



**LONDON ACADEMY
(A COMPONENT UNIT OF LONDON CITY SCHOOL DISTRICT)
MADISON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2016



Dave Yost • Auditor of State

**LONDON ACADEMY
MADISON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

London Academy
Madison County
40 South Walnut Street
London, Ohio 43140

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of London Academy, Madison County, Ohio (the Academy), a component unit of the London City School District, as of and for the year ended June 30, 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

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

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 13 to the financial statements, on December 12, 2016 the Academy's Sponsor voted to close the Academy effective June 30, 2017. The financial statements do not include any adjustments that might result from this pending closure. 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*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2017 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

January 10, 2017

LONDON ACADEMY
(A Component Unit of London City School District)
Madison County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

This discussion and analysis of London 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 basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- The liabilities of the Academy exceeded its assets at the close of the most recent fiscal year by \$120,703 (negative net position), an increase of \$142,344 in comparison with the prior fiscal year.

Using this Financial Report

This report consists of three parts, Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those 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 2016?" These statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and liabilities are reported, both short and long-term. These statements use the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the fiscal year, regardless of when the cash is received or paid.

LONDON ACADEMY
(A Component Unit of London City School District)
Madison County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 1 provides a summary of the Academy's net position for fiscal year 2016 and fiscal year 2015:

	(Table 1)		
	Net Position		
	2016	2015	Increase (Decrease)
Assets:			
Current Assets	\$ 628,691	\$ 805,513	\$ (176,822)
Depreciable Capital Assets, Net	61,567	60,079	1,488
Total Assets	<u>690,258</u>	<u>865,592</u>	<u>(175,334)</u>
Liabilities:			
Current Liabilities	542,836	675,833	(132,997)
Non-Current Liabilities	268,125	452,806	(184,681)
Total Liabilities	<u>810,961</u>	<u>1,128,639</u>	<u>(317,678)</u>
Net Position:			
Net Investment in Capital Assets	61,567	60,079	1,488
Restricted	2,296	0	2,296
Unrestricted	(184,566)	(323,126)	138,560
Total Net Position	<u>\$ (120,703)</u>	<u>\$ (263,047)</u>	<u>\$ 142,344</u>

Current Assets decreased significantly in comparison with the prior fiscal year-end. This decrease is the result of a decrease in Cash and Cash Equivalents due to adjustments made to foundation payments.

Current Liabilities also decreased significantly in comparison with the prior fiscal year. This decrease is primarily the result of a decrease in the amount due to London City School District, in accordance with the sponsorship and purchased services agreements.

Non-Current Liabilities also decreased significantly in comparison with the prior fiscal year-end. This decrease is primarily the result of a decrease in the Foundation Settlement Agreement Payable, which represents current year payments.

LONDON ACADEMY
(A Component Unit of London City School District)
Madison County, Ohio

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

Table 2 shows the changes in net position for fiscal year 2016 and fiscal year 2015, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Position

	2016	2015	Increase (Decrease)
Operating Revenues:			
Foundation Revenues	\$ 1,246,086	\$ 991,082	\$ 255,004
Miscellaneous Revenues	35,230	205,392	(170,162)
Non-Operating Revenues:			
Federal and State Subsidies	175,573	219,534	(43,961)
Interest Earnings	47	66	(19)
Total Revenues	1,456,936	1,416,074	40,862
Operating Expenses:			
Purchased Services	957,985	1,062,659	(104,674)
Supplies and Materials	324,775	253,399	71,376
Depreciation	8,330	3,353	4,977
Miscellaneous	23,502	59,583	(36,081)
Total Expenses	1,314,592	1,378,994	(64,402)
Change in Net Position	142,344	37,080	105,264
Net Position at Beginning of Year	(263,047)	(300,127)	37,080
Net Position at End of Year	\$ (120,703)	\$ (263,047)	\$ 142,344

Foundation Revenues increased significantly in comparison with the prior fiscal year. This increase is primarily the result of an increase in enrollment from 215 students in fiscal year 2015 to 300 students in fiscal year 2016.

Miscellaneous Revenues decreased significantly in comparison with the prior fiscal year. This decrease is primarily the result of a reimbursement from The Sponsor in the prior fiscal year that did not occur in the current fiscal year.

