

# STEAM Academy of Warren Trumbull County, Ohio

## *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2019



OHIO AUDITOR OF STATE  
KEITH FABER



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Board of Education  
STEAM Academy of Warren  
261 Elm Road NE  
Warren, Ohio 44483

We have reviewed the *Independent Auditor's Report* of the STEAM Academy of Warren, Trumbull County, prepared by Rea & Associates, Inc., for the audit period July 1, 2018 through June 30, 2019. 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 Warren is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

January 17, 2020

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**STEAM ACADEMY OF WARREN  
TRUMBULL COUNTY, OHIO**

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December 22, 2019

To the Board of Directors  
STEAM Academy of Warren  
Trumbull County, Ohio  
261 Elm Road NE  
Warren, Ohio 44483

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the STEAM Academy of Warren, Trumbull County, Ohio, (the "Academy") as of and for the year ended June 30, 2019, 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 Warren, Trumbull County, Ohio, as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter***

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As disclosed in Note 17 to the financial statements, the Academy has previously suffered recurring losses from operations and has a net position deficit of \$2,857,514 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, net OPEB asset/liability and related accruals totaling \$1,652,988. Note 17 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, Schedule of the Academy's Proportionate Share of the Net Pension Liability, Schedule of the Academy's Contributions-Pension, Schedule of the Academy's Proportionate Share of the Net OPEB Asset/Liability, and the Schedule of the Academy's Contributions - OPEB* as listed in the table of contents, 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 December 22, 2019 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 solely 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 the effectiveness of the Academy's 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

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## **STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019 (UNAUDITED)**

The discussion and analysis of the STEAM Academy of Warren's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2019. 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 2019 are as follows:

- Net position increased \$267,721.
- Operating revenues accounted for \$1,776,238 of the Academy's total funding of \$2,424,351.
- Operating expenses accounted for \$2,090,476 of the total expenses of \$2,156,630.

#### **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 2019. 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 WARREN - TRUMBULL COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019 (UNAUDITED)

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)**

Table 1 provides a summary of Academy's net position for 2019 and 2018:

**Table 1  
Statement of Net Position**

	<u>2019</u>	<u>2018</u>
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 108,364	\$ 37,918
Accounts Receivable	7,907	-
Intergovernmental Receivable	31,901	35,137
Prepaid Expense	51,272	65,602
<b>Total Current Assets</b>	<u>199,444</u>	<u>138,657</u>
<b>Noncurrent Assets:</b>		
Net OPEB Asset	85,273	-
Capital Assets, net of Accumulated Depreciation	44,802	61,787
<b>Total Noncurrent Assets</b>	<u>130,075</u>	<u>61,787</u>
<b>Total Assets</b>	<u>329,519</u>	<u>200,444</u>
<b>Deferred Outflows of Resources</b>	<u>679,900</u>	<u>1,032,112</u>
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Accounts Payable, Trade	64,593	34,840
Accounts Payable, Related Party	454,480	498,240
Accrued Expenses	1,724	-
Advances Payable	243,000	230,100
<b>Total Current Liabilities</b>	<u>763,797</u>	<u>763,180</u>
<b>Noncurrent Liabilities:</b>		
Net Pension Liability	1,405,378	1,934,429
Net OPEB Liability	116,296	396,853
Noncurrent Portion of Long-term Debt	684,975	684,975
<b>Total Noncurrent Liabilities</b>	<u>2,206,649</u>	<u>3,016,257</u>
<b>Total Liabilities</b>	2,970,446	3,779,437
<b>Deferred Inflows of Resources</b>	<u>896,487</u>	<u>578,354</u>
<b>Net Position</b>		
Investment in Capital Assets	44,802	61,787
Unrestricted Net Position	(2,902,316)	(3,187,022)
<b>Total Net Position</b>	<u>\$ (2,857,514)</u>	<u>\$ (3,125,235)</u>

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019 (UNAUDITED)**

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)**

The Academy has adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," and GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and net OPEB asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB asset/liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB asset/liability to equal the Academy's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019 (UNAUDITED)**

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)**

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB asset/liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB asset/liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB asset/liability, respectively, not accounted for as deferred inflows/outflows.

There was a significant change in net pension / OPEB liability / asset for the school. The fluctuations are due to changes in the actuarial liabilities / assets and related accruals that are passed through to the school's financial statement. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows / inflows and net pension/OPEB liabilities/asset and are described in more detail in their respective notes.

STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019 (UNAUDITED)

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (continued)**

**Statement of Revenues, Expenses and Change in Net Position** - Table 2 shows the change in Net Position for fiscal years 2019 and 2018 as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues:</b>		
State Aid	\$ 1,774,350	\$ 1,342,383
Miscellaneous	1,888	95
Total Operating Revenues	<u>1,776,238</u>	<u>1,342,478</u>
<b>Operating Expenses:</b>		
Purchased Services	1,984,368	919,917
Depreciation	16,985	16,985
Supplies	50,257	30,731
Other Operating Expenses	38,866	32,704
Total Operating Expenses	<u>2,090,476</u>	<u>1,000,337</u>
Operating Income (Loss)	(314,238)	342,141
<b>Nonoperating Revenues and Expenses:</b>		
Federal and State Restricted Grants	530,451	439,848
Debt Forgiveness	117,662	-
Interest Expense	(66,154)	(59,375)
Net Nonoperating Revenues and Expenses	<u>581,959</u>	<u>380,473</u>
<b>Change in Net Position</b>	<u>\$ 267,721</u>	<u>\$ 722,614</u>

Increase in Purchased Services were due mainly to higher enrollment over the prior year and more students needing to be serviced and changes to the pension/OPEB accruals previously discussed. State Aid and Federal and State Restricted Grants revenues increased due to an increase in enrollment.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019 (UNAUDITED)**

**CAPITAL ASSETS**

At the end of fiscal year 2019, the Academy had \$44,802 invested in capital assets (net of accumulated depreciation) for computers and software, furniture and equipment, and leasehold improvements. The following table shows fiscal year 2019 compared to 2018:

**Capital Assets at June 30 (Net of Depreciation)**

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Computers and Software	\$ 14,940	\$ 29,833	\$ (14,893)
Leasehold Improvements	29,862	31,954	(2,092)
Total Capital Assets - net	<u>\$ 44,802</u>	<u>\$ 61,787</u>	<u>\$ (16,985)</u>

For further information regarding the Academy's capital assets, refer to Note 5 of the basic financial statements.

**DEBT**

At June 30, 2019, the Academy had \$243,000 in advances outstanding through Charter School Capital.

The Academy also signed a note payable with Accel Schools, the Academy's management company in July 2015 in the amount of \$684,975. No principal payments were made for the year ended June 30, 2019.

For further information regarding the Academy's debt, refer to Note 6 and Note 7 to the basic financial statements.



## **STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019 (UNAUDITED)**

#### **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 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.

#### **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 Academy's Fiscal Officer, C. David Massa, CPA of Massa Financial Solutions, LLC, 261 Elm Road, NE, Warren, Ohio 44483.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**Statement of Net Position  
June 30, 2019**

**Assets:**

***Current Assets:***

Cash and Cash Equivalents	\$ 108,364
Accounts Receivable	7,907
Intergovernmental Receivable	31,901
Prepaid Expense	51,272
<b>Total Current Assets</b>	<b>199,444</b>

***Noncurrent Assets:***

Net OPEB Asset	85,273
Capital Assets, net of Accumulated Depreciation	44,802
<b>Total Noncurrent Assets</b>	<b>130,075</b>

**Total Assets**

**329,519**

***Deferred Outflows of Resources:***

Pension	665,318
OPEB	14,582

**Deferred Outflows of Resources**

**679,900**

**Liabilities:**

***Current Liabilities:***

Accounts Payable, Trade	64,593
Accounts Payable, Related Party	454,480
Accrued Expenses	1,724
Advances Payable	243,000
<b>Total Current Liabilities</b>	<b>763,797</b>

***Noncurrent Liabilities:***

Net Pension Liability	1,405,378
Net OPEB Liability	116,296
Noncurrent Portion of Long-term Debt	684,975

**Total Noncurrent Liabilities**

**2,206,649**

**Total Liabilities**

**2,970,446**

***Deferred Inflows of Resources:***

Pension	627,239
OPEB	269,248

**Deferred Inflows of Resources**

**896,487**

**Net Position:**

Investment in Capital Assets	44,802
Unrestricted Net Position	(2,902,316)
<b>Total Net Position</b>	<b>\$ (2,857,514)</b>

See Accompanying Notes to the Basic Financial Statements

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**Statement of Revenues,  
Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2019**

<b>Operating Revenues:</b>	
State Aid	\$ 1,774,350
Miscellaneous	1,888
<b>Total Operating Revenues</b>	<u>1,776,238</u>
<b>Operating Expenses:</b>	
Purchased Services	1,984,368
Depreciation	16,985
Supplies	50,257
Other Operating Expenses	38,866
<b>Total Operating Expenses</b>	<u>2,090,476</u>
<b>Operating Loss</b>	(314,238)
<b>Non-Operating Revenues and (Expenses):</b>	
Federal and State Restricted Grants	530,451
Debt Forgiveness	117,662
Interest Expense	(66,154)
<b>Net Non-operating Revenues and (Expenses)</b>	<u>581,959</u>
<b>Change in Net Position</b>	267,721
<b>Net Position Beginning of Year</b>	<u>(3,125,235)</u>
<b>Net Position End of Year</b>	<u>\$ (2,857,514)</u>

