



**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2013



Dave Yost • Auditor of State

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditors' Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Auditor's Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	19
Schedule of Findings.....	21
Schedule of Prior Audit Findings.....	22

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Cardington-Lincoln Local Digital Academy
Morrow County
121 Nichols Street
Cardington, Ohio 43315

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Cardington-Lincoln Local Digital Academy, Morrow County, Ohio (the Academy), a component unit of the Cardington-Lincoln Local School District, as of and for the year ended June 30, 2013, 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cardington-Lincoln Local Digital Academy, Morrow County, Ohio, as of June 30, 2013, and the changes in its 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.

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 March 7, 2014 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 District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

March 7, 2014

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Unaudited)

The management's discussion and analysis of the Cardington-Lincoln Local Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- In total, net position was \$264,253 at June 30, 2013.
- The Academy had operating revenues of \$237,781 and operating expenses of \$266,388 for fiscal year 2013. The Academy also received \$278 in interest revenue and \$14,367 in Federal and State grants during fiscal year 2013. Total change in net position for the fiscal year was a decrease of \$13,962.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *statement of net position* and *statement of revenues, expenses and changes in net position* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations. The *statement of cash flows* provides information about how the Academy finances and meets the cash flow needs of its operations.

Reporting the Academy Financial Activities

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2013?" The statement of net position and the statement of revenues, expenses and changes in net position answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report. The statement of cash flows can be found on page 9.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 11-18.

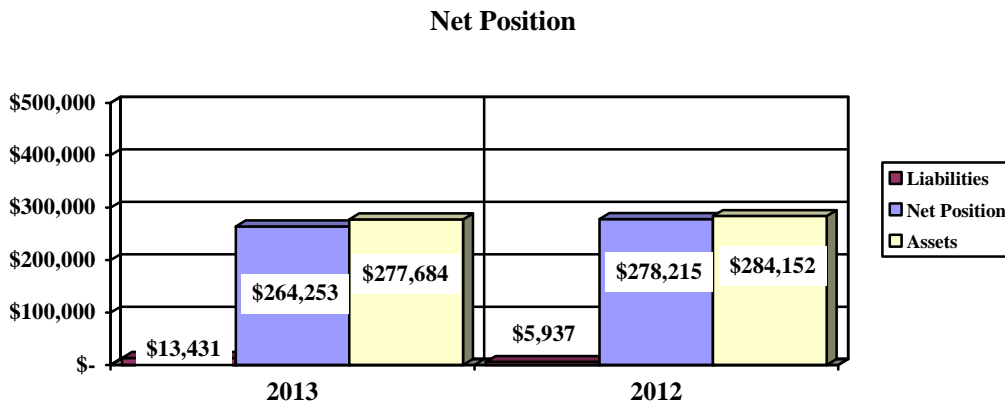
CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Unaudited)

The table below provides a summary of the Academy's net position at June 30, 2013 and June 30, 2012.

Net Position		
	2013	2012
<u>Assets</u>		
Current assets	\$ 256,683	\$ 262,536
Capital assets, net	21,001	21,616
Total assets	277,684	284,152
<u>Liabilities</u>		
Current liabilities	13,431	5,937
Total liabilities	13,431	5,937
<u>Net Position</u>		
Invested in capital assets	21,001	21,616
Restricted	-	36,767
Unrestricted	243,252	219,832
Total net position	\$ 264,253	\$ 278,215

The chart below illustrates the Academy's assets, liabilities and net position at June 30, 2013 and June 30, 2012.



Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2013, the Academy's assets exceeded liabilities by \$264,253.

At year-end, capital assets represented 7.56% of total assets. Capital assets consisted of computers and printers. There is no debt related to the capital assets. Capital assets are used to provide services to the students and are not available for future spending.

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Unaudited)

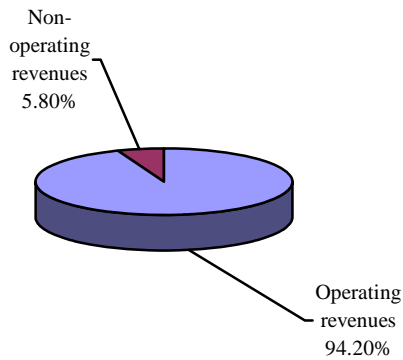
The table below shows the changes in net position for fiscal year 2013 and 2012.

