



Dave Yost • Auditor of State

**UTICA SHALE ACADEMY
COLUMBIANA COUNTY
JUNE 30, 2017 AND 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Utica Shale Academy
Columbiana County
1879 Deerfield Road
Lebanon, Ohio 45036

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Utica Shale Academy, Columbiana County, Ohio (the "Academy"), as of and for the years ended June 30, 2017 and 2016, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Utica Shale Academy, Columbiana County, Ohio, as of June 30, 2017 and 2016, and the respective changes in financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the 2017 financial statements, on January 3, 2018 the Academy and the Ohio Department of Education entered into a settlement agreement regarding overpayments in funding. The Academy has properly recognized a liability and included note disclosure as a result of the agreement. We did not modify our opinion regarding this matter.

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 April 16, 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

April 16, 2018

Utica Shale Academy of Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

The discussion and analysis of the Utica Shale 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2017 are as follows:

- Total net position decreased \$87,219. This is a 461% decrease from the prior fiscal year.
- Total revenues decreased \$113,700. This is a 21% decrease from the prior fiscal year.
- Total expenses decreased \$88,427. This is a 15% decrease from the prior fiscal year.

Using this Annual Report

This annual report consists of the Management's Discussion and Analysis, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during fiscal year 2017"? The statement of net position includes all assets and deferred outflows, and liabilities and deferred inflows using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and change in net position. This change in net position is important because it tells the reader that 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. Nonfinancial factors include the Academy's facility conditions, required educational programs and other factors.

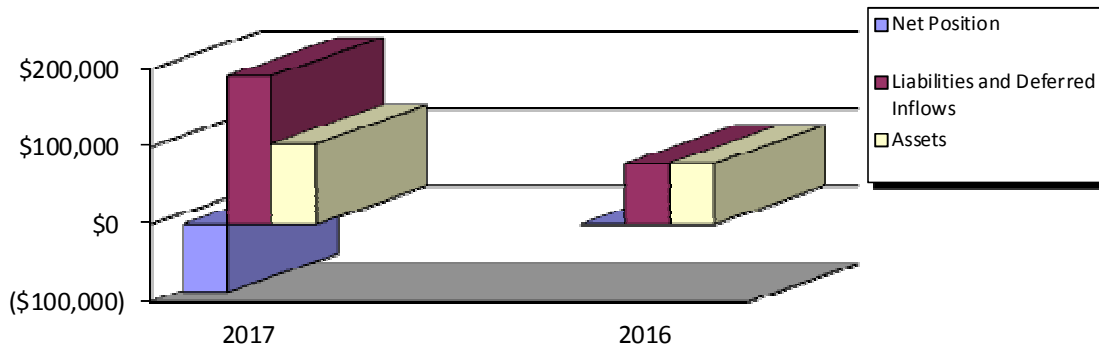
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**Utica Shale Academy of Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)**

Table 1 provides a summary of the Academy's net position for fiscal year 2017 compared to fiscal year 2016 as follows:

**Table 1
Net Position**

	Governmental Activities	
	2017	2016
Assets:		
Current and Other Assets	\$104,060	\$78,450
Total Assets	104,060	78,450
Liabilities:		
Other Liabilities	60,622	11,280
Long-Term Liabilities	130,468	66,981
Total Liabilities	191,090	78,261
Net Position:		
Unrestricted	(87,080)	189
Total Net Position	(\$87,080)	\$189



Net Position of the Academy decreased by \$87,219. The decrease in total net position from fiscal year 2016 is primarily due to the increase in liabilities from the ODE settlement agreement.

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Utica Shale Academy of Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)

Table 2 shows the changes in net position for the fiscal years ended June 30, 2017 and 2016.

Table 2
Changes in Net Position

	Fiscal Year	
	2017	2016
Operating Revenues:		
Foundation Revenue	\$395,504	\$492,298
Other Revenues	134	5,000
Total Operating Revenues	<u>395,638</u>	<u>497,298</u>
Operating Expenses:		
Salaries	22,300	8,382
Fringe Benefits	10,678	1,044
Purchased Services	431,402	526,618
Materials and Supplies	11,186	22,777
Other Expenses	45,769	50,941
Total Operating Expenses	<u>521,335</u>	<u>609,762</u>
Non-Operating Revenues (Expenses):		
Grants and Subsidies	38,478	50,518
Total Non-Operating Revenues (Expenses)	<u>38,478</u>	<u>50,518</u>
Change in Net Position	(87,219)	(61,946)
Net Position - Beginning of Year	189	62,135
Net Position - End of Year	<u>(\$87,030)</u>	<u>\$189</u>

Total operating revenues decreased primarily due to a decrease in Foundation revenue because of a decrease in enrollment and the ODE settlement agreement. Total operating expenses decreased primarily due to a decrease in purchased services because of a decrease in enrollment.