See Accompanying Notes to the Basic Financial Statements

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

State Aid Receipts	\$ 1,764,278
Other Operating Receipts	1,888
Cash Payments to Suppliers for Goods and Services	<u>(2,178,316)</u>
Net Cash Used For Operating Activities	<u>(412,150)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Charter School Capital Proceeds	942,900
Charter School Capital Payments	(930,000)
Charter School Capital Program Fees	(49,030)
Note Payable Interest Payments	(17,124)
Federal and State Grant Receipts	<u>535,850</u>
Net Cash Provided By Noncapital Financing Activities	<u>482,596</u>

Net Increase in Cash and Cash Equivalents 70,446

<b>Cash and Cash Equivalents - Beginning of the Year</b>	<u>37,918</u>
<b>Cash and Cash Equivalents - Ending of the Year</b>	<u>\$ 108,364</u>

See Accompanying Notes to the Basic Financial Statements

(Continued)

STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO

Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2019  
(Continued)

**Reconciliation of Operating Loss to Net Cash Used For Operating Activities**

Operating Loss \$ (314,238)

**Adjustments to Reconcile Operating Loss to Net Cash Used For Operating Activities**

Depreciation 16,985

Changes in Assets, Liabilities, and Deferred Inflows and Outflows of Resources:

(Increase)/ Decrease in Receivables (7,907)

(Increase)/ Decrease in Deferred Outflows 352,212

Increase/ (Decrease) in Deferred Inflows 318,133

Increase/ (Decrease) in Net Pension Liability (529,051)

(Increase)/ Decrease in Prepaid Expense 14,330

Increase/ (Decrease) in Accounts Payable, Trade 29,753

Increase/ (Decrease) in Accounts Payable, Related Party 71,739

Increase/ (Decrease) in Accrued Expense 1,724

(Increase)/ Decrease in Net OPEB Asset (85,273)

Increase/ (Decrease) in Net OPEB Liability (280,557)

**Net Cash Used For Operating Activities** \$ (412,150)

*Non-Cash Transaction: The management company forgave \$117,662 worth of related party accounts payable during the fiscal year 2019.*

See Accompanying Notes to the Basic Financial Statements

## STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

#### **NOTE 1 – DESCRIPTION OF ACADEMY**

The STEAM Academy of Warren (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 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 was initially approved for operation for a period of five academic years commencing after July 1, 2011 through the Portage County Educational Service Center. In July 2015, due to the closure of the Sponsor, the Academy was subsequently sponsored by the Ohio Department of Education for a two-year term ending June 30, 2017 and then for an additional three-year period ending June 30, 2020. 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 Accel Schools 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.

#### **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.

***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 flows. 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.

***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 WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**Budgetary Process** - Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not require the Academy to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

**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, 2019.

**Prepaid Items** - The Academy records payments made to vendors for services that will benefit periods beyond June 30, 2019, 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.

**Capital Assets** - The Academy’s capital assets during the year ended June 30, 2019 consisted of computers and software, 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 acquisition value 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, except for construction in progress 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.

Furniture & Equipment	5-20 years
Leasehold Improvements	15 years
Computer & Software	5 years

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***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, 2019, there was no net position restricted by enabling legislation. Investment in capital assets of \$44,802 represents capital assets minus accumulated depreciation.

***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.

***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 and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 10 and 11.

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. For the Academy, deferred inflows of resources include pension and OPEB. 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 and OPEB plans are reported on the statement of net position. (See Notes 10 and 11)

***Pensions/Other Postemployment Benefits (OPEB)*** - For purposes of measuring the net pension/OPEB asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

***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 WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 3 - CASH AND CASH EQUIVALENTS**

The Academy classifies deposits by category of risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," as amended by GASB Statement No.40, "Deposit, and Investment Risk Disclosures".

The Academy maintains its cash balances at Huntington Bank in Ohio. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, per qualifying account. At June 30, 2019, the book amount of the Academy's deposits was \$108,364 and the bank balance was \$112,315. At June 30, 2019, none of the bank balance was exposed to custodial credit risk.

**NOTE 4 - RECEIVABLES**

At June 30, 2019, the Academy had receivables in the amount of \$39,808. These receivables represent monies due from Federal funds, as well as State funding adjustments that were not received as of June 30, 2019. The receivables are expected to be collected within one year.

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the period July 1, 2018 to June 30, 2019, was as follows:

	Balance 06/30/18	Additions	Deletions	Balance 06/30/19
Capital Assets:				
Computers & Software	\$ 80,790	\$ -	\$ -	\$ 80,790
Furniture & Equipment	5,451	-	-	5,451
Leasehold Improvements	40,658	-	-	40,658
Total Capital Assets	<u>126,899</u>	<u>-</u>	<u>-</u>	<u>126,899</u>
Less Accumulated Depreciation:				
Computers & Software	(50,957)	(14,893)	-	(65,850)
Furniture & Equipment	(5,451)	-	-	(5,451)
Leasehold Improvements	(8,704)	(2,092)	-	(10,796)
Total Accumulated Depreciation	<u>(65,112)</u>	<u>(16,985)</u>	<u>-</u>	<u>(82,097)</u>
Total Capital Assets, Net	<u>\$ 61,787</u>	<u>\$ (16,985)</u>	<u>\$ -</u>	<u>\$ 44,802</u>

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 6 – ADVANCES PAYABLE**

In October 2013, the Academy entered into an agreement with Charter School Capital to borrow against its future foundation payments. The amount borrowed was \$942,900. Total principal payments made during fiscal year end were \$930,000. Total interest paid was \$49,030.

