



Dave Yost • Auditor of State

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Valley STEM + ME2 Academy
Mahoning County
7320 North Palmyra Road
Canfield, Ohio 44406

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Valley STEM + ME2 Academy, Mahoning County, Ohio (the "Academy"), as of and for the year ended June 30, 2017, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Valley STEM + ME2 Academy, Mahoning County as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

January 31, 2018

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

The management's discussion and analysis of the Valley STEM + ME2 Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- The Academy began operations on August 22, 2016.
- Net position at June 30, 2017 was \$10,191.
- The Academy had total revenues of \$839,925, including operating revenues of \$664,876 and non-operating revenues of \$175,049; these revenues supported operating expenses of \$829,734 during fiscal year 2017.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

Reporting the Academy Financial Activities

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

These documents look at all financial transactions and ask the question, "How did the Academy perform financially during 2017?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in net position. 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 causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report. The statement of cash flows can be found on page 9.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 11-17 of this report.

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The table below provides a summary of the Academy's net position at June 30, 2017.

Net Position

	<u>2017</u>
<u>Assets</u>	
Current assets	\$ 22,380
<u>Liabilities</u>	
Current liabilities	12,189
<u>Net position</u>	
Restricted	88
Unrestricted	<u>10,103</u>
Total net position	<u>\$ 10,191</u>

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2017, the Academy's assets exceeded liabilities by \$10,191. Of this total, \$88 is restricted in use.

Assets

Current assets consist primarily of prepayments and intergovernmental receivables. The intergovernmental receivables consisted of a refund from the Mahoning County ESC and adjustments from the state foundation funding.

Liabilities

Current liabilities consist primarily of amounts due to other governments and accounts payable. There were no long-term liabilities at end of fiscal year 2017.

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**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

The following table shows the change in net position for fiscal year 2017.

Change in Net Position

	2017
<u>Operating revenues:</u>	
State Foundation	\$ 664,761
Sales/charges for services	115
Total operating revenues	664,876
<u>Operating expenses:</u>	
Purchased services	809,185
Materials and supplies	10,796
Other	9,753
Total operating expenses	829,734
<u>Non-operating revenues:</u>	
Contributions and donations	175,049
Total non-operating revenues	175,049
Change in net position	10,191
Net position at the beginning of the year	-
Net position at the end of the year	\$ 10,191

As the preceding table illustrates, the Academy's primary source of revenue is state foundation revenue. State foundation revenue is based on Full Time Equivalent (FTE) students reported by the Academy.

The main component of expenses for the Academy is purchased services, which accounted for 97.52% of all expenses in fiscal year 2017. Purchased services expense consists primarily of Mahoning County Career and Technical Center (MCCTC) employees who are contracted by the Academy to educate students and facility, equipment, and classroom rental charges paid to the MCCTC.

Non-operating revenue consists primarily of an in-kind donation from the MCCTC. The difference between the amount paid by the Academy for the rental of classroom space at the MCCTC facility and the standard market rate for the same space is reported as contribution and donation revenue and a like amount as purchased service expense.

Current Issues

The Academy receives approximately 99.98% of its operating revenues from the Ohio Department of Education in the form of State Foundation revenues. Thus, the Academy is heavily reliant on the State funding formula in its ability to continue to provide quality educational services to its students.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, 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 questions about this report or need additional financial information contact: Mr. Blaise Karlovic, Treasurer, Mahoning County Educational Service Center, 7320 North Palmyra Road, Canfield, Ohio 44406.

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**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2017

Assets:	
Current assets:	
Cash and cash equivalents	\$ 12,648
Receivables:	
Intergovernmental.	8,639
Prepayments	<u>1,093</u>
Total assets.	<u>22,380</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	250
Intergovernmental payable	<u>11,939</u>
Total liabilities	<u>12,189</u>
 Net position:	
Restricted for:	
Restricted for other purposes.	88
Unrestricted.	<u>10,103</u>
Total net position.	<u>\$ 10,191</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
Foundation revenue	\$ 664,761
Sales/charges for services.	115
	664,876
Total operating revenues	
Operating expenses:	
Purchased services.	809,185
Materials and supplies	10,796
Other.	9,753
	829,734
Total operating expenses.	829,734
Operating loss	(164,858)
Non-operating revenues:	
Contributions and donations	175,049
	175,049
Change in net position	10,191
Net position at beginning of year	-
Net position at end of year	\$ 10,191