Capital Assets and Debt

At June 30, 2017, the Academy had no capital assets and \$130,468 in long-term liabilities due to an ODE settlement agreement. The following table shows fiscal year 2017 balances compared to fiscal year 2016 as follows:

**Utica Shale Academy of Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)**

	Fiscal Year	
	2017	2016
Intergovernmental Payable	\$130,468	\$66,981

For the Future

The Academy will strive to continue its success in future years and will continuously look for ways to enhance the student learning process.

The Academy’s management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. Financially, the future is not without challenges.

Contacting the Academy’s Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy’s finances and to show the Academy’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer at Warren County ESC, 1879 Deerfield Road, Lebanon, Ohio 45036.

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Utica Shale Academy - Columbiana County, Ohio
Statement of Net Position
June 30, 2017

Assets:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$103,998
Prepayments	<u>62</u>
Total Assets	104,060

Liabilities:

Current Liabilities:

Accounts Payable	7,715
Intergovernmental payable	<u>52,907</u>
Total Current Liabilities	60,622

Long-Term Liabilities:

Intergovernmental payable	<u>130,468</u>
Total Liabilities	191,090

Net Position:

Unrestricted	<u>(87,030)</u>
Total Net Position	<u><u>(\$87,030)</u></u>

See accompanying notes to the basic financial statements.

Utica Shale Academy - Columbiana County, Ohio
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Operating Revenues:	
Foundation Revenue	\$395,504
Other Operating Revenues	134
Total Operating Revenues	<u>395,638</u>
Operating Expenses:	
Salaries	22,300
Fringe Benefits	10,678
Purchased Services	431,402
Materials and Supplies	11,186
Other	45,769
Total Operating Expenses	<u>521,335</u>
Operating Income (Loss)	<u>(125,697)</u>
Non-Operating Revenues (Expenses):	
State and Federal Grants and Subsidies	<u>38,478</u>
Total Non-Operating Revenues (Expenses)	<u>38,478</u>
Change in Net Position	(87,219)
Net Position - Beginning of Year	<u>189</u>
Net Position - End of Year	<u><u>(\$87,030)</u></u>

See accompanying notes to the basic financial statements.

Utica Shale Academy - Columbiana County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Cash Flows from Operating Activities:	
Cash Received from State Foundation	\$509,199
Other Operating Cash Receipts	134
Cash Payments to Employees for Salaries and Benefits	(32,990)
Cash Payments for Goods and Services	(443,295)
Cash Payments for Other Expenses	(45,894)
Net Cash Provided (Used) by Operating Activities	<u>(12,846)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Received from State and Federal Grants	<u>49,648</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>49,648</u>
Net Increase (Decrease) in Cash and Investments	36,802
Cash and Investments - Beginning of Year	<u>67,196</u>
Cash and Investments - End of Year	<u><u>\$103,998</u></u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(\$125,697)
Changes in Assets & Liabilities:	
(Increase) Decrease in Receivables	34
(Increase) Decrease in Prepayments	(12)
Increase (Decrease) in Accrued Liabilities	113,661
Increase (Decrease) in Payables	(832)
Net Cash Provided (Used) by Operating Activities	<u><u>(\$12,846)</u></u>

See accompanying notes to the basic financial statements.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 1 – Description of the Academy

The Utica Shale Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s tax-exempt status. The Academy specializes in an innovative high school curriculum that will serve as a leading institution for all students who seek to explore, develop and enhance career opportunities as well as further advance their education. The Academy, which is part of the State’s education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue or be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

On March 4, 2014, the Academy, was approved under contract with Jefferson County Educational Service Center (the “Sponsor”) commencing on July 1, 2014 and ending on June 30, 2019. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy has entered into purchased service agreements with Jefferson County Educational Service Center, Columbiana Exempted Village School District, and Southern Local School District to provide various purchased services to the Academy. Terms of the purchased service agreements are further described in Note 6.

The Academy operates under the direction of a self-appointed, five-member Board of Directors. The Board is responsible for carrying out provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

Note 2 – Summary of Significant Accounting Policies

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental 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.

Basis of Presentation

The Academy uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

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

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows, and all liabilities and deferred inflows are included on the Statement of Net Position. Operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The Academy has no deferred inflows or outflows of resources to report at June 30, 2017.

Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code, Chapter 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast, no later than October 31 of each year.

Cash

All monies received by the Academy are deposited into a demand deposit account and is presented on the financial statement as "cash and cash equivalents."