Change in Net Position

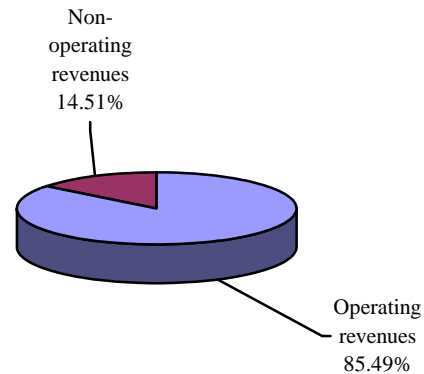
	<u>2013</u>	<u>2012</u>
<u>Operating Revenues:</u>		
State foundation	\$ 226,314	\$ 279,490
Other revenue	11,467	5,120
Total operating revenue	<u>237,781</u>	<u>284,610</u>
<u>Operating Expenses:</u>		
Purchased services	247,663	229,705
Materials and supplies	736	149
Other	6,574	6,252
Depreciation	11,415	8,590
Total operating expenses	<u>266,388</u>	<u>244,696</u>
<u>Non-operating revenues:</u>		
Federal and state grants	14,367	48,043
Interest income	278	260
Total non-operating revenues	<u>14,645</u>	<u>48,303</u>
Change in net position	(13,962)	88,217
Net position at beginning of year	<u>278,215</u>	<u>189,998</u>
Net position at end of year	<u>\$ 264,253</u>	<u>\$ 278,215</u>

The charts below illustrate the revenues and expenses for the Academy during fiscal year 2013 and 2012.

2013 Revenues

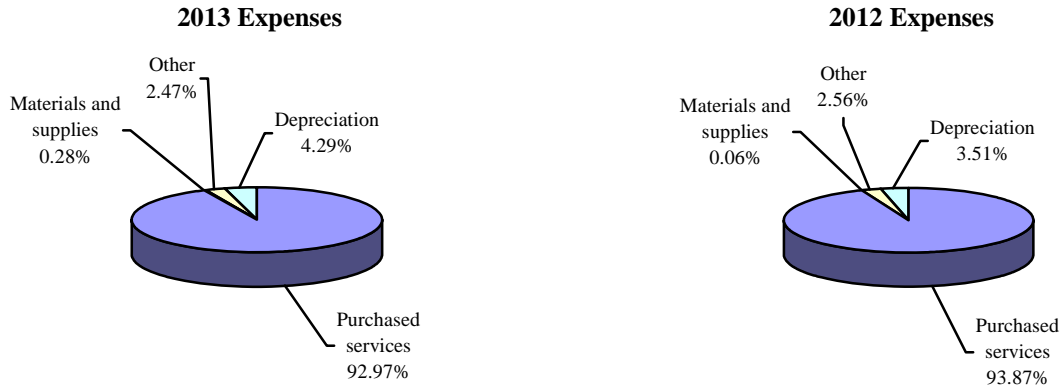


2012 Revenues



CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Unaudited)



The decrease in non-operating revenues is due to the Academy no longer receiving certain grant revenues including Education Jobs. Operating revenues decreased due to a decrease in enrollment. This caused a decrease in foundation revenue.

Economic Conditions and Outlook

The Academy is a conversion community school sponsored by the Cardington-Lincoln Local School District. The sponsorship currently runs through 2013 and will be continuing from 2014 to 2018.

At the present time, the Academy relies primarily on State funding for its resources. The Academy also received federal start up funds for the first two years of operations and receives a small federal grant (IDEA Part B) each year for special education purposes. Unlike traditional schools, the Academy cannot levy taxes and must survive on state revenues and various grants. As such, the Academy watches its expenditures closely. The Academy Director and teachers are contracted through Tri-Rivers Educational Computer Association ("TRECA") and several curriculum providers. By operating in this fashion, the Academy is able to save substantial funds by not expending funds for fringe benefits, health care costs, etc. The Academy also contracts for EMIS through TRECA. There are no immediate financial concerns at this time. The Academy's five-year forecast is healthy and no budgetary cuts are projected in the upcoming five-years.

The Academy is committed to operating within its financial means, while providing quality online educational opportunities to its students. The management of the Academy will also continue to pursue adequate funding sources to secure its financial stability.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and 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 Mr. Scott Osborne, Treasurer, Cardington-Lincoln Local Digital Academy, 121 Nichols St., Cardington, Ohio 43315.

