



**SOUTHWEST LICKING DIGITAL ACADEMY
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)
LICKING COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2016**



Dave Yost • Auditor of State

**SOUTHWEST LICKING DIGITAL ACADEMY
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)
LICKING COUNTY**

JUNE 30, 2016

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Southwest Licking Digital Academy
Licking County
927-A South Street
Pataskala, Ohio 43062

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the Southwest Licking Digital Academy, Licking County, Ohio (the Academy), a component unit of Southwest Licking Local 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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of the Southwest Licking Digital Academy, Licking County, Ohio, a component unit of Southwest Licking Digital Academy, as of June 30, 2016, and the changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

As discussed in Note 10 to the financial statements, the Academy closed due to lack of enrollment and funding on August 18, 2016. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 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.



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Dave Yost
Auditor of State
Columbus, Ohio

March 8, 2017

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Management's Discussion and Analysis
For the Year Ended June 30, 2016
(Unaudited)

The Management's Discussion and Analysis of the Southwest Licking Digital Academy (the "Academy") 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 our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the Academy's financial performance.

Financial Highlights

The total assets of the Academy were \$25,000 as of June 30, 2016. Net position of the Academy totaled \$25,000, a decrease of \$26,329 from the prior year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Academy's cash basis of accounting.

Report Components

The Statement of Net Position – Cash Basis and the Statement of Receipts, Disbursements, and Changes in Net Position – Cash Basis provide information about the Academy as a whole.

The Management's Discussion and Analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of two components: the basic financial statements and the notes to the basic financial statements.

The Statement of Net Position – Cash Basis and the Statement of Receipts, Disbursements, and Changes in Net Position – Cash Basis reflect how the Academy did financially during the year ended June 30, 2016. The change in net position is important because it tells the reader whether the cash position of the Academy has increased or decreased during the period.

The notes to the financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Management's Discussion and Analysis
For the Year Ended June 30, 2016
(Unaudited)

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Academy has elected to present its financial statements using the cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Academy's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and deferred outflows and their related revenues (such as accounts receivable) and certain liabilities and deferred inflows and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Financial Analysis

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

Table 1
Net Position at Year End

	2016	2015
Assets:		
Cash and Cash Equivalents	\$ 25,000	\$ 51,329
Total Assets	25,000	51,329
Net Position:		
Unrestricted	25,000	51,329
Total Net Position	\$ 25,000	\$ 51,329

At year end, the Academy had no external restrictions on their net position.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Management's Discussion and Analysis
For the Year Ended June 30, 2016
(Unaudited)

Financial Analysis (continued)

Table 2 provides a summary of the Academy's change in net position for 2016 and 2015:

Table 2
Changes in Net Position

	2016	2015
Operating Receipts:		
Foundation Receipts	\$ 236,442	\$ 153,606
Total Operating Receipts	236,442	153,606
Nonoperating Receipts		
Federal Grants	1,248	17,424
State Grants	2,005	1,513
Interest Earnings	84	33
Total Nonoperating Receipts	3,337	18,970
Total Receipts	239,779	172,576
Operating Disbursements:		
Purchased Services	262,912	134,162
Supplies and Materials	777	9,261
Capital Outlay	-	1,340
Other	2,419	2,392
Total Operating Disbursements	266,108	147,155
Change in Net Position	(26,329)	25,421
Net Position, Beginning of Year	51,329	25,908
Net Position, End of the Year	\$ 25,000	\$ 51,329

Foundation Receipts and Total Operating Disbursements both increased significantly in comparison with the prior fiscal year. These increases are the result of an increase in enrollment.

Federal Grants decreased significantly in comparison with the prior fiscal year. This decrease is the result of a decrease in Small Rural School Grant funding received during the year.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Management's Discussion and Analysis
For the Year Ended June 30, 2016
(Unaudited)

Budget Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement as part of preparing a five-year forecast, which is updated on an annual basis.

Contacting the Academy's Financial Management

The financial report is designed to provide a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have any questions about this report or need additional information contact Richard D. Jones, Treasurer, at RDJones@laca.org or call 740-927-4744.