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Cash received from state foundation	\$ 664,627
Cash received from sales/charges for services.	115
Cash payments for purchased services	(630,744)
Cash payments for materials and supplies	(10,554)
Cash payments for other expenses	(10,846)
	12,598
Cash flows from noncapital financing activities:	
Cash received from contributions and donations	50
	50
Net cash provided by noncapital financing activities.	50
Net increase in cash and cash equivalents	12,648
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	\$ 12,648
	12,648
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (164,858)
Adjustments:	
In-kind contributions	174,999
Changes in assets and liabilities:	
(Increase) in intergovernmental receivable	(8,639)
(Increase) in prepayments	(1,093)
Increase in accounts payable.	250
Increase in intergovernmental payable	11,939
	11,939
Net cash provided by operating activities	\$ 12,598
	12,598

Noncash transactions:

During fiscal year 2017, the Academy received in-kind contributions related to rent in the amount of \$174,999.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

The Valley STEM + ME2 Academy (the “Academy”) is a legally separate nonprofit corporation operating under the direction of a five-member Governing Board and meets the definition of a science, technology, engineering, and math (STEM) Academy under chapter 3326 of the Ohio Revised Code. The Academy began operations on August 22, 2016. The Academy is a small, intellectual public STEM Academy option that maximizes individual potential and ensures students are well-equipped to meet the challenges in the world around them. For its inaugural year, the Academy was open to ninth grade students throughout Mahoning county and will serve students in grades nine through twelve in future years. All students engage in a personally relevant and academically rigorous curriculum and are prepared for college and 21st century careers within a safe and trusting environment, through powerful teaching and problem-based interdisciplinary learning.

The Academy’s Governing Board advises and assists the Academy staff on curriculum, Academy evaluation and research, professional development, funding and community relations. Five members serve on the Governing Board.

The Mahoning County Educational Service Center serves as the Academy’s fiscal agent (See Note 6.A).

Reporting Entity:

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Academy. For the Academy, this includes instructional activities of the Academy.

Component units are legally separate organizations for which the Academy is financially accountable. The Academy is financially accountable for an organization if the Academy appoints a voting majority of the organization’s Governing Board and (1) the Academy is able to significantly influence the programs or services performed or provided by the organization; or (2) the Academy is legally entitled to or can otherwise access the organization’s resources; or (3) the Academy is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Academy is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Academy in that the Academy approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government’s financial statements incomplete or misleading.

Based upon the application of these criteria, the Academy has no component units. The basic financial statements of the reporting entity include only those of the Academy (the primary government).

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where it has been decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a "flow of economic resources" measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position.

C. Basis of Accounting

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

D. Budgetary Process

Unlike other public schools located in the State of Ohio, STEM Academies are not required to follow budgetary the provisions set forth in Ohio Revised Code Chapter 5705. Ohio Revised Code 5705.391 does require the Academy to prepare a five-year projection.

E. Cash and Cash Equivalents

Cash received by the Academy is reflected as "cash and cash equivalents" on the statement of net position. The Academy had no investments during the fiscal year ended June 30, 2017.

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2017 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

G. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes represents amounts restricted by local donations and contributions for student activities.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The amount of these grants is directly related to the number of students enrolled in the Academy. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which State foundation funding is calculated.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the financial statements. The Academy had no long-term obligations at June 30, 2017.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary cost 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.

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. The Academy had neither transaction for fiscal year 2017.

NOTE 3 - DEPOSITS

At June 30, 2017, the carrying amount of Academy's deposits was \$12,648. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, the entire bank balance of \$38,016 was covered by the Federal Deposit Insurance Corporation (FDIC).