A summary of short-term obligations for the Academy at June 30, 2019, is as follows:

	<u>Balance 6/30/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2019</u>
Charter School Capital	\$ 230,100	\$ 942,900	\$ (930,000)	\$ 243,000

**NOTE 7 – LONG-TERM OBLIGATIONS**

The changes in the Academy’s long-term obligations during fiscal year 2019 were as follows:

	<u>Balance 6/30/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2019</u>	<u>Due within One Year</u>
Post Employment Liability:					
Net Pension Liability	\$ 1,934,429	\$ -	\$ (529,051)	\$ 1,405,378	\$ -
Net OPEB Liability	396,853	-	(280,557)	116,296	-
Total Post Employment Liability	<u>2,331,282</u>	<u>-</u>	<u>(809,608)</u>	<u>1,521,674</u>	<u>-</u>
Direct Borrowing:					
Accel Schools - Notes Payable	684,975	-	-	684,975	-
Total Long-Term Obligations	<u>\$ 3,016,257</u>	<u>\$ -</u>	<u>\$ (809,608)</u>	<u>\$ 2,206,649</u>	<u>\$ -</u>

During the fiscal year ended June 30, 2015, the Academy negotiated with its new management company, Accel Schools, to reclassify certain related party accounts payable and long-term obligations held by the former management company, Mosaica Education into a single note in the amount of \$684,975. This is an interest only note with a balloon payment at the end of the term of fifteen years. Interest paid during 2019 was \$17,124.

The entire unpaid principal balance, together with any accrued interest and any other unpaid charges or fees here under, shall be due and payable on June 30, 2020 unless after date is agreed to by the parties. Prepayment may occur without any penalties. In the event any default or payment on this note is not made at the time and in the manner required, the Academy agrees to pay any and all costs and expenses which may be incurred by the lender in connection with the enforcement of any of its rights under this note or under any such other instrument, including court costs and reasonable attorney’s fees. In addition the Lender, at its option may increase the interest rate up to 5.00 percentage points over the current interest rate. Defaults are defined as failing to make timely payments, failure to comply with the management agreement, falsifying statements, and dissolution or insolvency.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 7 – LONG-TERM OBLIGATIONS (continued)**

Note payable - Accel Schools		
Fiscal year ending	Principal	Interest
June 30	Principal	Interest
2020	\$ 0	\$ 17,235
2021	0	17,235
2022	0	17,235
2023	0	17,235
2024	0	17,235
2025-2029	0	86,175
2030	684,975	17,235
Total	<u>\$ 684,975</u>	<u>\$ 189,585</u>

**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 2019, the Academy contracted with Pashley Insurance Agency 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	8,000,000
Aggregate Limit	8,000,000
Excess/Umbrella Liability:	
Building & BPP	8,896,500

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

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 9 – PURCHASED SERVICES**

For the period July 1, 2018 through June 30, 2019, purchased service expenses were as follows:

<u>Purchased Services</u>	<u>Amount</u>
Personnel Services	\$ 1,027,668
Professional Services	391,140
Property Services	333,948
Utilities	44,128
Travel & Meetings	3,806
Communications	29,945
Contractual Trade	139,502
Pupil Transportation	14,231
Total	<u>\$ 1,984,368</u>

The amounts above include negative pension/OPEB expense further explained in Notes 10 and 11.

**NOTE 10 – DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)**

***Net Pension Liability– continued***

effective when the changes are legally enforceable.

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

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

Plan Description – Academy non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire 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 percent for the first 30 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.

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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019.

The Academy’s contractually required contribution to SERS was \$12,542 for fiscal year 2019.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)**

***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](http://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. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be phased in through August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)**

***Plan Description - State Teachers Retirement System (STRS) – continued***

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 to 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. For the fiscal year ended June 30, 2019, plan members were required to contribute 14 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 2019 contribution rates were equal to the statutory maximum rates.

The Academy’s contractually required contribution to STRS was \$117,821 for fiscal year 2019.

***Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions***

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Academy’s employer allocation percentage of the net pension liability was based on the employer’s share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.00519900%	0.00683555%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.00416550%</u>	<u>0.00530665%</u>	
Change in Proportionate Share	<u><u>-0.00103350%</u></u>	<u><u>-0.00152890%</u></u>	
Proportionate Share of the Net Pension			
Liability	238,565	1,166,813	1,405,378
Pension Expense	(20,788)	130,404	109,616

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the Academy’s proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight-line method over a five-year period beginning

STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)**

***Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions – continued***

in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight-line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2019 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>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	13,085	26,931	40,016
Changes of assumptions	5,386	206,782	212,168
Net difference between projected and actual earnings on pension plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	15,235	267,536	282,771
Academy contributions subsequent to the measurement date	12,542	117,821	130,363
Total Deferred Outflows of Resources	<u>46,248</u>	<u>619,070</u>	<u>665,318</u>
	-	-	
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	-	7,620	7,620
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	6,611	70,755	77,366
Changes in proportion and differences between contributions and proportionate share of contributions	51,548	490,705	542,253
Total Deferred Inflows of Resources	<u>58,159</u>	<u>569,080</u>	<u>627,239</u>



STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)**

***Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions – continued***

\$130,363 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 fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2020	(14,111)	120,641	106,530
2021	(486)	21,303	20,817
2022	(7,828)	(137,706)	(145,534)
2023	(2,028)	(72,069)	(74,097)
-	-	-	-
Total	(24,453)	(67,831)	(92,284)

***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 terminations). 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.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)**

***Actuarial Assumptions – SERS – continued***

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120 percent of male rates and 110 percent of female rates used. The RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years is used for the period after disability retirement.

The long-term return expectation for the Pension Plan Investments has been determined by 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 an arithmetic weighted average 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 asset allocation, as used in the June 30, 2015 five-year experience study, is summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** Total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)**

***Actuarial Assumptions – SERS – continued***

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 Academy's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Academy's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$336,038	\$238,565	\$156,842

***Actuarial Assumptions - STRS***

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Projected Payroll Growth	3.00 percent
Cost-of-Living Adjustments	0.00 percent

Post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019

**NOTE 10 – DEFINED BENEFIT PENSION PLANS (continued)**

*Actuarial Assumptions – STRS – continued*

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long Term Expected Real Rate of Return**</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

\*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

\*\*Ten-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

**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 as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net pension liability	\$1,703,977	\$1,166,813	\$712,177

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 11 - DEFINED BENEFIT OPEB PLANS**

***Net OPEB Asset/Liability***

The net OPEB asset/liability reported on the statement of net position represents an asset or liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB asset/liability represents the Academy's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB asset/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 these estimates 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 OPEB are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the asset/liability is solely that of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees, which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB asset/liability. Resulting adjustments to the net OPEB asset/liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB asset/liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *accrued expenses* on the accrual basis of accounting.

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

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)**

***Plan Description - School Employees Retirement System (SERS) – continued***

prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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](http://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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made 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 if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 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. For fiscal year 2019, the Academy's surcharge obligation was \$242.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contractually required contribution to SERS was \$707 for fiscal year 2019.

***Plan Description - State Teachers Retirement System (STRS)***

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered 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 partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary 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. Nearly all health care plan

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)**

***Plan Description - State Teachers Retirement System (STRS) - continued***

enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

***OPEB Assets/Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB***

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB asset/liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net OPEB asset/liability was based on the Academy's share of

contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.00484980%	0.00683555%	
Proportion of the Net OPEB Liability/asset			
Current Measurement Date	<u>0.00419200%</u>	<u>0.00530665%</u>	
Change in Proportionate Share	<u><u>-0.00065780%</u></u>	<u><u>-0.00152890%</u></u>	
Proportionate Share of the Net OPEB			
Liability/(asset)	116,296	(85,273)	31,023
OPEB Expense	2,365	(205,447)	(203,082)

At June 30, 2019, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019

**NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 1,898	\$ 9,960	\$ 11,858
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	2,017	-	2,017
Academy contributions subsequent to the measurement date	<u>707</u>	<u>-</u>	<u>707</u>
Total Deferred Outflows of Resources	<u>\$ 4,622</u>	<u>\$ 9,960</u>	<u>\$ 14,582</u>
	-	-	
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$ -	\$ 4,968	\$ 4,968
Changes of assumptions	10,449	116,190	126,639
Net difference between projected and actual earnings on OPEB plan investments	175	9,743	9,918
Changes in proportion and differences between contributions and proportionate share of contributions	<u>16,176</u>	<u>111,547</u>	<u>127,723</u>
Total Deferred Inflows of Resources	<u>\$ 26,800</u>	<u>\$ 242,448</u>	<u>\$ 269,248</u>

\$707 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:



**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)**

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	(6,097)	(42,146)	(48,243)
2021	(5,442)	(42,146)	(47,588)
2022	(3,375)	(42,148)	(45,523)
2023	(7,516)	(58,098)	(65,614)
2024	(322)	(30,075)	(30,397)
Thereafter	(133)	(17,875)	(18,008)
Total	(22,885)	(232,488)	(255,373)

***Actuarial Assumptions - SERS***

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions used in the valuation are based on results from the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report is dated April 2016. The total OPEB liability used the following assumptions and other inputs:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate	
Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Health Care Cost Trend Rate	
Medicare	5.375 percent - 4.75 percent
Pre-Medicare	7.25 percent - 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The long-term expected rate of return on plan factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a long-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market

STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019

**NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)**

*Actuarial Assumptions – SERS – continued*

assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)**

***Actuarial Assumptions – SERS – continued***

are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Academy's proportionate share of the net OPEB liability	\$141,118	\$116,296	\$96,644

  

	1% Decrease (6.25 % decreasing to 3.75%)	Current Trend Rate (7.25 % decreasing to 4.75%)	1% Increase (8.25 % decreasing to 5.75%)
Academy's proportionate share of the net OPEB liability	\$93,831	\$116,296	\$146,047

***Actuarial Assumptions – STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Health Care Cost Trend Rates	-5.23 percent to 9.62 percent, initial, 4.00 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019

**NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)**

***Actuarial Assumptions – STRS – continued***

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long Term Expected Real Rate of Return**</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u><u>100.00</u></u> %	

\*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

\*\*Ten-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

***Discount Rate*** The discount rate used to measure the total OPEB asset/liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

***Sensitivity of the Academy's Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate*** The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability as of June 30, 2018, calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 11 - DEFINED BENEFIT OPEB PLANS (CONTINUED)**

***Actuarial Assumptions – STRS – continued***

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Academy's proportionate share of the net OPEB asset	\$73,086	\$85,273	\$95,514
	1% Decrease	Current Trend Rate	1% Increase
Academy's proportionate share of the net OPEB asset	\$94,936	\$85,273	\$75,458

**NOTE 12 - CONTINGENCIES**

**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 effect on the overall financial position of the Academy at June 30, 2019.

**Litigation** - There are currently no matters in litigation with the Academy as defendant.

**Full-Time Equivalency** - School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 12 – CONTINGENCIES (continued)**

**Full-Time Equivalency – (continued)**

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the Academy for fiscal year 2019.

As of the date of this report, all ODE adjustments have been completed.

In addition, the School's contract with their Sponsor and management company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2019 have been completed. A reconciliation between payments previously made and FTE adjustments has taken place with these contracts.

**NOTE 13 – BUILDING LEASES**

The Academy entered into a 10-year lease agreement in July 2011 to lease a building from Warren-Elm Facilities, LLC, a wholly owned subsidiary of Mosaica Education, Inc. for the use of the building and grounds as a school facility. In 2015, Accel Schools, LLC assumed the lease as part of its purchase of the assets of Mosaica Education, Inc. Accel Schools is a related party. The lease term ends on June 30, 2021. The initial annual base rent was \$300,000 and has scheduled increases every two years based on the consumer price index. Under the lease agreement, the Academy is responsible for payment of all utilities, repairs and maintenance and property taxes. The building approximates 59,000 square feet.

Rent expense for the year ended June 30, 2019 was \$254,798. On July 1, 2017, the Academy signed a new lease with Global School Properties Ohio, LLC under which future base rent payments to the landlord will be calculated as 12.5% of State Aid (defined as the State base per pupil allocation for each student enrolled on an FTE basis) plus 100% of the Facility Funding received by the Academy from the State of Ohio.

**NOTE 14 - SPONSOR**

The Academy operates a contract with its sponsor, Ohio Department of Education a period of two academic years commencing July of 2015. At the end of fiscal year 2017, the Academy was renewed for an additional three-year period. Effective July 1, 2019 the sponsor transferred its remaining contract for the Academy to St. Aloysius to take over sponsorship of the Academy. 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 2019 was \$51,678.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 15 – MANAGEMENT COMPANY AND MANAGEMENT COMPANY EXPENSES**

The Academy entered into an agreement with Accel Schools, a management company, to provide legal, financial, and other management support services for fiscal year 2019. The agreement was for a period of five years beginning July 1, 2016 through July 1, 2021. Management fees are calculated as 12.5% of the Academy’s State Revenue, plus \$20,000 for managing Federal Funds. The total amount due from the Academy for the fiscal year ending June 30, 2019 was \$235,324 and is included under “Purchased Services” on the Statement of Revenues, Expenses and Changes in Net Position.

Also, per the management agreement there are expenses that will be billed to the Academy based on the actual costs incurred by Accel Schools. These expenses include rent, salaries of Accel employees working in at the Academy and other costs related to providing education and administrative services. The total amount billed to the Academy inclusive of management fees during fiscal year 2019 was \$1,384,738.

