources		1,115,412
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Liabilities:

Current liabilities:

Accounts Payable, Trade		111,679
Accounts Payable, Related Party		134,007
CSC Payable		221,400
Current Portion of Long-term Debt - Capital Lease		29,371
Total current liabilities		496,457

Long Term Liabilities:

Non Current Portion of Long Term Debt- Capital Lease		44,721
Net Pension Liability (See Note 10)		1,058,499
Total noncurrent liabilities		1,103,220

Total liabilities		1,599,677
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Deferred Inflows of Resources		192,020
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Net Position

Net Invested in Capital Assets		103,383
Unrestricted		(557,530)
Total Net Position	\$	(454,147)

See Accompanying Notes to the Basic Financial Statements

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

Operating Revenues:

State Aid	\$ 1,450,808
Total Operating Revenues	<u>1,450,808</u>

Operating Expenses:

Purchased Services	1,791,269
General Supplies	124,564
Depreciation	32,576
Other Operating Expenses	25,802
Total Operating Expenses	<u>1,974,211</u>

Operating Loss (523,403)

Nonoperating Revenues and (Expenses):

Federal and State Restricted Grants	271,142
Interest Expense	(32,604)
Net Nonoperating Revenues and (Expenses)	<u>238,538</u>

Change in Net Position	(284,865)
Net Position, Beginning of Year, Restated - See Note 3	<u>(169,282)</u>
Net Position, End of Year	<u>\$ (454,147)</u>

See Accompanying Notes to the Basic Financial Statements

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

State Aid Receipts	\$ 1,450,808
Cash Payments to Suppliers for Goods and Services	(1,856,368)
Net Cash Used in Operating Activities	<u>(405,559)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Short -term Financing Payments	(5,352)
Charter School Capital Proceeds	902,800
Charter School Capital Principal Payments	(681,400)
Charter School Capital Program Fees	(26,853)
Federal and State Grant Receipts	239,553
Net Cash Provided By Noncapital Financing Activities	<u>428,748</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Lease Interest Payments	(398)
Capital Lease Principal Retirement	(34,550)
Net Cash Used For Capital and Related Financing Activities	<u>(34,948)</u>

Net Decrease in Cash and Cash Equivalents	(11,760)
Cash and Cash Equivalents - Beginning of the Year	15,834
Cash and Cash Equivalents - Ending of the Year	<u>\$ 4,074</u>

Reconciliation of Operating Loss to Net Cash Provided By Operating Activities

Operating Loss	\$ (523,403)
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Adjustments to Reconcile Operating Loss to Net Cash Provided By Operating Activities

Depreciation	32,576
Changes in Assets, Liabilities, and Deferred Inflows and Outflows:	
(Increase) in Deferred Outflows	(1,049,546)
Increase in Deferred Inflows	192,020
Increase in Net Pension Liability	1,058,499
Increase in Accounts Payable, Trade	(17,778)
Increase in Accounts Payable, Related Party	(97,927)
Net Cash Provided By Operating Activities	<u>\$ (405,559)</u>

See Accompanying Notes to the Basic Financial Statements

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 1 - Description of the Academy

STEAM Academy of Dayton (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapter 3314. The Academy offers education for Ohio children in kindergarten through Eighth grade. The Academy is independent of any school district 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.

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 15.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash position. The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the Academy are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in net position. The statement of cash flows reflects how the Academy finances meet its cash flow needs.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

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. Cash and Cash Equivalents

Cash received by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2015.

F. Prepaid Items

The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2015, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

The Academy's capital assets during the year ended June 30, 2015 consisted of furniture, leasehold improvements, and other equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand five hundred dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

<u>Description</u>	<u>Useful Lives</u>
Furniture, Fixtures, and Equipment	5-20 years
Leasehold Improvements	15 years

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

H. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. As of June 30, 2015, there was no net position restricted by enabling legislation.