**SOUTHWEST LICKING DIGITAL ACADEMY
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)
LICKING COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
AS OF JUNE 30, 2016**

Assets	
Cash and Cash Equivalents	\$ 25,000
Total Assets	<u>25,000</u>
Net Position	
Unrestricted	25,000
Total Net Position	<u>\$ 25,000</u>

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING DIGITAL ACADEMY
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)
LICKING COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating Receipts:	
Foundation Receipts	\$ 236,442
Total Operating Receipts	<u>236,442</u>
Operating Disbursements:	
Purchased Services	262,912
Supplies and Materials	777
Other	2,419
Total Operating Disbursements	<u>266,108</u>
Operating Loss	<u>(29,666)</u>
Non-Operating Receipts:	
Federal Grants	1,248
State Grants	2,005
Interest Earnings	84
Total Non-Operating Receipts	<u>3,337</u>
Change in Net Position	(26,329)
Net Position at Beginning of Year	51,329
Net Position at End of Year	<u><u>\$ 25,000</u></u>

See accompanying notes to the basic financial statements.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 – Description of the Reporting Entity

The Southwest Licking Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702. The Academy's mission is to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schooled children, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, and transient students within the Southwest Licking Local School District, the sponsor school district, that desire a specific course not currently offered that is available through online instruction.

The Academy was formally created on January 9, 2003, by entering a sponsorship contract with the Southwest Licking 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 Treasurer for the Academy is also the Treasurer for the Southwest Licking Local School District. See Note 6 for additional information regarding the sponsorship agreement with the Sponsor.

The Academy purchased the services of Virtual Community School (VCS) to provide educational services during the fiscal year. See Note 7 for information regarding the contract between the Academy and VCS.

The Academy operates under the direction of a five-member Board of Directors appointed by the Sponsor. The majority of those appointed by the Sponsor shall be elected or appointed public officials or public employees, or shall be community leaders who have demonstrated a professional interest in education or in other issues involving children. The remaining members of the Board shall be persons who are parents of students who are expected to attend the community school.

The Academy is a component unit of the Sponsor. The Sponsor appoints a majority of the Board of Directors and is able to impose its will on the Academy. The Sponsor can suspend the Academy's operations for any of the following reasons: 1) The Academy's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The Academy's failure to meet generally accepted standards of fiscal management, 3) the Academy's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause.

The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of the Academy and the children it serves. The Academy also used the facilities of the Sponsor.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.B, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Academy's accounting policies.

A. Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Position – Cash Basis; and a Statement of Receipts, Disbursements, and Changes in Net Position – Cash Basis. These statements are prepared on the cash basis of accounting as further described in Note 2 B.

The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income/(loss), changes in net position, and financial position.

B. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Academy's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and deferred outflows and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and deferred inflows and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

D. Cash and Cash Equivalents

The Academy had no investments during the fiscal year.

For purposes of the presentation on the Statement of Net Position – Cash Basis, investments with maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with maturities greater than three months at the time they are purchased are reported as investments.

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws or other governments or imposed by enabling legislation. The Academy had no restricted assets for the year ended June 30, 2016.

F. Prepaid Items

The Academy reports disbursements for prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Inventory

The Academy reports disbursements for inventory when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements. Also, depreciation has not been reported for the capital assets.

I. Accrued Liabilities and Long-Term Obligations

The Academy's cash basis financial statements do not report liabilities for accrued liabilities and long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

J. 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 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 had no restricted net position for the year ended June 30, 2016.

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

K. Operating Receipts and Disbursements

Operating receipts are those revenues that are generated directly from the primary activity of the Academy. Operating disbursements are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All receipts and disbursements not meeting this definition are reported as non-operating.

Note 3 – Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Academy prepared its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets and deferred outflows, liabilities and deferred inflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The Academy can be fined and various other administrative remedies may be taken against the Academy.

Note 4 – Deposits and Investments

Deposits

At fiscal year-end, the carrying amount of the Academy's deposits was \$25,000, and the bank balance was \$131,066. The entire bank balance was covered by federal depository insurance.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 5 – Risk Management

Property and Liability

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 the fiscal year, the Academy was listed as an additional insurance organization on the Sponsor's insurance coverage from Liberty Mutual. The types and amounts of coverage provided by Ohio Casualty are as follows:

General Liability Coverage - \$2,000,000
Employee Benefits Liability - \$3,000,000
Errors and Omissions Injury - \$1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior fiscal year.