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2013

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$ 256,683
---	------------

Total current assets	<u>256,683</u>
--------------------------------	----------------

Non-current assets:

Depreciable capital assets, net	21,001
---	--------

Total non-current assets.	<u>21,001</u>
-----------------------------------	---------------

Total assets.	<u>277,684</u>
-----------------------	----------------

Liabilities:

Current liabilities:

Accounts payable.	81
Intergovernmental payable	<u>13,350</u>

Total liabilities	<u>13,431</u>
-----------------------------	---------------

Net position:

Investment in capital assets.	21,001
---------------------------------------	--------

Unrestricted.	<u>243,252</u>
-----------------------	----------------

Total net position.	<u>\$ 264,253</u>
-----------------------------	-------------------

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Operating revenues:	
Foundation revenue	\$ 226,314
Other	11,467
Total operating revenues	<u>237,781</u>
Operating expenses:	
Purchased services.	247,663
Materials and supplies	736
Other.	6,574
Depreciation	11,415
Total operating expenses.	<u>266,388</u>
Operating loss	<u>(28,607)</u>
Non-operating revenues:	
Grants and subsidies.	14,367
Interest revenue	278
Total nonoperating revenues	<u>14,645</u>
Change in net position	(13,962)
Net position at beginning of year.	<u>278,215</u>
Net position at end of year	<u>\$ 264,253</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Cash flows from operating activities:	
Cash received from state foundation	\$ 229,083
Cash received from other operations	11,467
Cash payments for contractual services	(240,424)
Cash payments for materials and supplies	(655)
Cash payments for other expenses	(6,400)
	(6,929)
 Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	62,410
	62,410
 Cash flows from capital and related financing activities:	
Acquisition of capital assets	(10,800)
	(10,800)
 Cash flows from investing activities:	
Interest received	278
	278
Net cash provided by investing activities	278
Net increase in cash and cash cash equivalents	44,959
Cash and cash equivalents at beginning of year . . .	211,724
Cash and cash equivalents at end of year	\$ 256,683
	256,683
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (28,607)
Adjustments:	
Depreciation	11,415
Changes in assets and liabilities:	
Decrease in intergovernmental receivable	2,769
Decrease in accounts payable.	(5,856)
Increase in intergovernmental payable	13,350
	13,350
Net cash used in operating activities	\$ (6,929)
	(6,929)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Cardington-Lincoln Local Digital Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect its 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 populations entirely through distance learning technologies. It is to be operated under a contract with the Cardington-Lincoln 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 other, including home-schooled students 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 of State as a non-profit organization on October 1, 2002. The Academy was approved for operation under a contract between the Cardington-Lincoln Local School District (the "Sponsor") for five years commencing July 1, 2004. A successor contract was approved for five years ending on June 30, 2013. 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 operates under the direction of a five-member Board of Directors which consists of 5 community members who are neither officers nor employees of the Cardington-Lincoln Local School District, or other public official representing a governmental entity that desires to further the establishment and operation of the School District. Due to the amount of influence the Cardington-Lincoln Local School District has over the Academy's Board, the Academy is a component unit of the Cardington-Lincoln Local School District. 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 Cardington-Lincoln Local School District is also the Treasurer of the Academy.

The Board of Directors has entered into a one-year contract with Tri-Rivers Educational Computer Association ("TRECA") to provide planning, instructional, administrative and technical services required for the operation of the Academy (See Note 5).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

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

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash

Cash received by the Academy is maintained in a demand deposit account.

E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$500. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Equipment is depreciated over three years.

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

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

F. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its 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 first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

G. Intergovernmental Revenue

The Academy currently participates in the IDEA Part B Grant, Rural Education Achievement Program Grant (REAP) and the State Foundation Program. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the 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. Revenues received from the State Foundation Program are recognized as operating revenues.

H. Accrued Liabilities

The Academy has recognized certain expenses due, but unpaid as of June 30, 2013. These expenses are reported as accrued liabilities in the accompanying financial statements.

I. Estimates

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

NOTE 3 - DEPOSITS

At June 30, 2013, the carrying amount of the Academy's deposits was \$256,683. Based on the criteria discussed in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$10,592 of the Academy's bank balance of \$260,592 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC. 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 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.

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

NOTE 3 – DEPOSITS – (Continued)

The Academy has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

The Academy had no investments.

NOTE 4 - CAPITAL ASSETS

	<u>Balance</u> <u>6/30/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2013</u>
Equipment	\$ 148,420	\$ 10,800	\$ -	\$ 159,220
Less: accumulated depreciation	<u>(126,804)</u>	<u>(11,415)</u>	<u>-</u>	<u>(138,219)</u>
Net capital assets	<u>\$ 21,616</u>	<u>\$ (615)</u>	<u>\$ -</u>	<u>\$ 21,001</u>

NOTE 5 - SERVICE AGREEMENTS

A. Tri-Rivers Educational Computer Association

The Academy entered into a one-year agreement with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative and technical services required for the operation of the Academy for fiscal year 2013. Under the contract, TRECA is required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan, assessment and accountability plan and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing services to the Academy on behalf of TRECA. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to TRECA. In cases where equipment is unrecoverable, the Academy shall reimburse TRECA up to \$900 per student except if the student has been enrolled in the Academy for at least 90 days, the Academy shall reimburse TRECA in the amount of \$700, and, if the student has been enrolled in the Academy for at least 180 days, the Academy shall reimburse TRECA in the amount of \$500.
4. Curricular services limited to standardized curriculum developed by TRECA.