I. Operating Revenues and Expenses

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

J. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Academy, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position. (See Note 10)

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the pension plans and additions to/deletions 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.

L. Estimates

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

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

M. Economic Dependency

The Academy receives approximately 99% of its operating revenue from the Ohio Department of Education. Due to the significance of this revenue source, the Academy is considered to be economically dependent on the State of Ohio Department of Education.

Note 3 – Change in Accounting Principle and Restatement of Net Position

For fiscal year 2015, the Academy implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

Net position June 30, 2014	(\$235,148)
Adjustments:	
Deferred Outflow - Payments Subsequent to Measurement Date	<u>65,866</u>
Restated Net Position June 30, 2014	<u><u>(\$169,282)</u></u>

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

Note 4 - Deposits

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 June 30, 2015 the book balance was \$4,074, and the bank balance of Academy's deposits was \$14,399. The bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 5 – Receivables

At June 30, 2015, the Academy had outstanding receivables of \$31,589.

<u>Grant</u>	<u>Amount</u>
IDEA B	\$ 1,154
Title I	834
State Aid final Adjustments	7,301
School Lunch Program	20,717
Other	1,583
Total Intergovernmental Receivables	<u>\$ 31,589</u>

Note 6 - Capital Assets

The capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
Depreciable Capital Assets				
Furniture & Equipment	\$ 159,299	\$ -	\$ -	\$159,299
Leasehold Improvements	83,329	-	-	83,329
Total Capital Assets	<u>242,628</u>	<u>-</u>	<u>-</u>	<u>242,628</u>
Less Accumulated Depreciation				
Furniture & Equipment	(27,527)	(27,527)	-	(55,054)
Leasehold Improvements	(5,049)	(5,049)	-	(10,098)
Total Accumulated Depreciation	<u>(32,576)</u>	<u>(32,576)</u>	<u>-</u>	<u>(65,152)</u>
Capital Assets, Net	<u>\$ 210,052</u>	<u>(\$32,576)</u>	<u>\$ -</u>	<u>\$ 177,475</u>

Note 7 – Long-Term Obligations

The Changes to the Academy's long-term obligations during fiscal year 2015 were as follows:

	<u>Principal</u>		<u>Principal</u>	<u>Due</u>
	<u>Ousting</u>	<u>Additions</u>	<u>Ousting</u>	<u>Within</u>
	<u>6/30/2014</u>		<u>6/30/2015</u>	<u>One Year</u>
Net Pension Liability:				
STRS	\$ -	\$ 890,830	\$ 890,830	\$ -
SERS	-	167,669	167,669	-
Total Net Pension Liability	<u>-</u>	<u>1,058,499</u>	<u>1,058,499</u>	<u>-</u>
Capital Lease	<u>108,642</u>	<u>-</u>	<u>74,092</u>	<u>29,371</u>
Total Long-Term Obligations	<u>\$ 108,642</u>	<u>\$ 1,058,499</u>	<u>\$ 1,132,591</u>	<u>\$ 29,371</u>

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 8 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Academy contracted with Brown & Brown Insurance to provide insurance coverage with the Hartford Casualty Insurance Company and Hanover Insurance Company.

General Liability:	
Each Occurrence	\$ 1,000,000
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

Settled claims have not exceeded this commercial coverage during the past two years, nor has there been reduction in insurance coverage throughout the year.

Note 9 – Purchased Services

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

<u>Purchased Services</u>	<u>Amount</u>
Employment	\$ 1,127,050
Professional Services	308,619
Facility Services	163,184
Food Services	124,134
Office Expense	24,977
Sponsor Fee	43,305
Total	<u>\$ 1,791,269</u>

Note 10 - Defined Benefit Pension Plans

A. Net Pension Liability

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

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 10 - Defined Benefit Pension Plans (Continued)

A. Net Pension Liability (Continued)

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting.