LONDON ACADEMY
(A Component Unit of London City School District)
Madison County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Capital Assets

At the end of fiscal year 2016, the Academy had \$61,567 invested in capital assets, an increase of \$1,488 in comparison with the prior fiscal year. This increase represents the amount in which current year capital acquisitions, totaling \$9,818, exceeded current year depreciation of \$8,330.

For more information on capital assets see Note 5 to the basic financial statements.

Closure of the Academy

On December 12, 2016, the school board of the London City School District, the Academy's sponsor, voted to close the Academy effective June 30, 2017. This is discussed as Note 13 to the basic financial statements.

Contacting the Academy's Financial Management

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. For questions about this report or additional information, contact Ms. Jill Smith, Treasurer of London Academy, 40 South Walnut Street, London, Ohio 43140.

LONDON ACADEMY
(A COMPONENT UNIT OF LONDON CITY SCHOOL DISTRICT)
MADISON COUNTY

STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

Assets

Current Assets

Cash and Cash Equivalents	\$ 331,641
Intergovernmental Receivable	291,361
Prepaid Items	5,689

Non-current Assets

Depreciable Capital Assets, Net	61,567
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Total Assets	<u>690,258</u>
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Liabilities

Current Liabilities

Accounts Payable	3,273
Due To Primary Government	354,882
Foundation Settlement Agreement Payable	184,681

Noncurrent Liabilities

Foundation Settlement Agreement Payable	268,125
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Total Liabilities	<u>810,961</u>
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Net Position

Net Investment in Capital Assets	61,567
Restricted for:	
Federal Grant Programs	2,296
Unrestricted	(184,566)
Total Net Position	<u>\$ (120,703)</u>

See accompanying notes to the basic financial statements.

LONDON ACADEMY
(A COMPONENT UNIT OF LONDON CITY SCHOOL DISTRICT)
MADISON COUNTY

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

Operating Revenues:	
Foundation Revenues	\$ 1,246,086
Miscellaneous	35,230
Total Operating Revenues	<u>1,281,316</u>
 Operating Expenses:	
Purchased Services	957,985
Supplies and Materials	324,775
Depreciation	8,330
Miscellaneous	23,502
Total Operating Expenses	<u>1,314,592</u>
 Operating Loss	 <u>(33,276)</u>
 Non-Operating Revenues:	
State Subsidies	53,769
Federal Subsidies	121,804
Interest Earnings	47
Total Non-Operating Revenues	<u>175,620</u>
 Change in Net Position	 142,344
 Net Position at Beginning of Year	 <u>(263,047)</u>
Net Position at End of Year	<u>\$ (120,703)</u>

See accompanying notes to the basic financial statements.

LONDON ACADEMY
(A COMPONENT UNIT OF LONDON CITY SCHOOL DISTRICT)
MADISON COUNTY

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

Cash Flows From Operating Activities	
Cash Received from Foundation Payments	\$ 782,789
Cash Received from Other Revenues	29,651
Cash Payments for Contract Services	(1,099,840)
Cash Payments for Supplies and Materials	(324,767)
Cash Payments for Miscellaneous	(18,560)
Net Cash Used by Operating Activities	<u>(630,727)</u>
Cash Flows From Noncapital Financing Activities	
Cash from Federal and State Subsidies	<u>184,976</u>
Net Cash Provided by Noncapital Financing Activities	<u>184,976</u>
Cash Flows From Capital and Related Financing Activities	
Payments for Capital Acquisitions	<u>(9,818)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(9,818)</u>
Cash Flows From Investing Activities	
Interest Received	<u>47</u>
Net Cash Provided by Investing Activities	<u>47</u>
Net Decrease in Cash and Cash Equivalents	(455,522)
Cash and Cash Equivalents at Beginning of Year	<u>787,163</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 331,641</u></u>

See accompanying notes to the basic financial statements.

LONDON ACADEMY
(A COMPONENT UNIT OF LONDON CITY SCHOOL DISTRICT)
MADISON COUNTY

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

**Reconciliation of Operating Loss to Net Cash
Used by Operating Activities:**

Operating Loss	\$ (33,276)
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**Adjustments to Reconcile Operating Loss
to Net Cash Used by Operating Activities:**

Add Depreciation Expense	8,330
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Change in Assets and Liabilities

Increase in Intergovernmental Receivable	(287,466)
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Increase in Prepaid Items	(637)
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Decrease in Accounts Payable	(4,658)
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Decrease in Due to Primary Government	(137,189)
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Decrease in Foundation Settlement Agreement Payable	(175,831)
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Total Adjustments	<u>(597,451)</u>
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Net Cash Used by Operating Activities	<u><u>\$ (630,727)</u></u>
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See accompanying notes to the basic financial statements.

