



Dave Yost • Auditor of State



**iSTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

iSTEM Geauga Early College High School  
Lake County  
8140 Auburn Road  
Concord Township, Ohio 44077

To the Governing Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the iSTEM Geauga Early College High School, Lake County, Ohio (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School'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 School'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 School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the iSTEM Geauga Early College High School, Lake County, Ohio, as of June 30, 2016, and its 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 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 May 4, 2017, on our consideration of the School'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 School's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 4, 2017

**iSTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
UNAUDITED**

The management's discussion and analysis of the iSTEM Geauga Early College High School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School'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 School's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2016 are as follows:

- The School began operations on August 12, 2015.
- Net position at June 30, 2016 was \$2,860,183, including unrestricted net position deficit of \$53,275.
- The School had total revenues of \$306,088, including operating revenues of \$299,869 and non-operating revenues of \$6,219; these revenues supported operating expenses of \$1,112,063 during fiscal year 2016.
- The School reported a special item in the amount of \$3,666,158 (see Note 2.M to the notes to the basic financial statements for detail).

**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 School'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 School, including all short-term and long-term financial resources and obligations. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations.

**Reporting the School 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 School perform financially during 2016?" 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 School's net position and changes in net position. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School 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 10-17 of this report.

**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
UNAUDITED**

The table below provides a summary of the School's net position at June 30, 2016.

**Net Position**

|                                  | <u>2016</u>         |
|----------------------------------|---------------------|
| <b><u>Assets</u></b>             |                     |
| Current assets                   | \$ 1,167,885        |
| Capital assets, net              | <u>1,849,592</u>    |
| Total assets                     | <u>3,017,477</u>    |
| <b><u>Liabilities</u></b>        |                     |
| Current liabilities              | <u>157,294</u>      |
| Total liabilities                | <u>157,294</u>      |
| <b><u>Net position</u></b>       |                     |
| Net investment in capital assets | 1,849,592           |
| Restricted                       | 1,063,866           |
| Unrestricted (deficit)           | <u>(53,275)</u>     |
| Total net position               | <u>\$ 2,860,183</u> |

Over time, net position can serve as a useful indicator of an entity's financial position. At June 30, 2016, the School's assets exceeded liabilities by \$2,860,183. Of this total, \$1,063,866 is restricted in use.

**Assets**

Current assets consist primarily of prepayments and intergovernmental grants receivable. The intergovernmental receivables consisted of Straight A grants and adjustments from the state foundation funding. The School's capital assets consisted of building improvements and furniture, fixtures, and equipment at June 30, 2016. Capital assets are used to provide services to the students and are not available for future spending, therefore the School's net investment in capital assets is presented as a separate component of net position.

**Liabilities**

Current liabilities consist primarily of amounts due to other governments, accounts payable, and loans payable. The loans payable consisted of a loan from the fiscal agent to cover operations in the School's inaugural year. There were no long-term liabilities at end of fiscal year 2016.



**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
UNAUDITED

The following table shows the changes in net position for fiscal years 2016.

**Change in Net Position**

|   | 2016         |
|---|--------------|
| <b><u>Operating revenues:</u></b>                   |              |
| State Foundation                                    | \$ 294,219   |
| Tuition and fees                                    | 5,650        |
| Total operating revenues                            | 299,869      |
| <b><u>Operating expenses:</u></b>                   |              |
| Purchased services                                  | 759,677      |
| Materials and supplies                              | 317          |
| Other   | 739          |
| Depreciation  | 351,330      |
| Total operating expenses                            | 1,112,063    |
| <b><u>Non-operating revenues:</u></b>               |              |
| Federal and State grants                            | 1,095        |
| Contributions and donations                         | 5,124        |
| Total non-operating revenues                        | 6,219        |
| Loss before special item                            | (805,975)    |
| Special item - transfer of assets from fiscal agent | 3,666,158    |
| Change in net position                              | 2,860,183    |
| Net position at the beginning of the year           | -            |
| Net position at the end of the year                 | \$ 2,860,183 |

As the preceding table illustrates, the School's primary source of revenue is state foundation revenue, which is allocated to schools throughout the state based on Full Time Equivalent (FTE) students reported by the schools. The School's FTE was 42 in fiscal year 2016. The other major sources of revenue are federal and state grants and contributions and donations.