Net Position

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of governments. The Academy applies restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

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. Amounts awarded under State Foundation Program for the 2017 school year, excluding all other federal and state grants, totaled \$395,504.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Revenues received from the remaining programs are recognized as non-operating revenue in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. State and federal grants revenue for the fiscal year 2017 was \$38,478.

Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed. The Academy had \$62 in prepaids to report at June 30, 2017.

Estimates

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

Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$5,000. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The Academy had no capital assets to report at June 30, 2017.

GASB Pronouncements

For the fiscal year ended June 30, 2017, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Academy's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

Note 3 – Deposits

At June 30, 2017, the carrying amount of all Academy deposits was \$103,998. Based on criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, the entire bank balance of \$103,998 was covered by the Federal Deposit Insurance Corporation (FDIC).

Note 4 – Operating Lease

The Academy school facilities are located in space leased at Southern Local School District and also at Columbiana Exempted Village Schools. The lease agreement with Southern Local School District is for the period of February 10, 2014 through July 1, 2019 and the lease agreement with Columbiana Exempted Village Schools is for the period June 30, 2015 through July 1, 2020. The base rental of the leases is \$100 per month. The minimum lease payments for fiscal year 2017 total \$2,400.

Note 5 - Risk Management

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Academy was covered under its own insurance policy for property and fleet insurance, liability insurance, crime, terrorism and automobile coverage. There were no significant reductions in insurance coverage from the prior year and settled claims have not exceeded insurance coverage in each of the past three fiscal years.

Note 6 - Purchased Services

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

<u>Purchased Services</u>	<u>Amounts</u>
Regular Instruction	\$104,993
Special Instruction	11,369
General Support Services Administration	288,701
Fiscal/Technology	195
General Facilities Operations & Maintenance	<u>26,144</u>
Total Purchased Services	<u><u>\$431,402</u></u>

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 7 – Sponsor Contract

The Academy entered into a five-year contract commencing on July 1, 2014 and continuing through June 30, 2019 with the Jefferson County Educational Service Center (the “Sponsor”) for its establishment. The sponsor shall carry out the responsibilities established by law, including:

- Monitor the Academy’s compliance with the laws applicable to the Academy and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Provide reasonable technical assistance to the Academy in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the Academy);
- Take steps to intervene in the Academy’s operation to correct problems in the Academy’s overall performance, declare the Academy to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the Academy pursuant Ohio Revised Code Section 3314.073, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Establish and/or require a plan of action to be undertaken if the Academy experiences financial difficulties or losses before the end of the school year;
- Provide in writing the annual assurances for the Academy no later than ten business days prior to the opening of the Academy, as required in Ohio Revised Code Section 3314.19;
- Abiding by the requirements in its contract with the Ohio Department of Education, even should those requirements affect the Academy and/or the Governing Authority; and
- The Sponsor shall not enter into any contracts with current vendors of the Governing Authority without proper notice to the Governing Authority.

For the services listed above, the Academy is required to pay a fee to the Sponsor for the oversight and monitoring of the Academy. The fee is equal to 3% of all funds received from the State. The Academy paid the Sponsor \$16,400 for services during fiscal year 2017.

Note 8 - Contingencies

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.

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Litigation

The Academy is involved in no material litigation as either plaintiff or defendant.

State Foundation Funding

- A. 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 School for fiscal year 2016 & 2017. As of the date of this report, the School was given a final repayment plan or amount owed from the fiscal year 2016 FTE audit. As a result, the impact of the appealed FTE Review on the fiscal year 2016 financial statements is a \$66,981 liability of the School. That liability will be made over 54 months through a reduction to operating funds starting in July 2018.

The Academy had contracts in fiscal year 2016 directly tied to the school's FTE, which included the Academy's Fiscal Agent contract, School Sponsor contract, and EMIS Services. These contracts were all with the Jefferson County Educational Service Center. The Academy will recover any overpayments from its contracts.

- B. 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. As of the date of this report, ODE adjustments for fiscal year 2017 have been finalized. As a result, the impact of future FTE adjustments will total \$116,394.78 with 22 monthly payments of \$5,290.67 being deducted from the State Foundation, which began on the September 2017 payment.