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consist of intergovernmental revenues from ODE and a refund from the Mahoning County Educational Service Center. All receivables are considered collectible in full and are expected to be collected within the subsequent year. The intergovernmental receivable is comprised as follows:

State Foundation Program	\$ 134
Refund from Mahoning County Educational Service Center	<u>8,505</u>
	<u>\$ 8,639</u>

NOTE 5 - PURCHASED SERVICES

For fiscal year ended June 30, 2017, purchased services expenses were as follows:

Professional and technical services	\$ 467,086
Property services	334,699
Communications	<u>7,400</u>
Total	<u>\$ 809,185</u>

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 6 - SERVICE AGREEMENTS

A. Mahoning County Educational Service Center

The Academy entered into a fiscal agent agreement with the Mahoning County Educational Service Center (ESC) for the period September 1, 2015 through August 31, 2018, to provide the following services:

- The Treasurer of the ESC will act as the Treasurer of the Academy.
- The ESC will oversee, manage, and expend Academy funds for approved purchases as requested and directed by the Academy.
- Perform all accounting and related accounting management procedures for the Academy.

The Academy paid the ESC \$33,234 during fiscal year 2017 for fiscal agent services.

B. Mahoning County Career and Technical Center

The Academy entered into an administrative agent agreement with the Mahoning County Career and Technical Center (MCCTC) for the period March 1, 2016 through August 31, 2018, to provide the following services:

- The MCCTC will direct certain administrative and teaching staff of the MCCTC, as part of their job duties, to serve the Academy.
- The MCCTC administrators and teachers will diligently undertake, perform, and complete any and all job duties, tasks, obligations, and responsibilities required of STEM school administrators and teachers.

The Academy paid the MCCTC \$362,761 during fiscal year 2017 for these and other services.

C. Area Cooperative Computerized Educational Service System (ACCESS)

The Academy entered into an agreement for managed internal broadband services and wireless products for the period July 1, 2016 through June 30, 2017. Services under this agreement include:

- Managed internal broadband services
- Management of ACCESS owned and Academy-owned wireless access points.

The Academy paid ACCESS \$2,876 during fiscal year 2017 for these services.

NOTE 7 - CONTINGENCIES

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. 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, 2017.

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 7 - CONTINGENCIES - (Continued)

B. State Foundation Funding

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.

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 performed such a review on the Academy for fiscal year 2017.

As of the date of this report, final ODE adjustments for fiscal year 2017 have been finalized. The Academy's adjustments were not significant and did not have an impact on the fiscal year 2017 financial statements.

C. Litigation

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements at June 30, 2017.

NOTE 8 - OPERATING LEASE

On March 1, 2016, the Mahoning County Educational Service Center (the "Lessee") entered into a classroom space lease agreement (the "Master Lease Agreement") with the Mahoning County Career and Technical Service Center (the "Lessor") to provide adult computer labs and space for use by the Academy. The terms of the Master Lease Agreement commenced March 1, 2016 and terminate June 30, 2021. The Lessee shall pay the Lessor one dollar per year in rent in accordance with the Master Lease Agreement. The Mahoning County ESC (the "Sublessor") then entered into a sublease agreement with the Academy (the "Sublessee") to grant the Sublessee the privileges enjoyed by the Lessee in accordance with the Master Lease Agreement. The Sublessee agrees to be subject to all the term and conditions contained in the Master Lease Agreement. The Sublessee share pay the Sublessor an annual rent payment of one dollar in accordance with the sublease agreement. The Academy has reported an in-kind contribution in the amount of \$174,499 equal to the difference between the actual rent payments made and the standard market rate rent of the leased space.

**VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 9 - 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 ending June 30, 2017, the Academy contracted through the Ohio School Plan for the following coverage amounts:

General Liability:		
Per Occurrence	\$	2,000,000
Annual Aggregate	\$	4,000,000
Employer's Liability	\$	2,000,000
Fiduciary Liability:		
Per Occurrence	\$	2,000,000
Annual Aggregate	\$	4,000,000
Educational Legal Liability:		
Per Occurrence	\$	2,000,000
Annual Aggregate	\$	4,000,000
Auto Liability	\$	2,000,000
Cyber Policy	\$	1,000,000
Violence Coverage	\$	1,000,000

Settled claims did not exceeded this commercial coverage in fiscal year 2017.

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Dave Yost • Auditor of State

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

Valley Stem + ME2 Academy
Mahoning County
7320 North Palmyra Road
Canfield, Ohio 44406

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Valley Stem + ME2 Academy, Mahoning County, (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 31, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Academy's Response to Finding

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

January 31, 2018

VALLEY STEM + ME2 ACADEMY
MAHONING COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2017

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

FINDING NUMBER 2017-001

Noncompliance/Material Weakness

Ohio Rev. Code § 3313.672 specifies documentation that must be provided in the enrollment process, which includes, but is not limited to, the birth certificate and proof of residency. Proof of residency is also needed to establish where a student is entitled to attend school under **Ohio Rev. Code §§ 3313.64 and 3313.65**.

