

VALLEY STEM + ME2 ACADEMY

MAHONING COUNTY, OHIO

AUDIT REPORT

For the Year Ended June 30, 2019





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Board of Directors
Valley STEM + ME2 Academy
7320 North Palmyra Road
Canfield, Ohio 44406

We have reviewed the *Independent Auditor's Report* of the Valley STEM + ME2 Academy, Mahoning County, prepared by Charles E. Harris & 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 Valley STEM + ME2 Academy is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

February 6, 2020

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**VALLEY STEM + ME ACADEMY
MAHONING COUNTY
AUDIT REPORT
For the Year Ended June 30, 2019**

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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, 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 Valley STEM + ME2 Academy, Mahoning County, Ohio, as of June 30, 2019, and the respective changes in financial position and cash flows thereof 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 that the management's discussion and analysis, 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 5, 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.



Charles E. Harris & Associates, Inc.
December 5, 2019

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(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, 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 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 2019 are as follows:

- Net position at June 30, 2019 was \$273,291, which represents an increase of \$51,587 from fiscal year 2018.
- The Academy had total revenues of \$1,891,751, including operating revenues of \$1,595,321 and non-operating revenues of \$296,430; these revenues supported operating expenses of \$1,840,164 during fiscal year 2019.

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 2019?" 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, 2019
(UNAUDITED)

The table below provides a summary of the Academy's net position at June 30, 2019 and 2018.

Net Position		
	2019	2018
<u>Assets</u>		
Current assets	\$ 246,080	\$ 222,673
Capital assets, net	34,436	14,742
Total assets	280,516	237,415
<u>Liabilities</u>		
Current liabilities	7,225	15,711
<u>Net position</u>		
Investment in capital assets	34,436	14,742
Restricted	11,987	29,936
Unrestricted	226,868	177,026
Total net position	\$ 273,291	\$ 221,704

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2019, the Academy's assets exceeded liabilities by \$273,291. Of this total, \$11,987 is restricted in use.

Assets

Current assets consist primarily of cash. Cash balances increased as revenues exceeded expenses in fiscal year 2019.

Liabilities

Current liabilities consist of amounts due to other governments. There were no long-term liabilities at end of fiscal year 2019.

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

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

The following table shows the changes in net position for fiscal year 2019 and 2018.

Change in Net Position

	2019	2018
<u>Operating revenues:</u>		
State Foundation	\$ 1,588,574	\$ 1,613,998
Tuition and fees	1,650	-
Sales/charges for services	5,097	6,076
Total operating revenues	1,595,321	1,620,074
<u>Operating expenses:</u>		
Purchased services	1,713,483	1,584,431
Materials and supplies	108,440	127,325
Other	12,412	17,233
Depreciation	5,829	1,638
Total operating expenses	1,840,164	1,730,627
<u>Non-operating revenues:</u>		
Grants and subsidies	114,068	106,617
Interest earnings	2,173	290
Contributions and donations	180,189	215,159
Total non-operating revenues	296,430	322,066
Change in net position	51,587	211,513
Net position at the beginning of the year	221,704	10,191
Net position at the end of the year	\$ 273,291	\$ 221,704

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 93.12% of all expenses in fiscal year 2019. 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. Grants and subsidies revenues are provided by the federal government. The Academy receives federal funding for the following programs: Improving Basic Programs, Supporting Effective Instruction, Student Support and Academic Enrichment, and Special Education.

Capital Assets

At June 30, 2019, the Academy had \$34,436 invested in furniture, fixtures and equipment. See Note 9 to the basic financial statements for more detail on capital assets.

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

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

Current Issues

The Academy receives approximately 99.58% 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: Sandy Huddleston, Deputy Treasurer, Mahoning County Educational Service Center, 7320 North Palmyra Road, Canfield, Ohio 44406.

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

STATEMENT OF NET POSITION
JUNE 30, 2019

Assets:	
Current assets:	
Cash	\$ 245,095
Prepayments	985
Total current assets	246,080
Non-current assets:	
Depreciable capital assets, net	34,436
Total non-current assets.	34,436
Total assets.	280,516
 Liabilities:	
Current liabilities:	
Intergovernmental payable	7,225
Total liabilities	7,225
 Net position:	
Investment in capital assets.	34,436
Restricted for:	
Restricted for state programs.	1,746
Restricted for other purposes.	10,241
Unrestricted.	226,868
Total net position.	\$ 273,291

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, 2019

Operating revenues:	
Foundation revenue	\$ 1,588,574
Tuition and fees.	1,650
Sales/charges for services.	<u>5,097</u>
Total operating revenues	<u>1,595,321</u>
Operating expenses:	
Purchased services.	1,713,483
Materials and supplies	108,440
Other.	12,412
Depreciation	<u>5,829</u>
Total operating expenses.	<u>1,840,164</u>
Operating loss	(244,843)
Non-operating revenues:	
Grants and subsidies.	114,068
Interest revenue	2,173
Contributions and donations	<u>180,189</u>
Total nonoperating revenues	<u>296,430</u>
Change in net position	51,587
Net position at beginning of year	<u>221,704</u>
Net position at end of year	<u><u>\$ 273,291</u></u>