The main component of expenses for the School is purchased services, which accounted for 68.31% of all expenses in fiscal year 2016. These expenses consist primarily of salaries and wages paid to teachers and administrators for the operation of the School.

**Capital Assets**

At June 30, 2016, the School's capital assets consisted of furniture, fixtures and equipment and buildings and improvements in the amount of \$1,849,592 (net of accumulated depreciation). Included in the special item was an amount of \$1,871,325 in capital assets purchased on behalf of the School by the Geauga County Educational Service Center (fiscal agent) during fiscal year 2015 and were transferred to the School during fiscal year 2016. Other additions to capital assets in fiscal year 2016 were \$329,597. The School recognized \$351,330 in depreciation expense in 2016. Refer to Note 4 in the notes to the basic financial statements for more detail on the School's capital assets.

**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
UNAUDITED**

**Current Issues**

The School receives approximately 98.12 of its operating revenues from the Ohio Department of Education in the form of State Foundation revenues. Thus, the School is heavily reliant on the State funding formula in its ability to continue to provide quality educational services to its students. The School's allocation for fiscal year 2017 is approximately \$700,000.

**Contacting the School's Financial Management**

This financial report is designed to provide our citizens, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Sue Sotkovsky, Treasurer of the Geauga County Educational Service Center, at 470 Center Street, Building #2, Chardon, Ohio 44024-1068 or call 440-279-1700.

**BASIC  
FINANCIAL STATEMENTS**

**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2016

|   |                     |
|---|---------------------|
| <b>Assets:</b>                            |                     |
| Current assets:                           |                     |
| Receivables:                              |                     |
| Intergovernmental . . . . .               | \$ 212,206          |
| Prepayments. . . . .                      | <u>955,679</u>      |
| Total current assets . . . . .            | <u>1,167,885</u>    |
| Non-current assets:                       |                     |
| Depreciable capital assets, net. . . . .  | <u>1,849,592</u>    |
| Total assets. . . . .                     | <u>3,017,477</u>    |
| <b>Liabilities:</b>                       |                     |
| Current liabilities:                      |                     |
| Accounts payable . . . . .                | 1,365               |
| Loan payable . . . . .                    | 111,709             |
| Intergovernmental payable. . . . .        | <u>44,220</u>       |
| Total liabilities . . . . .               | <u>157,294</u>      |
| <b>Net position:</b>                      |                     |
| Net investment in capital assets. . . . . | 1,849,592           |
| Restricted for:                           |                     |
| Restricted for state programs . . . . .   | 1,063,866           |
| Unrestricted . . . . .                    | <u>(53,275)</u>     |
| Total net position . . . . .              | <u>\$ 2,860,183</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

|   |                     |
|---|---------------------|
| <b>Operating revenues:</b>                              |                     |
| State foundation . . . . .                              | \$ 294,219          |
| Classroom materials and fees . . . . .                  | 5,650               |
| Total operating revenues. . . . .                       | 299,869             |
| <br><b>Operating expenses:</b>                          |                     |
| Purchased services. . . . .                             | 759,677             |
| Materials and supplies. . . . .                         | 317                 |
| Other. . . . .  | 739                 |
| Depreciation. . . . .                                   | 351,330             |
| Total operating expenses. . . . .                       | 1,112,063           |
| Operating loss . . . . .                                | (812,194)           |
| <br><b>Non-operating revenues:</b>                      |                     |
| Federal and State grants . . . . .                      | 1,095               |
| Contributions and donations. . . . .                    | 5,124               |
| Total nonoperating revenues . . . . .                   | 6,219               |
| Loss before special item . . . . .                      | (805,975)           |
| Special item - transfer of assets from fiscal agent . . | 3,666,158           |
| Change in net position . . . . .                        | 2,860,183           |
| <b>Net position at beginning of year. . . . .</b>       | -                   |
| <b>Net position at end of year . . . . .</b>            | <b>\$ 2,860,183</b> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