The Academy had contracts in fiscal year 2017 directly tied to the school's FTE, which includes the Academy's Fiscal Agent contract, School Sponsor contract, Management Agreement contract, SPED Agreement contract, Staffing Agreement contract, and Technology Agreement contract. The School Sponsor contract was with Jefferson County Educational Service Center in fiscal year 2017. The Fiscal Agent contract in fiscal year 2017 was with Jefferson County Educational Service Center from July 1, 2016 through October 31, 2016 and with Warren County Educational Service Center from November 1, 2016 through June 30, 2017. The Academy had a Management Agreement contract, SPED Agreement contract, Staffing Agreement contract, Site Service Fee contract, Administrator Fee contract, Technology Fee contract, Special Education Fee contract, Medical Fee contract, Maintenance Fee contract, Management Fee contract, Tutoring Services contract, and Technology Staffing Agreement contract with Southern Local School District in fiscal year 2017. The Academy also had a Technology Staffing Agreement contract, Administrative Fee contract, Maintenance Fee contract, Medical Services Fee contract, Special Education contract, and a Technology and Technology Staffing Purchasing Services

Utica Shale Academy of Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

contract with Columbiana Exempted Village School District in fiscal year 2017. As of the date of this report, repayment claw back agreement invoices for fiscal year 2017 overpayment have been created but are not finalized to begin recovering all overpayments.

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

The management's discussion and analysis of the Utica Shale Academy (the "Academy") financial performance provides an overall review of the School's financial activities for the 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 2016 are as follows:

- In total, net position was \$189 at June 30, 2016.
- The Academy had operating revenues of \$497,298, operating expenses of \$609,762 and non-operating revenues of \$50,518 for fiscal year 2016. Total change in net position for the fiscal year was a decrease of \$61,946.

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 that 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.

Reporting the Academy's Financial Activities

These documents look at all financial transactions and ask the question, "How did we do financially during 2016?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, liabilities, 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 that 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 6 and 7 of this report.

The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 8 of this report.

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

The table below provides a summary of the Academy's net position for fiscal year 2016 and 2015.

Net Position

	2016	2015
<u>Assets</u>		
Current assets	\$ 78,450	\$ 88,159
Total assets	78,450	88,159
<u>Liabilities</u>		
Current liabilities	11,280	26,024
Non-current liabilities	66,981	-
Total liabilities	78,261	26,024
<u>Net Position</u>		
Unrestricted (deficit)	189	62,135
Total net position (deficit)	\$ 189	\$ 62,135

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the Academy's net position was \$189, all of which was unrestricted.

The table below shows the changes in net position for fiscal year 2015 and 2016.

Change in Net Position

	2016	2015
<u>Operating Revenues:</u>		
State foundation	\$ 492,298	\$ 353,020
Other	5,000	3,109
Total operating revenue	497,298	356,129
<u>Operating Expenses:</u>		
Personal services	9,426	6,969
Purchased services	526,618	238,485
Materials and supplies	22,777	26,298
Other	50,941	41,009
Total operating expenses	609,762	312,761
<u>Non-operating Revenues:</u>		
Grants and subsidies	50,518	18,767
Total non-operating revenues	50,518	18,767
Change in net position	(61,946)	62,135
Net position at beginning of year	62,135	-
Net position at end of year (deficit)	\$ 189	\$ 62,135

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

The Academy's activities are funded primarily from the state foundation program which provides funding based on a per pupil formula. Unlike traditional schools within the State of Ohio, community schools receive no support from the local community in the form of property taxes. Therefore, intergovernmental revenues from the state foundation program and specific educational federal and state grants are the only consistent revenue sources for the Academy. Revenue from the foundation program totaled \$492,298 in fiscal year 2016 and is based on the number of students served by the Academy using the State of Ohio's per pupil funding amount. Revenue from the foundation program is 89.87% of total revenues received by the Academy. Foundation revenue increased \$139,278 or 39.45% from 2015 due to an increase in the amount of foundation received from the State of Ohio. Intergovernmental revenues (foundation program plus federal and state educational specific grants) are 99.09% of the total revenues reported by the Academy. It is clear the Academy is financially dependent on the State of Ohio continuing to fund community schools in a consistent manner from one year to the next. Revenue from grants and subsidies increased \$31,751 or 169.19% from 2015 due to an increase in the amount of grant revenues received from IDEA Part B and Title I grants.

Purchased services are the largest expense to the Academy. Purchased services expenses primarily include payments made to Southern Local School District as outlined in Note 9 to the basic financial statements. Purchased service expenses increased \$288,133 or 120.82% from 2015 due to an increase in the amount spent on professional and technical services.

Capital Assets

At June 30, 2016, the Academy had no capital assets.

Current Financial Related Activities

The Academy will strive to continue its success in future years and will continuously look for ways to enhance the student learning process.

The Academy's management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. Financially, the future is not without challenges.

Contacting the Academy's Financial Management

This financial report is designed to provide our clients 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. Don Donahue, Treasurer, at Jefferson County ESC, 2023 Sunset Boulevard, Steubenville, Ohio 43952.