Note 6 – Fiscal Agent and Payment to Sponsor

The Community School Sponsorship Contract between the Academy and the Southwest Licking Local School District requires the Academy to pay the following amounts:

- The Academy was required to pay to the Sponsor \$25,000 for planning, design, and initial implementation services acquired by the Sponsor on behalf of the Academy from TRECA. This fee was paid during fiscal year 2004.
- The Academy is required to make annual payments to the Sponsor of \$1,400 per student per year.
- The Academy may also pay the Sponsor other amounts as are mutually agreed for any services provided to the Academy by the Sponsor.
- The Academy was required to pay to the Sponsor three percent of the payments for operating expenses that Academy received from the State.
- The Academy was required to pay to the Sponsor \$6,000 for the Sponsor's provision and maintenance of the Academy Facilities.

During the year ended June 30, 2016, the Academy paid the Sponsor \$111,624 for the services defined above. This amount is presented as Purchased Services in the financial statements.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 7 – Contract with the Virtual Community School

The Academy entered into a one year contract with the Virtual Community School (VCS) to provide educational services for fiscal year 2016. Under the contract, the following terms were agreed upon:

- VCS will provide the Academy's full time students access to classes totaling seven (7) academic credits per school year.
- VCS will provide highly qualified teachers and/or adjunct teachers to deliver the educational services to all the Academy's full time students.
- VCS Ohio will offer the Academy's full time students with a computer, printer, and scanner.
- VCS will provide help desk support and technical support for equipment and course issues.
- VCS will provide training to the Academy's staff twice per year.
- VCS will provide marketing material and marketing support to the Academy.
- VCS will provide a microsite to the Academy. The microsite will include a personalized banner.
- The Academy shall pay to VCS approximately \$2,650 per full-time student, which will entitle the student to classes totaling seven academic credits, computer, scanner, and printer.

During the fiscal year, the Academy paid VCS \$132,800 for these services. This amount is presented on the Purchased Services line on the Financial Statements. To obtain Virtual Community School's audited June 30, 2016 financial statements, contact Mr. Shane Allen, Treasurer, Virtual Community School of Ohio, 4480 Refugee Road, Columbus, Ohio 43232.

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability for the Academy.

B. Full-Time Equivalency Reviews - As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 and 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 a liability of the Academy.

C. Litigation - The Academy is not party to any litigation that, in the opinion of management, would have a material effect on the financial statements.

Southwest Licking Digital Academy
(A Component Unit of Southwest Licking Local School District)
Licking County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 9 – Jointly Governed Organizations

A. Licking Area Computer Association

The Academy is a participant in the Licking Area Computer Association (LACA). LACA is an association which services 30 entities within the boundaries of Licking, Perry, Fairfield, Knox, Medina and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the Academy's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The Academy's total payments to LACA for fiscal year 2016 were \$502. Financial statements for LACA can be obtained from their fiscal agent, the Career and Technology Education Center of Licking County, 150 Price Road, Newark, OH 43055.

Note 10 – Subsequent Events

On August 18th, 2016, the Sponsor's Board of Education voted to close the Academy effective immediately due to the lack of enrollment.

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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*

Southwest Licking Digital Academy
Licking County
927-A South Street
Pataskala, Ohio 43062

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 cash-basis financial statements of the Southwest Licking Digital Academy, Licking County, Ohio, (the Academy), a component unit of Southwest Licking Local Digital Academy, 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 March 8, 2017, wherein we noted the Academy uses a special purpose framework other than the generally accepted accounting principles, and wherein we noted the Academy closed due to lack of enrollment and funding on August 18, 2016.

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 a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-002 to be a material weakness.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as item 2016-001 and 2016-002.

Academy's Response to Findings

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

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.



Dave Yost
Auditor of State
Columbus, Ohio

March 8, 2017

**SOUTHWEST LICKING DIGITAL ACADEMY
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)
LICKING COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Annual Financial Reporting – Material Noncompliance

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code §117.38.

Ohio Admin. Code § 117-2-03(B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the Academy prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This presentation differs from accounting principles generally accepted in the United States of America (GAAP).

The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the Academy being fined or other administrative remedies.

Pursuant to Ohio Rev. Code §117.38 the Academy may be fined for its failure to file the required financial report.