The following table is a summary of the management company expenses during fiscal year 2019:

<b>Steam Academy of Warren</b>	<b>Regular Instruction (1100 Function Codes)</b>	<b>Special Instruction (1200 Function Codes)</b>	<b>Support Services (2000 Function Codes)</b>	<b>Total</b>
	1,100	1,200	2,000	
<b><i>Direct Expenses:</i></b>				
Salaries & Wages (100 Object Codes)	729,770	74,211	145,989	949,970
Employees’ Benefits (200 Object Codes)	141,878	9,180	16,710	167,767
Professional & Technical Services (410 Object Codes)			25,360	25,360
Supplies (510 Object Codes)	15,155		6,633	21,788
Other Direct Costs (All Other Object Codes)			4,461	4,461
<b>Total Direct Expenses</b>	<b>886,802</b>	<b>83,391</b>	<b>199,153</b>	<b>1,169,346</b>
<b><i>Indirect Expenses:</i></b>				
Overhead			179,288	179,288
<b>Total Expenses</b>	<b>886,802</b>	<b>83,391</b>	<b>378,441</b>	<b>1,348,634</b>

Accel Schools charges expenses benefiting more than one school (i.e. overhead) are pro-rated based on full time equivalent (FTE) head count as of June 30, 2019 by each school it manages.

**NOTE 16 - IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2019, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 83, Certain Asset Retirement Obligations and GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.

GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Academy.

GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes were incorporated in the School’s fiscal year 2019 financial statements; however, there was no effect on beginning net position.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**NOTE 17 - MANAGEMENT PLAN**

For fiscal year 2019, the Academy had a net position deficit of \$(2,857,514) including the impact of the net pension/OPEB asset/liabilities and related accruals. The Academy's net deficit in fiscal year 2019 improved from the \$(3,125,235) net deficit in fiscal 2018. Enrollment increased in fiscal year 2019 to 210, up from 161 in fiscal year 2018. The Academy's ability to maintain 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.



**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

Required Supplementary Information  
 Schedule of the Academy's Proportionate Share of the Net Pension Liability  
 School Employees Retirement System of Ohio  
 Last Six Fiscal Years (1)

	2019	2018	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.0041655%	0.0051990%	0.0046319%	0.0064343%	0.006446%	0.006446%
Academy's Proportionate Share of the Net Pension Liability	\$ 238,565	\$ 310,629	\$ 339,012	\$ 367,147	\$ 326,228	\$ 383,323
Academy's Covered Payroll	\$ 151,696	\$ 157,964	\$ 190,971	\$ 193,703	\$ 189,206	\$ 113,425
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	157.26%	196.65%	177.52%	189.54%	172.42%	337.95%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

Required Supplementary Information  
 Schedule of the Academy's Proportionate Share of the Net Pension Liability  
 State Teachers Retirement System of Ohio  
 Last Six Fiscal Years (1)

	2019	2018	2017	2016	2015	2014
Academy's Proportion of the Net Pension Liability	0.00530665%	0.00683555%	0.00832938%	0.00648408%	0.00532022%	0.00532022%
Academy's Proportionate Share of the Net Pension Liability	\$ 1,166,813	\$ 1,623,800	\$ 2,788,095	\$ 1,792,010	\$ 1,294,062	\$ 1,541,478
Academy's Covered Payroll	\$ 603,279	\$ 751,486	\$ 726,857	\$ 676,507	\$ 585,392	\$ 527,146
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	193.41%	216.08%	383.58%	264.89%	221.06%	292.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.29%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

Required Supplementary Information  
 Schedule of Academy Contributions - Pension  
 School Employees Retirement System of Ohio  
 Last Eight Fiscal Years (1)

	2019	2018	2017	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 12,542	\$ 20,479	\$ 22,115	\$ 26,736	\$ 25,530	\$ 26,224	\$ 15,698	\$ 11,346
Contributions in Relation to the Contractually Required Contribution	<u>(12,542)</u>	<u>(20,479)</u>	<u>(22,115)</u>	<u>(26,736)</u>	<u>(25,530)</u>	<u>(26,224)</u>	<u>(15,698)</u>	<u>(11,346)</u>
Contribution Deficiency (Excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Academy Covered Payroll	\$ 92,904	\$ 151,696	\$ 157,964	\$ 190,971	\$ 193,703	\$ 189,206	\$ 113,425	\$ 84,357
Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%

(1) Information prior to 2012 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

Required Supplementary Information  
 Schedule of Academy Contributions - Pension  
 State Teachers Retirement System of Ohio  
 Last Eight Fiscal Years (1)

	2019	2018	2017	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 117,821	\$ 84,459	\$ 105,208	\$ 101,760	\$ 94,711	\$ 76,101	\$ 68,529	\$ 65,730
Contributions in Relation to the Contractually Required Contribution	<u>(117,821)</u>	<u>(84,459)</u>	<u>(105,208)</u>	<u>(101,760)</u>	<u>(94,711)</u>	<u>(76,101)</u>	<u>(68,529)</u>	<u>(65,730)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 841,579	\$ 603,279	\$ 751,486	\$ 726,857	\$ 676,507	\$ 585,392	\$ 527,146	\$ 505,615
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%

(1) Information prior to 2012 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

Required Supplementary Information  
 Schedule of the Academy's Proportionate Share of the Net OPEB Liability  
 School Employees Retirement System of Ohio  
 Last Three Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Academy's Proportion of the Net OPEB Liability	0.0041920%	0.0048498%	0.0046987%
Academy's Proportionate Share of the Net OPEB Liability	\$ 116,296	\$ 130,155	\$ 133,930
Academy's Covered Payroll	\$ 151,696	\$ 157,964	\$ 190,971
Academy's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.66%	82.40%	70.13%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