B. Plan Description - School Employees Retirement System (SERS)

Plan Description – The Academy's 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.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 10 - Defined Benefit Pension Plans (Continued)

B. Plan Description - School Employees Retirement System (SERS) (Continued)

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

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

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

The Academy's contractually required contribution to SERS was \$15,548 for fiscal year 2015.

C. Plan Description - State Teachers Retirement System (STRS)

Plan Description – School 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 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 10 - Defined Benefit Pension Plans (Continued)

C. Plan Description - State Teachers Retirement System (STRS) (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

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

The Academy's contractually required contribution to STRS was \$83,330 for fiscal year 2015. There were no contributions to the DC and Combined Plans for fiscal year 2015.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 10 - Defined Benefit Pension Plans (Continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$167,669	\$890,830	\$1,058,499
Proportion of the Net Pension Liability	0.00331300%	0.00366243%	
Pension Expense	\$49,263	\$250,588	\$299,851

At June 30, 2015, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$1,427	\$8,576	\$10,003
Change in proportionate share	157,610	848,921	1,006,531
Academy contributions subsequent to the measurement date	<u>15,548</u>	<u>83,330</u>	<u>98,878</u>
Total Deferred Outflows of Resources	<u>\$174,585</u>	<u>\$940,827</u>	<u>\$1,115,412</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$27,213</u>	<u>\$164,807</u>	<u>\$192,020</u>
Total Deferred Inflows of Resources	<u>\$27,213</u>	<u>\$164,807</u>	<u>\$192,020</u>

\$98,878 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	\$32,956	\$173,172	\$206,128
2017	32,956	173,172	206,128
2018	32,956	173,172	206,128
2019	<u>32,956</u>	<u>173,174</u>	<u>206,130</u>
Total	<u>\$131,824</u>	<u>\$692,690</u>	<u>\$824,514</u>

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 10 - Defined Benefit Pension Plans (Continued)

E. Actuarial Assumptions - SERS

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

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

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

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

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

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

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

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

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 10 - Defined Benefit Pension Plans (Continued)

E. Actuarial Assumptions – SERS (Continued)

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's proportionate share of the net pension liability	\$239,214	\$167,669	\$107,493

F. Actuarial Assumptions - STRS

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

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 10 - Defined Benefit Pension Plans (Continued)

F. Actuarial Assumptions – STRS (Continued)

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

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

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

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 10 - Defined Benefit Pension Plans (Continued)

F. Actuarial Assumptions – STRS (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$1,275,320	\$890,830	\$565,680

Note 11 - Postemployment Benefits

A. School Employees Retirement System

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

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

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

The Academy's contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, and 2014 were \$967, \$135, respectively. For fiscal year 2015 and 2014, 100.00 percent has been contributed.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 11 - Postemployment Benefits (Continued)

B. School Teachers Retirement Systems

Plan Description – The Academy participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy's contributions for health care for the fiscal years ended June 30, 2015, and 2014 were \$0 and \$3,742 respectively. The full amount has been contributed for fiscal years 2015 and 2014.

Note 12 - Contingencies

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse affect on the overall financial position of the Academy at June 30, 2015.

B. Ohio Department of Education Enrollment Review

The Academy's Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, the traditional school districts must comply with the 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 district, 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 statements impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the Academy.

Note 13 – Building Leases

The Academy entered into a 5 year lease agreement in June 2013, to lease a building from the Archdiocese of Cincinnati, for the use of the building and grounds as a school facility. The lease term ends on June 30, 2018. The initial annual base rent was \$4,500 per month of year one, which also required a \$9,000 deposit.