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, 2019

Cash flows from operating activities:	
Cash received from state foundation	\$ 1,590,509
Cash received from tuition and fees	1,650
Cash received from sales/charges for services.	5,097
Cash payments for purchased services	(1,549,768)
Cash payments for materials and supplies	(108,440)
Cash payments for other expenses	(11,254)
	(72,206)
Cash flows from noncapital financing activities:	
Cash received from contributions and donations	5,190
Cash received from grants	131,490
	136,680
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(25,523)
	(25,523)
Cash flows from investing activities:	
Interest received	2,173
	2,173
Net increase in cash	41,124
Cash at beginning of year	203,971
Cash at end of year	\$ 245,095
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (244,843)
Adjustments:	
Depreciation	5,829
In-kind contributions	180,189
Changes in assets and liabilities:	
(Increase) in intergovernmental receivable	(5,003)
Decrease in prepayments	108
(Decrease) in intergovernmental payable	(8,486)
	(72,206)
Net cash used in operating activities	\$ (72,206)

Noncash transactions:

During fiscal year 2019, the Academy received in-kind contributions related to rent in the amount of \$180,189.

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, 2019

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, 2019**

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, 2019.

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

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

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

F. Prepayments

Payments made to vendors for services that will benefit periods beyond June 30, 2019 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. Net position restricted for state and federal programs represents amounts restricted by the state and federal government, respectively.

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 Basic Aid, Public School Connectivity, Special Education grant, Improving Basic Programs grant, Supporting Effective Instruction grant, and Student Support and Academic Enrichment grant. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year. Federal and State grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

Intergovernmental revenues associated with the Foundation Program Basic Aid totaled \$1,588,574 and those associated with federal and state grants totaled \$114,068 during fiscal year 2019.

The amount of State Foundation 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, 2019.

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.

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

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

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

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.

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 2019.

M. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The Academy maintains a capitalization threshold of \$5,000. The Academy does not possess any infrastructure. Improvements are capitalized; however, 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.

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5 years

NOTE 3 - DEPOSITS

At June 30, 2019, the carrying amount of all Academy deposits was \$245,095 and the bank balance of all Academy deposits was \$245,715. The entire bank balance was covered by the FDIC. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Academy to a successful claim by the FDIC. There are no significant statutory restrictions regarding the deposit and investments of funds by the Academy.

NOTE 4 - PURCHASED SERVICES

For fiscal year ended June 30, 2019, purchased services expenses were as follows:

Professional and technical services	\$ 1,336,804
Property services	334,700
Communications	<u>41,979</u>
Total	<u>\$ 1,713,483</u>

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

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

NOTE 5 - 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, 2018 through August 31, 2021, 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 \$79,516 during fiscal year 2019 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 September 1, 2018 through August 31, 2020, 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 \$1,065,536 during fiscal year 2019 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, 2018 through June 30, 2019. Services under this agreement include:

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

The Academy paid ACCESS \$15,939 during fiscal year 2019 for these services.

NOTE 6 - 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, 2019.

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

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

NOTE 6 – 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 an 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 2019.

As of the date of this report, final ODE adjustments for fiscal year 2019 have been finalized. The Academy's adjustments were not significant and did not have an impact on the fiscal year 2019 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, 2019.

NOTE 7 - 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 \$180,189 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, 2019

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 ending June 30, 2019, 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 any of the past three years and there has not been a significant reduction in coverage from the prior year.

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance			Balance
	<u>06/30/18</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/19</u>
<i>Capital assets, being depreciated:</i>				
Furniture, fixtures and equipment	\$ 16,380	\$ 25,523	\$ -	\$ 41,903
Total capital assets, being depreciated	<u>16,380</u>	<u>25,523</u>	<u>-</u>	<u>41,903</u>
<i>Less: accumulated depreciation</i>				
Furniture, fixtures and equipment	<u>(1,638)</u>	<u>(5,829)</u>	<u>-</u>	<u>(7,467)</u>
Total accumulated depreciation	<u>(1,638)</u>	<u>(5,829)</u>	<u>-</u>	<u>(7,467)</u>
Capital assets, net	<u>\$ 14,742</u>	<u>\$ 19,694</u>	<u>\$ -</u>	<u>\$ 34,436</u>

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

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

To the Board of Directors:

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 Valley STEM + ME2 Academy, Mahoning 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 5, 2019.

Internal Control Over Financial Reporting

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

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

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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
December 5, 2019

OHIO AUDITOR OF STATE KEITH FABER



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
FEBRUARY 18, 2020**