|   |              |
|---|--------------|
| <b>Cash flows from operating activities:</b>                                      |              |
| Cash received from State Foundation . . . . .                                     | \$ 277,834   |
| Cash received from classroom materials and fees . . . . .                         | 5,650        |
| Cash payments for purchased services. . . . .                                     | (457,052)    |
| Cash payments for materials and supplies . . . . .                                | (317)        |
| Cash payments for other expenses . . . . .  | (1,874)      |
|   | (175,759)    |
| <b>Cash flows from noncapital financing activities:</b>                           |              |
| Cash received from Federal and State grants. . . . .                              | 1,095        |
| Cash received from fiscal agent - State grants . . . . .                          | 387,428      |
| Cash received from contributions and donations. . . . .                           | 5,124        |
| Loan from fiscal agent . . . . .  | 111,709      |
|   | 505,356      |
| <b>Cash flows from capital and related financing activities:</b>                  |              |
| Acquisition of capital assets . . . . .   | (329,597)    |
|   | (329,597)    |
| Net cash provided by capital and related financing activities . . . . .           | -            |
| Net increase in cash and cash equivalents . . . . .                               |              |
|   | -            |
| <b>Cash and cash equivalents at beginning of year. . . . .</b>                    |              |
|   | -            |
| <b>Cash and cash equivalents at end of year . . . . .</b>                         |              |
|   | \$ -         |
| <b>Reconciliation of operating loss to net cash used in operating activities:</b> |              |
| Operating loss . . . . .  | \$ (812,194) |
| Adjustments:  |              |
| Depreciation . . . . .  | 351,330      |
| Changes in assets and liabilities:  |              |
| Increase in intergovernmental receivable. . . . .                                 | (16,385)     |
| Increase in prepayments . . . . .   | 255,905      |
| Increase in accounts payable. . . . .   | 1,365        |
| Increase in intergovernmental payable . . . . .                                   | 44,220       |
|   | (175,759)    |
| Net cash used in operating activities. . . . .                                    |              |
|   | \$ (175,759) |

**Non-cash transactions:**

During the year the School received a transfer of capital assets from its fiscal agent in the amount of \$1,871,325.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**iSTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

iSTEM Geauga Early College High School (the "School") is a legally separate nonprofit corporation served by an appointed five-member Governing Board and meets the definition of a science, technology, engineering, and math (STEM) school under chapter 3326 of the Ohio Revised Code. The School began operations on August 12, 2015. Thus, the fiscal year ended June 30, 2016 was the first year of operations for the School as a STEM school. The School is a small, intellectual public STEM school 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 School was open to ninth grade students throughout Geauga and Lake counties 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 21<sup>st</sup> century careers within a safe and trusting environment, through powerful teaching and problem-based interdisciplinary learning.

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

The Geauga County Educational Service Center serves as the School's fiscal agent (See Note 7.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 School. For the School, this includes instructional activities of the School.

Component units are legally separate organizations for which the School is financially accountable. The School is financially accountable for an organization if the School appoints a voting majority of the organization's Governing Board and (1) the School is able to significantly influence the programs or services performed or provided by the organization; or (2) the School is legally entitled to or can otherwise access the organization's resources; or (3) the School is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the School is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School in that the School 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 School has no component units. The basic financial statements of the reporting entity include only those of the School (the primary government).

**STEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School 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 School's significant accounting policies are described below.

**A. Basis of Presentation**

The School'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 School'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 School 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 School must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School 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 schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705. Ohio Revised Code 5705.391 does require the School to prepare a five-year projection.

**E. Cash and Cash Equivalents**

The Geauga County Educational Service Center (ESC) is the custodian for the School's cash and cash equivalents. The ESC's cash and investment pool holds the School's cash and cash equivalents, which are reported at the ESC's carrying amount. Deposits and investments disclosures for the ESC as a whole may be obtained from the Geauga County ESC Treasurer, Sue Sotkovsky, 470 Center Street, Building #2, Chardon, Ohio 44024.



**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

**F. Prepayments**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items on the statement of net position. These items are reported as assets on the statement of net position using the consumption method. A current asset for prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed. The School has reported \$955,679 in prepayments for various multi-year start-up purchased services contracts, including the agreements described in Note 7, funded through the Straight A grant.

**G. Capital Assets**

The School's capital assets during fiscal year 2016 consisted of building improvements and furniture, fixtures and equipment. All capital assets are capitalized at cost and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School maintains a capitalization threshold of \$500. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Depreciation is computed using the straight-line method over useful lives ranging from 5-10 years.