Total rent expense for the fiscal year ending June 30, 2015 was \$83,540.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 13 – Building Leases (Continued)

The following is a schedule of the future minimum payments for base rent required under the lease:

FY 2016	\$ 96,000
FY 2017	102,000
FY 2018	<u>108,000</u>
Total	<u>\$ 306,000</u>

Note 14 – Capital Lease-Lessee Disclosure

The Academy entered into several lease agreements for the purchase of furniture, equipment, security, cabling, paging and telephone systems for an original cost of \$127,010. The Academy's lease obligations meet the criteria of a capital lease as defined by the Standards. The equipment has been capitalized in the amount of \$127,010, the present value of the minimum lease payments at the inception of the lease. Principal payments totaled \$34,550 while interest totaled \$398 for 2015. \$29,371 is due within one year. The following is the schedule of the future long term minimum lease payments required under the capital leases and the present value of the minimum lease payments are as follows for June 30, 2015:

<u>Year Ending June 30,</u>	<u>Furniture/Equipment</u>	<u>Security</u>	<u>Total</u>
2016	\$ 25,956	\$ 7,704	\$ 33,660
2017	25,956	7,704	33,660
2018	3,472	7,704	11,176
2019	-	642	642
Total future minimum lease payments	<u>55,384</u>	<u>23,754</u>	<u>79,138</u>
Less: amount representing interest	<u>(2,528)</u>	<u>(2,518)</u>	<u>(5,046)</u>
Present value of future minimum lease payments	<u>\$52,856</u>	<u>\$21,236</u>	<u>\$74,092</u>

Note 15 – Related Party Transactions/Management Company

The Academy contracts 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.

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 fiscal year 2015 was \$210,801.

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

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 15 – Related Party Transactions/Management Company (Continued)

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 fiscal year 2015 were \$935,702.

At June 30, 2015, the Academy had payables to Mosaica Education, Inc. in the amount of \$134,007.

Management Fees	\$	17,010
Payroll		90,089
Advance		25,426
Miscellaneous		1,482
Total		\$ 134,007

Note 16 – Sponsor

The Academy was approved for operation under a contract with the Ohio Council of Community Schools, its sponsor, 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 for fiscal year 2015 was \$43,305.

Note 17 – Charter School Capital Payable

The Academy received working capital advances from Charter School Capital through a receivables purchase agreement. As the Academy receives its monthly State funding, these advances are repaid, however the Academy may elect to receive future advances from Charter School Capital by entering into additional agreements. The total amount of advances outstanding at June 30, 2015 was \$221,400, all due within 3 months of issuance. Interest expense for the year was \$26,853. The imputed interest rate is 18% per annum.

	Principal Outstanding 06/30/14	Additions	Deductions	Principal Outstanding 06/30/15
Charter School Capital	\$ -	\$902,800	\$ (681,400)	\$ 221,400

Note 18 – Management’s Plan

For fiscal year 2015, the Academy had a net deficit of \$454,147, and decrease in net position of \$284,865. Enrollment ended at 194 students in fiscal 2015. The capacity of the Academy’s facility is approximately 500 students. Maintaining a stable administrative and instructional team along with active advertising via print, radio, mailings and through referrals of current parents is anticipated to help produce the likelihood of future enrollment growth leading to surpluses and provide an opportunity for the Academy to recover from its prior deficits. At March 2016, enrollment was 206.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)**

Note 19 – Subsequent Events

A. Sale of Management Company

On September 18, 2014 Tatonka Capital Corporation filed a complaint against the Academy's management company, Mosaica Education, in the United States District Court for the Northern District of Georgia: Civil Action No. 1:14-CV-03017. The complaint alleged breach of contract regarding approximately \$20 million of indebtedness to Tatonka Capital as evidenced by various promissory notes and assignments of notes and accounts receivable from the management company and its various academies. On October 21, 2014, the Court appointed a receiver to manage the day to day operations of Mosaica Education and to restructure its finances. On June 11, 2015, the case being resolved, the receivership was ended and all remaining assets of Mosaica Education were purchased by Accel Schools, a subsidiary of Pansophic Education, with the exception of several schools that were not purchased, and by default became assets of the Plaintiff, Tatonka Capital Corporation.

