

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO
(A COMPONENT UNIT OF THE LAKWOOD LOCAL SCHOOL DISTRICT)**

BASIC FINANCIAL STATEMENTS

(AUDITED)

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2016*

GLENN A. PLAISTED, CPA, TREASURER



Dave Yost • Auditor of State

Board of Directors
Lakewood Digital Academy
525 East Main Street
Hebron, Ohio 43025

We have reviewed the *Independent Auditor's Report* of the Lakewood Digital Academy, Licking County, prepared by Julian & Grube, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lakewood Digital Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 3, 2017

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**LAKESWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Lakewood Digital Academy
Licking County
525 East Main Street
Hebron, Ohio 43025

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Lakewood Digital Academy, Licking County, Ohio, a component unit of the Lakewood Local School District, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lakewood Digital 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 Lakewood Digital 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 Lakewood Digital Academy'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lakewood Digital Academy, Licking County, Ohio, as of June 30, 2016, and the changes in financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Lakewood Digital Academy will continue as a going concern. As described in Note 9 to the financial statements, the Lakewood Local School District (the "Sponsor") has suspended operations of the Lakewood Digital Academy. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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 November 18, 2016, on our consideration of the Lakewood Digital 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 Lakewood Digital Academy's internal control over financial reporting and compliance.



Julian & Grube, Inc.
November 18, 2016

LAKEWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

Unaudited

The management's discussion and analysis of Lakewood Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

- Net Deficit at June 30, 2016 was \$38,741.
- Operating revenues accounted for \$248,571 in revenue or 92% of all revenues.
- There were no capital asset additions in 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of two parts – management's discussion and analysis and the basic financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net position. The statement of net position represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information for 2016 and 2015 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	Net Position (Deficit)	
	2016	2015
Current and other assets	\$21,435	\$51,254
Capital assets, Net	18,236	26,497
Total assets	<u>39,671</u>	<u>77,751</u>
Long-term liabilities	0	78,412
Other liabilities	78,412	73,331
Total liabilities	<u>78,412</u>	<u>151,743</u>
Net position (deficit)		
Investment in capital assets	18,236	26,497
Restricted	0	3,503
Unrestricted	(56,977)	(103,992)
Total net position (deficit)	<u>(\$38,741)</u>	<u>(\$73,992)</u>

LAKWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2016 and 2015:

	Change in Net Position	
	2016	2015
Revenues		
Foundation Payments	\$245,561	\$196,468
Fees	2,997	8,413
All Other Revenue	13	0
Total revenues	<u>248,571</u>	<u>204,881</u>
Expenses		
Purchased Services	216,037	249,248
Supplies and Materials	1,203	64,518
Depreciation	7,739	12,304
Other Operating Expense	8,918	14,235
Total expenses	<u>233,897</u>	<u>340,305</u>
Operating Income (Loss)	14,674	(135,424)
Nonoperating Revenues (Expenses):		
Intergovernmental Grants	20,645	18,680
Investment Earnings	4	11
Loss on Disposal of Capital Assets	(72)	(62)
Total Nonoperating Revenues (Expenses)	<u>20,577</u>	<u>18,629</u>
Total Change in Net Position	35,251	(116,795)
Net Position Beginning of Year	<u>(73,992)</u>	<u>42,803</u>
Net Position (Deficit) End of Year	<u><u>(\$38,741)</u></u>	<u><u>(\$73,992)</u></u>

The Academy operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds are included in the discussion and analysis. Results of fiscal year 2016 indicate an increase in net position of \$35,251 and an ending net deficit of \$38,741.

BUDGET

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 Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five year projection that is reviewed twice a year by the Board of Directors.

LAKWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2016 the Academy had \$18,236 net of accumulated depreciation invested in equipment. The following table shows fiscal years 2016 and 2015:

	Business-Type Activities		Increase (Decrease)
	2016	2015	
Equipment	\$59,555	\$134,509	(\$74,954)
Less: Accumulated Depreciation	(41,319)	(108,012)	66,693
Totals	\$18,236	\$26,497	(\$8,261)

The decrease in capital assets is due to disposals of old equipment. Additional information on the Academy's capital assets can be found in Note 3.

Debt

The Academy has not issued any debt.

ECONOMIC FACTORS

The Academy is sponsored by the Lakewood Local School District and is in its twelfth year of operation. The Lakewood Local School District passed a resolution to close the Lakewood Digital Academy effective June 30, 2016.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Glenna Plaisted, Treasurer/CFO, Lakewood Digital Academy, 525 East Main Street, P.O. Box 70, Hebron, OH 43025-0070.

LAKEWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

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LAKEWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Statement of Net Position ***June 30, 2016***

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 21,302
Prepaid Items	<u>133</u>
<i>Total Current Assets</i>	<u>21,435</u>

Non Current Assets:

Capital Assets, Net of Accumulated Depreciation	<u>18,236</u>
Total Assets	<u>39,671</u>

Liabilities:

Current Liabilities:

Intergovernmental Payable	<u>78,412</u>
Total Liabilities	<u>78,412</u>

Net Position (Deficit)

Investment in Capital Assets	18,236
Unrestricted	<u>(56,977)</u>
Total Net Deficit	<u>\$ (38,741)</u>

See accompanying notes to the basic financial statements

LAKEWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2016

Operating Revenues:	
Foundation Payments	\$ 245,561
Fees	2,997
All Other Revenue	13
Total Operating Revenues	248,571
Operating Expenses:	
Purchased Services	216,037
Supplies and Materials	1,203
Depreciation	7,739
Other Operating Expense	8,918
Total Operating Expenses	233,897
Operating Income	14,674
Nonoperating Revenue:	
Intergovernmental Grants	20,645
Investment Earnings	4
Loss on Disposal of Capital Assets	(72)
Total Nonoperating Revenues	20,577
Change in Net Position	35,251
Net Position Beginning of Year	(73,992)
Net Deficit End of Year	<u>\$ (38,741)</u>

See accompanying notes to the basic financial statements

LAKWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Statement of Cash Flows For the Fiscal Year Ended June 30, 2016

<u>Cash Flows from Operating Activities:</u>	
Cash Received from School Foundation	\$173,683
Cash Received from Other Revenue	13
Cash Received from Fees	1,585
Cash Payments for Goods and Services	(215,330)
Cash Payments for Other Expenses	(8,694)
Net Cash Used for Operating Activities	(48,743)
<u>Cash Flows from Noncapital Financing Activities:</u>	
Intergovernmental Grants Received	20,645
Net Cash Provided by Noncapital Financing Activities	20,645
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Proceeds from Sale of Capital Assets	450
Net Cash Provided by Capital and Related Financing Activities	450
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	4
Net Cash Provided by Investing Activities	4
Net Decrease in Cash and Cash Equivalents	(27,644)
Cash and Cash Equivalents at Beginning of Year	48,946
Cash and Cash Equivalents at End of Year	\$21,302
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income	\$14,674
Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities:	
Depreciation Expense	7,739
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	2,175
Increase in Intergovernmental Payables-current	6,493
Decrease in Intergovernmental Payables-long-term	(78,412)
Decrease in Unearned Revenue	(1,412)
Total Adjustments	(63,417)
Net Cash Used for Operating Activities	(\$48,743)

See accompanying notes to the basic financial statements

LAKWOOD DIGITAL ACADEMY

*(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO*

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Lakewood Digital Academy, Hebron, Ohio (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status. The Academy’s objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the kindergarten through grade 12 population. It is to be operated under a contract with the Lakewood Local School District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive and standards-based educational program. The Academy, which is part of the State’s education program, is nonsectarian in its programs, admissions policies, employment practices and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was certified by the State of Ohio Secretary as a non-profit organization on April 8, 2002. The Academy was approved for operation under a contract with the Lakewood Local School District (the “Sponsor”). 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 began accepting students on August 25, 2003. On June 30, 2016, the Sponsor closed the Academy and students were no longer being accepted.

The Academy operates under the direction of a five-member Board of Directors which consists of residents of Lakewood Local School District. The Academy is considered a component unit of the Lakewood Local School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39. The Board of Directors 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. The Treasurer of Lakewood Local School District is the Treasurer of the Academy.

The accounting policies and financial reporting practices of the Academy conform to generally accepted accounting principles as applicable 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 following is a summary of its significant accounting policies.

LAKEWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Notes to the Basic Financial Statements *For the Fiscal Year Ended June 30, 2016*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Enterprise reporting focuses on the determination of the change in net position, financial position and cash flows.

C. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Revenues – Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue.

Eligibility requirements include 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.

LAKEWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, and investments with original maturities of three months or less. During fiscal year 2016, the Academy had no investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Capital Assets and Depreciation

Capital assets are defined by the Academy as assets with an initial, individual or group cost of more than \$600.

1. Property, Plant and Equipment

Property, plant and equipment acquired by the Academy are stated at cost (or estimated historical cost). Contributed capital assets are recorded at fair market value at the date received.

2. Depreciation

All capital assets are depreciated excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

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

LAKEWOOD DIGITAL ACADEMY

*(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO*

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Net Position

Net position represents the difference between assets and liabilities. Investment in capital assets consist of capital assets net of accumulated depreciation. 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 other governments.

The Academy's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

J. Estimates

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

K. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Academy, these revenues are foundation payments, fees, and other revenues. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

At year end the carrying amount of the Academy's deposits was \$21,302 and the bank balance was \$21,859. The Federal Deposit Insurance Corporation (FDIC) covered the entire bank balance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy will not be able to recover deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

LAKWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 3 - CAPITAL ASSETS

Summary by category of changes in capital assets at June 30, 2016:

Historical Cost:

<u>Class</u>	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
<i>Capital Assets being depreciated:</i>				
Equipment	\$134,509	\$0	(\$74,954)	\$59,555
Total Cost	\$134,509	\$0	(\$74,954)	\$59,555

Accumulated Depreciation:

<u>Class</u>	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Equipment	(\$108,012)	(\$7,739)	\$74,432	(\$41,319)
Total Depreciation	(\$108,012)	(\$7,739)	\$74,432	(\$41,319)
<i>Net Value:</i>	\$26,497			\$18,236

NOTE 4 – RELATED PARTY TRANSACTIONS

The Academy is a component unit of the Lakewood Local School District. As described in Note 1, the District is the Academy's sponsor. The Academy and the Sponsor entered into a new 5-year sponsorship agreement effective July 1, 2012 whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's Treasurer serves as the Academy's fiscal officer.