Required Supplementary Information  
 Schedule of the Academy's Proportionate Share of the Net OPEB Asset/Liability  
 State Teachers Retirement System of Ohio  
 Last Three Fiscal Years (1)

	2019	2018	2017
Academy's Proportion of the Net OPEB Liability/Asset	0.00530665%	0.00683555%	0.00832938%
Academy's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (85,273)	\$ 266,698	\$ 445,457
Academy's Covered Payroll	\$ 603,279	\$ 751,486	\$ 726,857
Academy's Proportionate Share of the Net OPEB Liability/Asset as a Percentage of its Covered Payroll	-14.13%	35.49%	61.29%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/Asset	176.00%	47.11%	37.30%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

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

See accompanying notes to the required supplementary information

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

Required Supplementary Information  
 Schedule of Academy Contributions - OPEB  
 School Employees Retirement System of Ohio  
 Last Eight Fiscal Years (1)

	2019	2018	2017	2016	2015	2014	2013	2012
Contractually Required Contribution (2)	\$ 707	\$ 2,872	\$ 3,153	\$ 2,398	\$ 1,588	\$ 1,424	\$ 887	\$ 670
Contributions in Relation to the Contractually Required Contribution	<u>(707)</u>	<u>(2,872)</u>	<u>(3,153)</u>	<u>(2,398)</u>	<u>(1,588)</u>	<u>(1,424)</u>	<u>(887)</u>	<u>(670)</u>
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Academy Covered Payroll	\$ 92,904	\$ 151,696	\$ 157,964	\$ 190,971	\$ 193,703	\$ 189,206	\$ 113,425	\$ 84,357
OPEB Contributions as a Percentage of Covered Payroll (2)	0.76%	1.89%	2.00%	1.26%	0.82%	0.75%	0.78%	0.79%

(1) Information prior to 2012 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

Required Supplementary Information  
 Schedule of Academy Contributions - OPEB  
 State Teachers Retirement System of Ohio  
 Last Eight Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,854	\$ 5,271	\$ 5,056
Contributions in Relation to the Contractually Required Contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,854)</u>	<u>(5,271)</u>	<u>(5,056)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy Covered Payroll	\$ 841,579	\$ 603,279	\$ 751,486	\$ 726,857	\$ 676,507	\$ 585,392	\$ 527,146	\$ 505,615
Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%	1.00%

(1) Information prior to 2012 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information



**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 1 - NET PENSION LIABILITY**

***Changes in Assumptions - SERS***

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

***Changes in Benefit Terms - SERS***

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

***Changes in Assumptions – STRS***

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

***Changes in Benefit Terms - STRS***

For fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 2 - NET OPEB LIABILITY**

***Changes in Assumptions – SERS***

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 3.56 percent to 3.62 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 3.63 percent to 3.70 percent. The health care cost trend assumptions changed as follows:

Pre-Medicare

Fiscal year 2018 7.50 percent initially, decreasing to 4.00 percent

Fiscal year 2019 7.25 percent initially, decreasing to 4.75 percent

Medicare

Fiscal year 2018 5.50 percent initially, decreasing to 5.00 percent

Fiscal year 2019 5.375 percent initially, decreasing to 4.75 percent

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 2.92 percent to 3.56 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 2.98 percent to 3.63 percent.

***Changes in Benefit Terms - SERS***

There have been no changes to the benefit provisions.

***Changes in Assumptions – STRS***

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent. Valuation year per capita health care costs were updated. Health care cost trend rates ranged from 6.00 percent to 11 percent initially and a 4.50 percent ultimate rate for fiscal year 2018 and changed for fiscal year 2019 to a range of -5.20 percent to 9.60 percent, initially and a 4.00 ultimate rate.

For fiscal year 2018, the blended discount rate was increased from 3.26 percent to 4.13 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

**STEAM ACADEMY OF WARREN - TRUMBULL COUNTY, OHIO**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**NOTE 2 - NET OPEB LIABILITY (Continued)**

***Changes in Benefit Terms – STRS***

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

For fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. This was subsequently extended, see above paragraph.

December 22, 2019

To the Board of Directors  
STEAM Academy of Warren  
Trumbull County, Ohio  
261 Elm Road NE  
Warren, Ohio 44483

**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 Warren, Trumbull County, Ohio (the "Academy") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 22, 2019, in which we the Academy has suffered recurring losses from operations and has a net position deficit of \$2,857,514, including the net effect of net pension liability, net OPEB asset/liability and related accruals totaling \$1,652,988, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Purpose of this Report**

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

*Rea & Associates, Inc.*

Cambridge, Ohio

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# OHIO AUDITOR OF STATE KEITH FABER



**STEAM ACADEMY OF WARREN**

**TRUMBULL 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  
FEBRUARY, 4 2020**