We recommend the Academy prepare its financial statements in accordance with GAAP.

Officials' Response

See Corrective Action Plan

FINDING NUMBER 2016-002

Full Time Equivalent Reporting – Noncompliance / Material Weakness

Ohio Rev. Code § 3314.08 provides the formula by which Community Schools are funded. Community Schools receive funding from the state through the per-pupil foundation allocation. Unlike city, local, exempted village and joint vocational school districts, Community Schools have no tax base from which to draw funds for buildings and investment in infrastructure. A full-time student is one who attends the entire school day and entire school year; that will result with the student having a Full-Time Equivalence (FTE) of 1.00. Students who attend a Community School for less than the entire year will have an FTE equal to the total days/hours attended divided by the number of days/hours in the school year. Community Schools are funded on a per-pupil FTE basis.

**SOUTHWEST LICKING DIGITAL ACADEMY
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)
LICKING COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2016-002 (Continued)

Full Time Equivalent Reporting – Noncompliance / Material Weakness (Continued)

Ohio Rev. Code § 3314.08(H) requires, in relevant part, the Ohio Department of Education (ODE) to adjust the amounts subtracted and paid under division (C) of that section to reflect the enrollment in community schools of students for less than the equivalent of a full school year.

Ohio Rev. Code § 3314.08(H)(2) provides in relevant part, “A student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system established under Ohio Rev. Code § 3301.0714. For purposes of applying this division and divisions (H)(3) and (4) of this section to a community school student, "learning opportunities" shall be defined in the contract, which shall describe both classroom-based and non-classroom-based learning opportunities and shall be in compliance with criteria and documentation requirements for student participation which shall be established by the department. Any student's instruction time in non-classroom-based learning opportunities shall be certified by an employee of the community school.”

Ohio Rev. Code § 3314.08(H)(3) includes the following: “The department shall determine each community school student's percentage of FTE based on the percentage of learning opportunities offered by the community school to that student, reported either as number of hours or number of days, is of the total learning opportunities offered by the community school to a student who attends for the school's entire school year. However, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours. Whether it reports hours or days of learning opportunities, each community school shall offer not less than nine hundred twenty hours of learning opportunities during the school year.”

In addition, **Ohio Rev. Code § 3314.03(A) (11) (a)** states, in relevant 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.”

The Academy received a FTE review by ODE for Fiscal Year 2016. During this review, ODE found that the School's procedures and policies that were in place for Fiscal Year 2016 did not capture the duration of time a student spent on the non-logged in computer and non-computer learning opportunities. In addition, the online log-in report for one student was not able to be reviewed due to cancelation of the on-line logging system subscription.

The Academy reported total FTEs of 32.03 to ODE for the 2016 school year. Based on the review noted above ODE reported 13.05 FTE students. The Academy's inability to provide documentation to support the FTE requirements for each student in EMIS could result in ODE requesting repayment of up to 59.6 percent of 2016 funding provided to the Academy.

**SOUTHWEST LICKING DIGITAL ACADEMY
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)
LICKING COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2016-002 (Continued)

Full Time Equivalent Reporting – Noncompliance / Material Weakness (Continued)

We recommend the School review current statutory requirements and guidance issued by ODE to determine the documentation needed to support the FTE data to be reported for each student. Once the School has a clear understanding of what is required to support FTE, the School should review and if applicable, update current policies and procedures to capture all critical elements of time spent by students on computer, as well as, non-computer learning opportunities.

Officials' Response

See Corrective Action Plan

**SOUTHWEST LICKING DIGITAL ACADEMY
 (A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)
 LICKING COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
 JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2014-001 2015-001	Ohio Rev. Code § 117.38 The Academy did not file GAAP basis financial statements. Finding first occurred in fiscal year 2004 at finding 2004-SWLSLSD-001.	Not corrected.	The District elects to report on a cash basis rather than GAAP. The finding was re-issued as 2016-001. See the corrective action plan for further details.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	None. The Digital Academy closed down effective August 2016.	N/A	Richard D. Jones, Treasurer
2016-002	None. The Digital Academy closed down effective August 2016.	N/A	Jeff Severino, Executive Director

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Dave Yost • Auditor of State

SOUTHWEST LICKING 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
APRIL 11, 2017**