B. Management Agreement

On July 1, 2015, the Academy entered into a management agreement with Accel Schools Ohio LLC for an initial term of three years, ending on June 30, 2018. In exchange for providing certain educational, administrative and fiscal services, the Academy agrees to pay Accel Schools 12.5% of its annual base state per-pupil allocation and a \$20,000 annual flat fee or 10% of federal revenues for managing the Academy's federal funds.

C. Debt Forgiveness and Restructuring

In consideration of the new agreement, the management company agreed to forgive or restructure the debt formerly owed to Mosaica and assumed by Accel Schools as part of its purchase of Mosaica's assets. \$50,000 in debt was forgiven and remainder, \$84,007 of related party accounts payable is restructured as a note payable to Accel Schools, Inc. with a term of 10 years and an interest rate of 2.5%. No payments shall be made during the term of the refinanced note unless the Academy is operating at a surplus.

D. Advances Payable

Subsequent to year end, the Academy has borrowed \$221,400 in short-term loans against future foundation payments with Charter School Capital, to be repaid over a three month period from issuance. The imputed interest rate is 18% per annum.

STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYER'S RETIREMENT SYSTEM OF OHIO
LAST FISCAL YEAR (1)

	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.00331300%
Academy's Proportionate Share of the Net Pension Liability	\$ 167,669
Academy's Covered-Employee Payroll	\$ 97,243
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	172.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%

(1) Information prior to 2014 is not available

Amounts presented as of the Academy's measurement date
which is the prior fiscal year end.

STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHER'S RETIREMENT SYSTEM OF OHIO
LAST FISCAL YEAR (1)

	<u>2014</u>
Academy's Proportion of the Net Pension Liability	0.00366243%
Academy's Proportionate Share of the Net Pension Liability	\$ 890,830
Academy's Covered-Employee Payroll	\$ 374,200
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	238.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%

(1) Information prior to 2014 is not available

Amounts presented as of the Academy's measurement date
which is the prior fiscal year end.

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
SCHOOL EMPLOYER'S RETIREMENT SYSTEM OF OHIO
LAST TWO FISCAL YEARS (1)**

	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 15,548	\$ 13,478
Contributions in Relation to the Contractually Required Contribution	<u>\$ (15,548)</u>	<u>\$(13,478)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Academy's Covered-Employee Payroll	\$ 117,964	\$ 97,243
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%

(1) Information prior to 2014 is not available

**STEAM ACADEMY OF DAYTON
MONTGOMERY COUNTY, OHIO**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE ACADEMY'S CONTRIBUTIONS
STATE TEACHER'S RETIREMENT SYSTEM OF OHIO
LAST TWO FISCAL YEARS (1)**

	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 83,330	\$ 52,388
Contributions in Relation to the Contractually Required Contribution	<u>\$ (83,330)</u>	<u>\$ (52,388)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Academy's Covered-Employee Payroll	\$ 595,214	\$374,200
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%

(1) Information prior to 2014 is not available

March 29, 2016

To the Board of Trustees
STEAM Academy of Dayton
Montgomery County, Ohio
545 Odlin Ave,
Dayton, Ohio 45405

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the STEAM Academy of Dayton, Montgomery County, Ohio (the “Academy”) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy’s basic financial statements, and have issued our report thereon dated March 29, 2016, in which we noted the Academy restated their net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27”, and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68” and the Academy has suffered recurring losses from operations and has a net position deficiency of \$454,147, including effect of net pension liability and related accruals totaling \$135,107, that raises substantial doubt about its ability to continue as a going concern.

Internal Control Over Financial Reporting

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

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

STEAM Academy of Dayton
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
Page 2

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental 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 DAYTON
MONTGOMERY COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 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	Yes	Corrected
2014-002	Timeliness of Bank Reconciliations	Yes	Corrected



Dave Yost • Auditor of State

STEAM ACADEMY OF DAYTON

MONTGOMERY 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**