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

NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

London Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy, which is part of the State’s education program, is independent of any school district and 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. 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 ninth through twelfth grade population entirely through distance learning technologies. It is to be operated in cooperation with the public schools.

The Academy is a discretely presented component unit of the London City School District (the “District”). On September 10, 2013, the District signed a renewal contract with the Academy to be the Academy’s sponsor for the period July 1, 2013 through June 30, 2016, with automatic renewal for successive one-year terms provided the District has determined that the Academy’s compliance with applicable laws and terms of the contract and progress in meeting academic goals are satisfactory. The District is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a self-appointed five-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract which include, but is not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the Academy’s one instructional/support facility staffed by two non-certified and nine certificated full-time teaching personnel (employed by the District) who provide services to 300 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The Academy’s basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During the fiscal year, the Academy segregates transactions related to certain Academy functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For financial reporting, the Academy uses a single enterprise fund presentation.

Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Measurement Focus

The accounting and financial reporting treatment of the Academy's financial transactions is determined by the Academy's measurement focus. Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows provides information about how the Academy finances and meets its cash flow needs.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of the measurements made. The Academy's financial statements are prepared using the accrual basis of accounting.

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, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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.

Expenses are recognized at the time they are incurred.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore, no budgetary information is presented in the financial statements.

Cash and Cash Equivalents

The Academy's Treasurer accounts for all monies received by the Academy. The Academy maintains one interest bearing depository account and all funds of the Academy are maintained in this account. This account is presented on the Statement of Net Position as "Cash and Cash Equivalents". The Academy did not have any investments during fiscal year 2016.

Capital Assets

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$500 for all capital assets. The Academy does not possess 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.

Capital assets are depreciated using the straight-line method. Building improvements are depreciated over a useful life of 20 years and furniture, fixtures and equipment are depreciated over a useful life of 5-20 years.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Academy did not have any deferred outflows of resources at fiscal year-end.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy did not have any deferred inflows of resources at fiscal year-end.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the Academy. These revenues consist of foundation payments. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

Intergovernmental Revenues

The Academy currently participates in the State Foundation and Special Education Programs. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The remaining grants and entitlements received by the Academy are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

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.

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

NOTE 3 – DEPOSITS

At fiscal year-end, the carrying amount of the Academy’s deposits was \$331,641 and the bank balance was \$339,995. Of the Academy’s bank balance, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC), while the remaining \$89,995 was exposed to custodial risk. There are no significant statutory restrictions regarding the deposit and investments of funds by the Academy.

Custodial credit risk is the risk that, in the event of bank failure, the Academy’s deposits may not be returned. 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.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year.

A summary of intergovernmental receivables follows:

	<u>Amount</u>
Grants to Local Education Agencies (Title I)	\$ 3,895
Foundation Settlement Adjustment	<u>287,466</u>
	<u>\$ 291,361</u>

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

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Depreciable Capital Assets:				
Buildings Improvements	\$ 13,650	\$ 3,508	\$ -	\$ 17,158
Furniture, Fixtures and Equipment	88,683	6,310	-	94,993
Total Depreciable Capital Assets	<u>102,333</u>	<u>9,818</u>	<u>-</u>	<u>112,151</u>
Less Accumulated Depreciation:				
Buildings Improvements	(284)	(917)	-	(1,201)
Furniture, Fixtures and Equipment	(41,970)	(7,413)	-	(49,383)
Total Accumulated Depreciation	<u>(42,254)</u>	<u>(8,330)</u>	<u>-</u>	<u>(50,584)</u>
Capital Assets, Net	<u>\$ 60,079</u>	<u>\$ 1,488</u>	<u>\$ -</u>	<u>\$ 61,567</u>

NOTE 6 – AGREEMENT WITH LONDON CITY SCHOOL DISTRICT

On June 29, 2011, the Academy entered into an agreement with the District for educational and administrative services commencing on July 1, 2013 and expiring on June 30, 2016. The District is reimbursed by the Academy monthly for all costs associated with operating the Academy. Such cost areas include, but are not limited to: personnel (all teaching and administrative personnel are employees of the District); insurance; pension and retirement benefits; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, and legal and financial management services. The District is responsible for maintenance of the Academy's facility. Per the agreement, the Academy pays the District 80 percent of General Fund revenues received and unencumbered as of June 30th of each fiscal year, as mutually agreed upon. See Note 7 for the amount of actual expenses incurred by the District on behalf of the Academy.