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 67,196
Intergovernmental.	11,204
Prepayments	<u>50</u>
Total assets.	<u>78,450</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	8,547
Intergovernmental payable	<u>2,733</u>
Total current liabilities	<u>11,280</u>
Non-current liabilities:	
Intergovernmental payable	<u>66,981</u>
Total liabilities	<u>78,261</u>
 Net position:	
Unrestricted (deficit).	<u>189</u>
Total net position (deficit).	<u><u>\$ 189</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

Operating revenues:	
Foundation revenue	\$ 492,298
Other	5,000
Total operating revenues	<u>497,298</u>
Operating expenses:	
Salaries and wages.	8,382
Fringe benefits.	1,044
Purchased services.	526,618
Materials and supplies	22,777
Other.	50,941
Total operating expenses.	<u>609,762</u>
Operating loss	<u>(112,464)</u>
Non-operating revenues:	
Grants and subsidies.	50,518
Total nonoperating revenues	<u>50,518</u>
Change in net position	(61,946)
Net position at beginning of year.	<u>62,135</u>
Net position (deficit) at end of year	<u>\$ 189</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from state foundation	\$ 559,563
Cash received from other operations	5,000
Cash payments for salaries and wages.	(8,400)
Cash payments for fringe benefits	(1,094)
Cash payments for contractual services	(542,393)
Cash payments for materials and supplies	(14,531)
Cash payments for other expenses	(58,456)
	(60,311)
Net cash used by operating activities	(60,311)
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	39,348
	39,348
Net cash provided by noncapital financing activities.	39,348
Net decrease in cash and cash equivalents	(20,963)
Cash and cash equivalents at beginning of year . . .	88,159
Cash and cash equivalents at end of year	\$ 67,196
	\$ 67,196
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (112,464)
Changes in assets and liabilities:	
(Increase) in prepayments	(50)
Increase in accounts payable	6,756
Increase in intergovernmental payable.	161,841
	161,841
Net cash used in operating activities	\$ 56,083

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Utica Shale Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy’s tax-exempt status. The Academy specializes in an innovative high school curriculum that will serve as a leading institution for all students who seek to explore, develop and enhance career opportunities as well as further advance their education. The Academy, which is part of the State’s education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

On March 4, 2014, the Academy, was approved under contract with Jefferson County Educational Service Center (the “Sponsor”) commencing on July 1, 2014 and ending on June 30, 2019. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy has entered into purchased service agreements with Jefferson County Educational Service Center to provide various purchased services to the Academy. Terms of the purchased service agreements are further described in Note 9.

The Academy operates under the direction of a self-appointed five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Academy uses enterprise accounting to report on its financial activities. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods and services.

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows, and all liabilities and deferred inflows are included on the statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

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

C. Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The Academy has no deferred inflows or outflows of resources to report at June 30, 2016.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, except House Bill 364, which took effect April 8, 2003, added Ohio Rev. Code Section 3314.03 (11) (d), which states that community schools must comply with Ohio Rev. Code Section 5705.391. This requires each community school to submit to the Ohio Department of Education (ODE) a five year forecast no later than October 31 of each year.

E. Cash

All monies received by the Academy are deposited into a demand deposit account.

F. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

G. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2016 school year, excluding all other federal and State grants, totaled \$375,904.

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. State and federal grants revenue for the fiscal year 2016 received was \$50,518.

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

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

H. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the basic financial statements. These items are reported as assets on the statement of net position using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

I. Estimates

The preparation of financial statements in conformity with 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.

J. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$5,000. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. The Academy had no capital assets to report at June 30, 2016.

NOTE 3 - DEPOSITS

At June 30, 2016, the carrying amount of all Academy deposits was \$67,196. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, the entire bank balance of \$67,924 was covered by the Federal Deposit Insurance Corporation (FDIC).

NOTE 4 - OPERATING LEASE

The Academy school facilities are located in a space leased at Southern Local School District and also at Columbiana Exempted Village School District. The lease agreement is with Southern Local School District for the period of February 10, 2014 through July 1, 2019 and the lease agreement with Columbiana Exempted Village Schools is from the period of June 30, 2015 through July 1, 2020. The base rental of the lease is \$100 per month. Payments totaling \$2,400 were made during fiscal year 2016. The minimum lease payments for fiscal year 2017 total \$2,400.

NOTE 5 - 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 2016, the Academy was covered under its own insurance policy for property and fleet insurance, liability insurance, crime, terrorism and automobile coverage.