Ohio Admin. Rule 3301-69-02(B)(2) lists eight reasons for absences to be excused and the school must determine by contact with the parent or guardian if the reason for absence is one of the eight listed. If the reason for absence is not one of the eight, the student must be marked unexcused for that day. Written documentation is required for excused absences and should be dated and collected in a timely fashion. **Ohio Rev. Code § 2151.011(B)(22)** provides an additional list of legitimate excuses authorized as *excused* absences. Excuses for "excused" absences should be available in the school office and with the class list for each attendance teacher. This includes notes from home, phone logs, suspension notices, and other relevant documents. All excuses from parents, and other documents, regardless of format or condition, become official attendance records. **Ohio Rev. Code § 3317.031** requires the membership record to be kept intact for at least five years and shall be made available to the State Board of Education or its representative in making an audit of the average daily membership or the transportation of the district. Academy policy 4201, "Attendance, Absence & Truancy" states, in part, that if the student is absent or will be absent for one of the above reasons, the student must provide a written note upon returning/prior to leaving the School or the absence will be considered unexcused.

Testing revealed the following:

- Five out of 10 students did not have proof of residency information;
- Three out of 10 students did not have a birth certificate on file;
- One out of 10 students did not have a checklist showing the required documents to be included in the file; and
- Five out of 10 students did not have proper supporting documentation for absences during the school year.

The Ohio Department of Education (ODE) performed a full-time equivalency (FTE) review and the results were as follows:

- 11 out of 32 students did not have birth certificates; and
- Seven out of 32 students did not have proof of residency information.

**FINDING NUMBER 2017-001
(Continued)**

While the Academy is a new school, all students are required at the time of enrollment to provide proof of residency for the State of Ohio and also to provide a valid birth certificate or other form of acceptable documentation. These situations could lead to the Academy reporting a higher FTE within EMIS for certain students and receiving more funding than entitled which could result in the Academy repaying monies to the State. These are the result of the Academy not reviewing the Ohio Revised Code Sections identified above and not following their own policy.

At the end of the school year, the Academy attempted to contact parents and obtain documentation proving residency and sent letters to parents to obtain birth certificates and other missing student file information. This resulted in the receipt of proof of residency documentation for four of the five students identified above.

The Academy should review student folders and assure the required information is included. In addition, the Academy should assure absences are properly documented and supported and included in the student's file.

Officials' Response

In response to the audit pages 21-22, Valley STEM has already worked to resolve these issues based on feedback from Ohio Department of Education regarding enrollment and paperwork for STEM designated schools. When students are enrolling, we now have strict parameters for collecting paperwork, as well as timelines.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Valley STEM + ME2 Academy
Mahoning County
7300 North Palmyra Road
Canfield, Ohio 44406

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Valley STEM + ME2 Academy (the "Academy") has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666 for the period ended June 30, 2017. Management is responsible for complying with this requirement. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We inspected the Board minutes and observed that the Board adopted an anti-harassment policy at its meeting on April 4, 2017.

2. We read the policy, observing that it included the following requirements from Ohio Rev. Code Section 3313.666(B):

1. A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
2. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
3. A procedure for reporting prohibited incidents;
4. A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
5. A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
6. A procedure for documenting any prohibited incident that is reported;

7. A procedure for responding to and investigating any reported incident;
8. A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
9. A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
10. A requirement that the Academy administration semiannually provide the president of the Academy board a written summary of all reported incidents and post the summary on its web site, if the Academy has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.
11. A requirement prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act";
12. A requirement to include violence within a dating relationship within its definition of harassment, intimidation or bullying.
13. A requirement to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act";

This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable attestation engagement standards included in the Comptroller General of the United States' *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is to provide assistance in the evaluation of whether Valley STEM + ME2 Academy (the "Academy") has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. and should not be used by anyone other than these specified parties.



Dave Yost
Auditor of State

January 31, 2018



Dave Yost • Auditor of State

VALLEY STEM+ME2 ACADEMY

MAHONING COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 6, 2018