In fiscal year 2016, payments made by the Academy to the Sponsor totaled \$167,140. These represent payments for reimbursements for services provided by the Sponsor to the Academy.

LAKWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 5 – SERVICE AGREEMENTS

A. ACE Digital Academy

The Academy entered into a one-year contract effective July 1, 2015 with ACE Digital Academy (“ACE”) for an online curriculum fully aligned to Ohio’s Academic Content Standards. Under the contract, ACE is required to provide the following services:

- 1) ACE shall provide development and maintenance of the Lakewood Digital Academy’s virtual learning database, including registration of students and faculty.
- 2) Provide technology professional development.
- 3) Provide daily online virtual learning technical support.
- 4) Provide marketing consultation, treasurer’s office/EMIS support and intervention support.

For these services, the Academy is required to pay the following fees to ACE:

District Database Setup Fee - \$1,000 annually

Student License Fee - \$150 per student allows the student to enroll in unlimited courses and is valid for 365 days from the date of enrollment. The Lakewood Digital Academy uses the teachers that are provided by ACE, so an additional cost of \$200 is charged for a full year course and \$100 for a semester course.

For fiscal year 2016, the Academy remitted to ACE \$46,870 for student license fees and \$600 for summer school.

LAKEWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 5 – SERVICE AGREEMENTS (Continued)

B. Lakewood Local School District

The Sponsorship Contract and the annual Purchased Services Contracts with Lakewood Local School District outlines the specific payments to be made by the Academy to Lakewood Local School District during fiscal year 2016. In addition the Sponsorship Contract states that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Lakewood Local School District. The following payments were made in fiscal year 2016 from the Academy to Lakewood Local School District:

Purchased Services for Administrative and Fiscal Services	\$	64,950
Annual Payments of 3% of Funding provided by the Ohio Department of Education (management fee)		5,211
Purchased Services for Director and Student Assistant Specialist		95,399
Purchased Services for Special Education Related Services		465
Tutor/Intervention		635
Miscellaneous		480
Total	\$	<u>167,140</u>

NOTE 6 – PURCHASED SERVICES

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

Contractual Services	\$	214,311
Professional Services		600
Travel		557
Other		569
Total	\$	<u>216,037</u>

NOTE 7 – 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. On August 1, 2003, the Academy was named as an additional insured party on Lakewood Local School District's, the Sponsor, insurance policy. As of July 1, 2015, the Sponsor obtained a policy with Wright Specialty Insurance Company for general liability insurance and property insurance. The entire risk of loss, less any deductibles, transfers to the commercial carrier. The following limits and deductibles are in aggregate for both the Academy and the Sponsor. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate.

LAKWOOD DIGITAL ACADEMY

(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 7 – RISK MANAGEMENT (Continued)

There has been no significant reduction in insurance coverages from the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Wright Specialty Insurance Company provides property, crime, and equipment breakdown insurance coverage. The property coverage insures up to a blanket limit of \$1,000,000 with a \$5,000 deductible, commercial crime covers up to \$25,000. The limits and deductibles stated above are in aggregate for both the Academy and the Sponsor.

NOTE 8 - CONTINGENCIES

A. Grants

The Academy receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2016, if applicable, cannot be determined at this time.

B. Litigation

The Academy is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2016.

C. Ohio Department of Education Enrollment Review

The ODE conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the community schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As a result of the fiscal year 2015 reviews, the Academy owes \$78,412 to ODE. This amount has been reported as an intergovernmental payable on the statement of net position. A closing FTE review of the Academy was completed in fiscal year 2016. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

LAKWOOD DIGITAL ACADEMY

*(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO*

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 9 – CEASED OPERATIONS/SUBSEQUENT EVENTS/GOING CONCERN

Lakewood Local School District, sponsor for the Lakewood Digital Academy, a discretely presented component unit of the District, approved the closure of the Academy on June 30, 2016. Subsequent to the closure, the Academy began selling the remaining capital assets.

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) which contemplates continuation of the Academy as a going concern.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Lakewood Digital Academy
Licking County
525 East Main Street
Hebron, Ohio 43025

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Lakewood Digital Academy, Licking County, Ohio, a component unit of the Lakewood Local School District, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lakewood Digital Academy's basic financial statements and have issued our report thereon dated November 18, 2016, wherein we noted as discussed in Note 9, the Lakewood Digital Academy has ceased operations and will continue as a going concern.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Lakewood Digital 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 Lakewood Digital 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 Lakewood Digital 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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Directors
Lakewood Digital Academy

Compliance and Other Matters

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
November 18, 2016

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Dave Yost • Auditor of State

LAKESWOOD DIGITAL ACADEMY

LICKING 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
JANUARY 17, 2017