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

NOTE 6 - PURCHASED SERVICES

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

Professional and technical services	\$ 475,577
Property services	23,200
Travel, Mileage and Meetings	369
Communications	8,587
Other purchased services	<u>18,885</u>
Total	<u>\$ 526,618</u>

NOTE 7 - SPONSOR CONTRACT

The Academy entered into a four-year contract commencing on July 1, 2014 and continuing through June 30, 2019 with the Jefferson County Educational Service Center (the "Sponsor") for its establishment. The sponsor shall carry out the responsibilities established by law, including:

- Monitor the Academy's compliance with the laws applicable to the Academy and with the terms of this contract;
- Monitor and evaluate the academic and fiscal performance and the organization of the Academy on at least an annual basis;
- Provide reasonable technical assistance to the Academy in complying with this contract and with applicable laws (provided, however, the Sponsor shall not be obligated to give legal advice to the Academy);
- Take steps to intervene in the Academy's operation to correct problems in the Academy's overall performance, declare the Academy to be on probationary status under Ohio Revised Code Section 3314.073, suspend operation of the Academy pursuant to Ohio Revised Code Section 3314.072, or terminate or non-renew this contract pursuant to Ohio Revised Code Section 3314.07, as determined necessary by the Sponsor;
- Establish and/or require a plan of action to be undertaken if the Academy experiences financial difficulties or losses before the end of the school year;
- Provide in writing the annual assurances for the Academy no later than ten business days prior to the opening of the Academy, as required in Ohio Revised Code Section 3314.19;
- Abiding by the requirements in its contract with the Ohio Department of Education, even should those requirements affect the Academy and/or the Governing Authority; and
- The Sponsor shall not enter into any contracts with current vendors of the Governing Authority without proper notice to the Governing Authority.

For the services listed above, the Academy is required to pay a fee to the Sponsor for the oversight and monitoring of the Academy. The fee is equal to 3 percent of all funds received from the State. The Academy paid the Sponsor \$17,051 for services during fiscal year 2016.

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

NOTE 8 - 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, 2016.

B. 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 did not perform such a review on the Academy for fiscal year 2016.

As of the date of this report, additional ODE adjustments for fiscal year 2016 are finalized. As a result, the impact of the FTE adjustments on the fiscal year 2016 financial statements was a payable of \$69,688.

In addition, the Academy's contracts with their Sponsor require payment based on revenues received from the State. As discussed above, FTE adjustments for fiscal year 2016 are finalized. There was no impact on the financial statements for Sponsor required payments.

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.

NOTE 9 - SERVICE AGREEMENTS

A. Agreements with Southern Local School District

The Academy is obligated under contractual agreement with the Southern Local School District to pay fees in accordance with agreements for a lease, staffing, marketing, special education, administration, site service, maintenance, medical services, technology, technology staffing and management. Per the various service agreements, monthly payments are based on flat fees, amounts per student and a percentage of foundation.

**UTICA SHALE ACADEMY OF OHIO
COLUMBIANA COUNTY, OHIO**

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

NOTE 9 - SERVICE AGREEMENTS - (Continued)

B. Agreements with Columbiana Exempted Village School District

The Academy is obligated under contractual agreement with the Columbiana Exempted Village School District to pay fees in accordance with agreements for administration, technology, technology staffing, special education, medical services and maintenance. Per the various service agreements, monthly payments are based on flat fees, amounts per student and a percentage of foundation.

C. Agreements with Jefferson County Educational Service Center

The Academy is obligated under contractual agreement with the Jefferson County Educational Service Center (the "ESC") to pay fees in accordance with agreements for purchase services and marketing. Per the various service agreements, monthly payments are based on flat fees, amounts per student and a percentage of foundation.

The Academy is obligated under a fiscal agent agreement with the ESC to pay fees for services that include processing payroll, performing budgetary procedure, preparing financial reports and assisting in monthly board meetings. Per the agreement, the Academy is to pay the ESC a fee equal to 4% of their total state foundation payments.

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2016, the Academy has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

NOTE 11 - SUBSEQUENT EVENT

Subsequent to the fiscal year end, a FTE review was performed and as a result, adjustments were made to the Academy's State Foundation. Per the Settlement Agreement between the Academy and the Ohio Department of Education (ODE), the ODE is to withhold Foundation funding. \$52,907 is expected to be withheld in fiscal year 2018, and the remaining \$130,468 will be withheld beginning in July 2018 over 54 months at a rate of \$2,416 per month.



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*

Utica Shale Academy
Columbiana County
1879 Deerfield Road
Lebanon, Ohio 45036

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 of the Utica Shale Academy, Columbiana County, (the "Academy") as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated April 16, 2018, wherein the Academy and the Ohio Department entered into a settlement agreement regarding overpayment in funding.