**H. Net Position**

Net position represents the difference between assets and liabilities. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes represents amounts restricted for various local grants.

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

**I. Intergovernmental Revenue**

The School 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 School. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated.

**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

The remaining grants and entitlements received by the School are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

**J. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the financial statements.

**K. 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.

**L. Operating Revenues and Expenses**

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

**M. 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.

A special item has been reported for the transfer of assets from the Geauga County Educational Service Center (ESC), the School's fiscal agent. The transfer of assets includes \$583,249 in Straight A carryover grant funds, \$1,211,584 in prepaid multi-year start-up purchased services contracts, and \$1,871,325 in capital assets. The ESC as fiscal agent administered the Straight A grant during fiscal year 2015. The Straight A grant funds were used for the renovation of classroom space and technology labs, the purchase of capital assets, and the up-front payment of multi-year purchased services contracts. The \$583,249 in Straight A carryover grant funds were transferred from the ESC to the School for use in operations.

**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2016, consist of accounts (tuition and fees for services provided and other miscellaneous receipts) and intergovernmental grants. All receivables are considered collectible in full and are expected to be collected within the subsequent year. The intergovernmental receivable of \$208,998 is comprised as follows:

|                                       |                   |
|---------------------------------------|-------------------|
| <b>Intergovernmental receivables:</b> |                   |
| State Foundation Program              | \$ 16,385         |
| Straight A Grant                      | <u>195,821</u>    |
| Total                                 | <u>\$ 212,206</u> |

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

|   | Balance<br>06/30/15 | Additions           | Reductions  | Balance<br>06/30/16 |
|---|---------------------|---------------------|-------------|---------------------|
| Capital assets, being depreciated:        |                     |                     |             |                     |
| Building improvements                     | \$ -                | \$ 1,621,255        | \$ -        | \$ 1,621,255        |
| Furniture, fixtures and equipment         | <u>-</u>            | <u>579,667</u>      | <u>-</u>    | <u>579,667</u>      |
| Total capital assets<br>being depreciated | <u>-</u>            | <u>2,200,922</u>    | <u>-</u>    | <u>2,200,922</u>    |
| Less: accumulated depreciation            |                     |                     |             |                     |
| Building improvements                     | -                   | (296,360)           | -           | (296,360)           |
| Furniture, fixtures and equipment         | <u>-</u>            | <u>(54,970)</u>     | <u>-</u>    | <u>(54,970)</u>     |
| Total accumulated depreciation            | <u>-</u>            | <u>(351,330)</u>    | <u>-</u>    | <u>(351,330)</u>    |
| Capital assets, net                       | <u>\$ -</u>         | <u>\$ 1,849,592</u> | <u>\$ -</u> | <u>\$ 1,849,592</u> |

**NOTE 5 - LOAN PAYABLE**

The School received an interest free loan in the amount of \$111,709 during fiscal year 2016 from the Geauga County Educational Service Center. The loan payable is reported as a liability on the statement of net position and will be repaid as resources become available.

**NOTE 6 - PURCHASED SERVICES**

For fiscal year ended June 30, 2016, purchased services expenses were as follows:

|                                     |                   |
|-------------------------------------|-------------------|
| Professional and technical services | \$ 755,614        |
| Travel mileage and meetings         | 2,806             |
| Communications                      | <u>1,257</u>      |
| Total                               | <u>\$ 759,677</u> |

**iSTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 7 - SERVICE AGREEMENTS**

**A. Geauga County Educational Service Center**

The School entered into an agreement with the Geauga County Education Service Center (ESC) for the period July 1, 2015 through June 30, 2020, to provide the following services:

- Fiscal services - payroll and benefits for all staff, accounts payable and receivable, attend all board meetings and document minutes, and prepare monthly financial statements.
- IEP services - speech and language, occupational therapy, adaptive physical education, and/or physical therapy.
- Liability insurance - \$5,000 towards the first annual premium.
- Straight A Grant/iSTEM administrator services for grant management and administrative services.

The School will compensate the ESC in an amount not to exceed \$159,000 for the term of the agreement. Monies not expended by June 30, 2020, must be returned to the Ohio Department of Education, Straight A Grant Department, Columbus, Ohio.