NOTE 7 – PURCHASED SERVICES

During the fiscal year, purchased services expenses were \$957,985. Of this amount, \$878,966 represents services provided by the District, including salaries and benefits (all teaching and administrative personnel are employees of London City School District); insurance; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, legal and financial management services, and sponsorship services. The Academy also had purchased services expenses to other vendors in the amount of \$79,019.

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

NOTE 8 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. The Academy's coverage is provided under the District's policy with the Schools of Ohio Risk Sharing Authority. For fiscal year 2016, the Academy's coverage was for property, equipment breakdown, crime, general liability, educators' legal liability, automobile liability, and gatekeepers' liability.

Settled claims have not exceeded this commercial coverage since the Academy's inception. There has been no significant reduction in coverage from last fiscal year.

NOTE 9 – 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. 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.

Full-Time Equivalency Reviews – Academy Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, schools must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Academy, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the fiscal year 2015 and fiscal year 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.

Litigation - The Academy is currently not party to any legal proceedings.

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

NOTE 10 – RELATED PARTY TRANSACTION

The Academy is a component unit of the District. The Academy and the District entered into a sponsorship agreement on September 10, 2013 and a purchased services agreement on June 29, 2011. The Academy is required to pay to the District as described in Note 6.

During fiscal year 2016, the Academy paid the District \$679,133 for salaries and benefits; insurance; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, legal and financial management services, and sponsorship services. Additionally, at June 30, 2016, the Academy owes the District \$354,882 for services rendered during fiscal year 2016.

NOTE 11 – FOUNDATION SETTLEMENT AGREEMENT

In October 2014, the Academy entered into a settlement agreement with the Ohio Department of Education (“ODE”) and the State Board of Education and its Superintendent of Public Instruction. The agreement was a compromise of disputed claims between the parties arising from a fiscal year 2013 full-time equivalency (“FTE”) review conducted by the ODE, as well as claims by the Academy that it was owed additional funding due to its erroneous classification as an e-school from 2007 – 2014.

Pursuant to the agreement, ODE shall recover from the Academy \$477,394, which is 30% of the total State aid payments made to the Academy for fiscal year 2013. ODE will recover the amount from the Academy by making deductions from school foundation payments to the Academy in equal monthly installments beginning in November 2014 and ending in November 2020. The Academy made \$130,793 in payments on the agreement and has \$346,600 remaining to be paid.

Also pursuant to the agreement, all parties waived claims related to the Academy’s funding through fiscal year 2014, and the Academy shall be classified by ODE as a “brick and mortar” community school entitled to be funded as such effective with the first monthly community school foundation payment following June 30, 2014.

A 2015 FTE review performed by ODE revealed the Academy was overpaid by \$203,560 during fiscal year 2015. Repayment of this amount began in August 2015 and will be repaid in 23 equal monthly installments. The Academy made payments totaling \$97,355 and has an outstanding balance of \$106,205 remaining to be paid.

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

NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2016, the Academy has implemented the following:

GASB Statement No. 72 “*Fair Value Measurement and Application*” which enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. The implementation of this statement did not have an effect on the financial statements of the Academy.

GASB Statement No. 76 “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*” which improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. The implementation of this statement did not have an effect on the financial statements of the Academy.

GASB Statement No. 79 “*Certain External Investment Pools and Pool Participants*” establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of this statement did not have an effect on the financial statements of the Academy.

NOTE 13 – SUBSEQUENT EVENT

On December 12, 2016, the school board of the London City School District, the Academy’s Sponsor, voted to close the Academy effective June 30, 2017.

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Dave Yost • Auditor of State

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

London Academy
Madison County
40 South Walnut Street
London, Ohio 43140

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 London Academy, Madison County, (the Academy), a component unit of the London City School District, as of and for the year ended June 30, 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 January 10, 2017, where we noted on December 12, 2016, the Academy's Sponsor voted to close the Academy effective June 30, 2017.

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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the 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 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 initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

January 10, 2017



Dave Yost • Auditor of State

LONDON ACADEMY

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 7, 2017**