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 certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2017-001 and 2017-002 to be material weaknesses.

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.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

April 16, 2018

UTICA SHALE ACADEMY
COLUMBIANA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2017 and 2016

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

FINDING NUMBER 2017-001

Noncompliance and Material Weakness – Educational Hours

Ohio Rev. Code § 3314.08(H) requires, in part, “the department of education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. The state board of education within ninety days after April 8, 2003, was obligated to act under Chapter 119 of the Revised Code to adopt rules governing the payments to community schools under this section including initial payments in a school year, adjustments and reductions made in subsequent periodic payments to community schools and corresponding deductions from school district accounts as provided under division (C) of this section.”

Ohio Rev. Code § 3314.03(A)(11)(a) states, in part, “The school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year.” **Ohio Rev. Code § 3314.27** states, in relevant part, that “...each internet or computer-based community school shall keep an accurate record of each individual student’s participation in learning opportunities each day.” Further, **Ohio Revised Code § 3314.03(A)(23)** states, again in relevant part, that each contract entered into between a sponsor and the governing authority of a community school shall specify “[a] description of the learning opportunities that will be offered to students including both classroom-based and non-classroom-based learning opportunities that is in compliance with criteria for student participation established by the department under division (H)(2) of section 3314.08 of the Revised Code.”

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. The Academy Attendance policy states that any student that does not participate at school or home when school is in session will be marked absent and a written statement of the cause of such absence is required in accordance with statute. In addition, the Excuses portion of the handbook states, in part, that all students must present a written excuse on the day they return from an absence and the excuse should be dated, include a reason and the date of absence, and be signed by the parent or guardian. Finally, the Daily Schedule portion of the handbook states that students not attending school must participate in education any day school is in session.

FINDING NUMBER 2017-001
(Continued)

Ohio Rev. Code § 3317.031 states, in part, districts must maintain a “membership record” that includes certain information regarding every student enrolled, including withdrawal dates and days absent. Districts are required to maintain each such record “for at least five years.” Further, districts must maintain documentation to support any withdrawal code reported for a student. Information regarding the preferred documentation that districts should maintain in student files for the different withdrawal codes varies.

Furthermore, the department of education makes the Student Cross Reference (SCR) Report available to all schools to track enrollment of students on a statewide basis. Using SCR, schools have the opportunity to review student data, including student attributes and potential overlaps, submitted by it and other schools in the State. Schools have the ability to access the SCR system via their SAFE account and the Ohio District Data Exchange (ODDEX) role. Student files are to include, but not limited to, birth certificates and proof of residency documentation.

Ohio Rev. Code § 3301.079(K)(1) defines "Blended Learning" as the delivery of instruction in a combination of time in a supervised physical location away from home and online delivery whereby the student has some element of control over time, place, path, or pace of learning.

The Utica Shale Academy Community School Contract Section 12 "Instructional Program and Education Philosophy, states "Each school year, the School shall provide learning opportunities to a minimum of twenty-five (25) students for a minimum of nine hundred twenty (920) hours per school year." In addition, the Academy Handbook, Attendance Policy, states, in part, the Academy utilizes a Blended Learning model. Students are required to participate in 921 total education hours throughout the course of a school year. Students must participate in educational opportunities for an average of 5 hours and 7 minutes per day. 460.5 hours must be obtained in the classroom at school or in conjunction with school activities (i.e. field trips, site visits, etc.). The remaining hours (460.5) may be accumulated through a combination of in-class seat-time and/or participation in online curriculum outside of the school building following the guidelines on blended learning provided by ORC 3301.079. A student's school year will be considered complete when they have accrued all required hours and satisfactorily completed all courses in which they are enrolled.

The contract with the sponsor does comply with the requirements of Ohio Rev. Code § 3314.03(A)(11)(a) minimum requirements. It was noted that the Academy is open 6 hours a day for 154 days (for a total of 924 hours).