**B. Lake/Geauga Computer Association**

The ESC, on behalf of the School, entered into an agreement with Lake/Geauga Computer Association (LGCA) for the period July 1, 2015 through June 30, 2020, to provide the following services and technical assistance for the School:

- LGCA software services
- EMIS coordinator support
- Video conferencing equipment support
- Reflections software for fiscal services

The School will compensate LGCA in an amount not to exceed \$99,500 for the term of the agreement. Monies not expended by June 30, 2020, must be returned to the Ohio Department of Education, Straight A Grant Department, Columbus, Ohio.

**C. Geauga iSTEM ECHS and Career Readiness Consortium**

The ESC and the Auburn Career Center formed the Geauga County Innovational and Career Readiness Consortium (Consortium) for the following purposes:

- To benefit students as learning environments become more inquiry based, more connected to real world careers, and more coherent as academic content is delivered in interdisciplinary format.
- To coordinate activities in support of the establishment and operations of a new high school named the iSTEM Geauga Early College High School.
- To provide students with a high school option to pursue their education in a 21<sup>st</sup> century learning environment, utilizing STEM methodologies and philosophies, early college options, and career experiences.
- Create satellite high school 21<sup>st</sup> century classes in consortia districts through collaborate through video conferencing with the iSTEM teachers.
- To provide 7<sup>th</sup> and 8<sup>th</sup> grade students with a career exploration curriculum among teachers, industry partners and the Auburn Career Center.

**iSTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 7 - SERVICE AGREEMENTS - (Continued)**

- Create face-to-face and online professional development for local educators in leading innovation, problem-based learning, interdisciplinary curriculum design and implementation, as well as digital content design and integration into high school curriculum.
- The ESC was awarded a Straight A grant to establish the Consortium.

*Commitments:*

- The iSTEM school shall be established on the premises of the Auburn Career Center located at 8140 Auburn Road, Concord Township, Ohio 44077. Rent and utilities will not be charged for the duration of the grant period from August 1, 2014 through June 30, 2020, at which time these items will be re-negotiated.
- The ESC and Auburn Career Center mutually agree to:
  - Coordinate activities in support of the establishment and operation of the School.
  - Adapt local policy as necessary to remove carriers, enable innovation, and create necessary partnerships to establish and implement the School.
  - Create a strategic plan to direct and establish measurable outcomes for the launch and initial years of operation of the School.
  - Secure the participation of social service agencies, early college options through college plus, community organizations, and workforce interests in the School.
  - Adopt and implement state standards
  - Document and share on an on-going basis, how policy and practice, and structures are being adapted, changed, or created to support implementation of the School and will forward evidence of the impact on learners.
- \$450,000 of the Straight A funding will be used for the establishment of a Quest/FAB Lab.

The agreement will begin on August 1, 2014 and shall terminate on June 30, 2020, unless terminated before that date by either party pursuant to the agreement. The dates reflected in this term match the funding dates for the award of the Straight A grant.

The ESC, as fiscal agent for the School, will compensate Auburn Career Center in an amount not to exceed \$922,475 for services and expenses for the term of the agreement. Monies not expended by June 30, 2020, must be returned to the Ohio Department of Education, Straight A Grant Department, Columbus, Ohio.

**NOTE 8 - CONTINGENCIES**

**A. Grants**

The School 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 School at June 30, 2016.

**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL  
LAKE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**NOTE 8 - CONTINGENCIES**

**B. State Foundation Funding**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State Foundation funding is calculated. As a result of the review after fiscal year-end, the School was owed a net amount of \$16,385 from ODE, which is reported on the financial statement as an intergovernmental receivable. These amounts will be received/paid by increasing/decreasing fiscal year 2017 foundation revenues.

**C. Litigation**

The School is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements at June 30, 2016.



# 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*

iSTEM Geauga Early College High School  
Lake County  
8140 Auburn Road  
Concord Township, Ohio 44077

To the Governing Board:

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 the iSTEM Geauga Early College High School, Lake County, Ohio, (the School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 4, 2017.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School'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 School'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 School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

As part of reasonably assuring whether the School'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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 School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 4, 2017





# Dave Yost • Auditor of State

**ISTEM GEAUGA EARLY COLLEGE HIGH SCHOOL**

**LAKE 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  
MAY 25, 2017**