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

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

NOTE 5 - SERVICE AGREEMENTS - (Continued)

A. Tri-Rivers Educational Computer Association - (Continued)

Enrollment - \$3,910 per full time student enrolled per year. In case of a student enrolled with an Individualized education program (IEP), the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, actual costs for that student are provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from Department of Education for special education and related services is due to TRECA for that student. The Academy receives a maximum reduction of \$47,500 to the enrollment fee by providing one full-time certified teacher who meets the staffing needs of TRECA. This is contingent on the staffing needs of TRECA and the reduction will be prorated with the actual amount dependent upon the number of days the teacher is contracted to work with TRECA.

B. Cardington-Lincoln Local School District

The Community School Sponsorship Contract and the annual Purchased Services Contract between the Academy and Cardington-Lincoln Local School District outlined the specific payments to be made by the Academy to Cardington-Lincoln Local School District during fiscal year 2013. In addition, the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Cardington-Lincoln Local School District.

The following payments were made in fiscal year 2013 from the Academy to Cardington-Lincoln Local School District:

Administrative Services	<u>\$ 38,350</u>
Cardington-Lincoln Local School District for fiscal year 2013	<u>\$ 38,350</u>

NOTE 6 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the Academy was named as an additional insured party on Cardington-Lincoln Local School District's, the Sponsor, insurance policy.

Settled claims have not exceeded commercial coverage in the past three years. There was no significant reduction in coverage from the prior year.

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

NOTE 7 - CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous federal, State and local 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy.

B. Litigation

The Academy is not a party to legal proceedings that, in the opinion of management, would have a material adverse effect on the financial statements.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The Academy anticipates no adjustment to State funding for fiscal year 2014 as a result of the reviews which have yet to be completed.

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2013, purchased services expenses were as follows:

Professional and technical services	<u>\$ 247,663</u>
-------------------------------------	-------------------

NOTE 9 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2013, the Academy has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Academy.

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
(A Component Unit of Cardington-Lincoln Local School District)
MORROW COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)

NOTE 9 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Change in Accounting Principles (Continued)

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Academy.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Academy.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the Academy's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect the financial statements of the Academy.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

THIS PAGE INTENTIONALLY LEFT BLANK



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*

Cardington-Lincoln Local Digital Academy
Morrow County
121 Nichols Street
Cardington, Ohio 43315

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 Cardington-Lincoln Local Digital Academy, Morrow County, Ohio (the Academy), a component unit of the Cardington-Lincoln Local School District, as of and for the year ended June 30, 2013, 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 7, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a 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. We consider finding 2013-001 described in the accompanying schedule of findings 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Academy's Response to Finding

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly we express no opinion on it.

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 7, 2014

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013**

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

FINDING NUMBER 2013-001

Financial Reporting – Material Weakness

Sound financial reporting is the responsibility of the Academy's management and Board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

We noted the following misstatements on the Academy's fiscal year 2013 financial statements:

- Expenditures totaling \$3,163 that were accrued as payables but were attributable to fiscal year 2014 operations and therefore should not have been accrued.
- On the Statement of cash flows, the total on the reconciliation of operating loss to net cash used in operating activities did not agree to the total cash used for operating activities section by \$3,060.
- The Academy purchased \$10,800 of laptop computers; these laptops and related depreciation were not included as capital assets on the Academy's financial statements.

The Academy's financial statements and accounting records, where applicable, have been adjusted to correct these errors.

We recommend the Academy implement internal control procedures over financial reporting to ensure the completeness and accuracy of financial information reported within the Academy's annual report. Such procedures may include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions. The corrections to the financial statements described above should be reviewed by management and the Board to ensure that similar errors are not repeated in the financial statements in subsequent years.

Official's Response:

The Academy will work closely with the GAAP converter to ensure these types of misstatements do not occur in the future.

**CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-01	Material Weakness – Financial Reporting	No	Re-Issued in the current report as Finding 2013-001



Dave Yost • Auditor of State

CARDINGTON-LINCOLN LOCAL DIGITAL ACADEMY

MORROW 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 8, 2014**