However, testing revealed the following:

- The students are only required to be in the classroom for two or three hours per day or until two modules are completed to account for 50% of the student attendance, or 461 hours. Therefore, a full time student is only required to attend school for 308-462 hours per year which does not meet the 460 hour requirement or 50% for the Academy's classroom time. This is the practice of the Academy, however, it is not consistent with the language in the Board-approved Attendance policy and annual student handbook;

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(Continued)

- The Academy students are required to participate in 921 total educational hours, however, half of the hours are in the classroom and the remaining hours are done through an online curriculum where the Academy did not keep track of durational hours until November of 2016 for fiscal year 2017 testing. Additionally, the Academy did keep track of durational hours during fiscal year 2016 but their system could not produce supporting documentation;
- The Academy would back-off overlapping time spent on the online curriculum while in the classroom, however, not all the sign-in sheets were maintained for students during fiscal year 2017 and 2016 and we were unable to verify this for all of the students tested;
- The Academy did not obtain absence documentation during fiscal year 2017 and marked each student absent as unexcused, and any absence documentation collected during fiscal year 2016 was discarded. Further, the attendance spreadsheet maintained by the Academy did not accurately reflect the attendance entered into Progressbook as Progressbook was not being updated for absences. Therefore, truancy may have been missed for students;
- When a student met the progress within the Academy's software and their student hours for attendance met 460 online hours, the student was no longer required to attend school. Two out of five students selected for sampling finished school in March or April and therefore did not attend the remainder of the year. However, the Academy was funded for 1.0 FTE for each of these students;
- Birth certificates were included in student files, however, three out of five students and two out of five students tested in fiscal year 2017 and 2016, respectively, did not have proper proof of residency information as a voting record was included which did not correspond to the year the student enrolled at the Academy;
- During fiscal year 2017, one student was not withdrawn timely and a second student was withdrawn due to truancy, however, the student was absent 17 consecutive days and under the Ohio Revised Code requirements of 105 hours, or 20 and a half days. In addition, the Academy did not notify the parents and file charges with the Juvenile Court after 12 consecutive and 15 unexcused absences, respectively;
- During fiscal year 2017 and 2016, only a final log-in date was provided for one and two students, respectively, and no evidence was provided the Academy attempted to contact the parents after three unexcused absences, the Court Liaison Officer after five unexcused absences, filing charges in Juvenile Court after 12 consecutive unexcused and/or 15 unexcused absences. In addition, no evidence was provided a letter was remitted to the school district of residence; and
- The Academy does not have a policy over withdrawing of students and setting up school calendars for students in EMIS.

Failure of the Academy to require the minimum number hours of attendance could result in students not receiving credit for attending the Academy and could impact the foundation receipts based on attendance. In addition, these situations led to the Academy reporting a higher FTE within EMIS for certain students and receiving more funding than entitled. The Academy's inability to provide documentation to support the FTE requirements for durational engagement for each student in EMIS resulted in a liability owed to ODE for overfunding for both 2016 and 2017.

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(Continued)

The Academy should continue to work with the Sponsor, the Jefferson County Educational Service Center, to ensure the minimum 920 hours per year are being met and documented and that the student handbook and internal procedures correctly state that 460 hours are to be obtained by each student each year. In addition, the Academy and Sponsor should consider amending the Community School contract to clearly indicate the learning opportunities that are provided by the Academy. Moreover, the Sponsor should review the monthly FTE support and EMIS data that is to be submitted to ODE to allow the Sponsor to monitor compliance more effectively. The Academy should review the statutory requirements to determine what documentation is needed to support the FTE data reported for each student and ensure supporting documentation is not being discarded. The Academy should consider using ODE's most recent FTE manual as further guidance to determine what information ODE considers to be needed to support FTE reporting. Finally, the Academy should review their handbook and policies governing enrollment and withdrawal of students, documenting attendance for classroom and nonclassroom time and documenting of student absences and ensure they include the proper information and are being followed.

FINDING NUMBER 2017-002

Material Weakness – Accurate Posting of Transactions

In the Auditor of State audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions. In addition, the Academy has hired an outside accounting firm to convert the Academy's cash-basis financial statements to the required GAAP basis.

Tests revealed the following:

- Accounts payable and purchased services expenses were understated by \$7,543 at June 30, 2017 due to a check written subsequent to year end which had an invoice date prior to June 30, 2017. The amount was properly adjusted on the financial statements; and
- As of June 30, 2017 foundation operating revenues were overstated by \$38,478 due to the inclusion of non-operating revenues. Amounts were adjusted to Non-operating revenues, Grants and subsidies.

Other mispostings were identified, however were not material and the Academy decided not to make the adjustments.

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(Continued)

The mispostings were attributed to miscalcuations by the GAAP converters and the Treasurer not reviewing and ensuring the prepared GAAP financial statements are an accurate reflection of the Academy's financials transactions. Failure to review the GAAP working papers could result in additional audit adjustments.

The Treasurer should review and sign off on the financial statements prepared by the GAAP converter to help ensure the financial activity of the Academy is accurately recorded and reported.

We did not receive a response from Officials to the findings reported above.

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Dave Yost • Auditor of State

UTICA SHALE ACADEMY OF OHIO

COLUMBIANA 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 10, 2018