



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, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

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

**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, 2015, 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*, 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 March 11, 2016, 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

March 11, 2016

**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, 2015  
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, 2015. 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 \$263,047 (negative net position), an increase of \$37,080 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 2015?" 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, 2015  
Unaudited

Table 1 provides a summary of the Academy's net position for fiscal year 2015 and fiscal year 2014:

	(Table 1)		
	<b>Net Position</b>		
	2015	Restated 2014	Increase (Decrease)
<b>Assets:</b>			
Current Assets	\$ 805,513	\$ 1,084,206	\$ (278,693)
Depreciable Capital Assets, Net	60,079	22,668	37,411
Total Assets	<u>865,592</u>	<u>1,106,874</u>	<u>(241,282)</u>
<b>Liabilities:</b>			
Current Liabilities	675,833	981,924	(306,091)
Non-Current Liabilities	452,806	425,077	27,729
Total Liabilities	<u>1,128,639</u>	<u>1,407,001</u>	<u>(278,362)</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	60,079	22,668	37,411
Unrestricted	(323,126)	(322,795)	(331)
Total Net Position	<u>\$ (263,047)</u>	<u>\$ (300,127)</u>	<u>\$ 37,080</u>

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

Capital Assets, Net, and Net Investment in Capital Assets both increased significantly during fiscal year 2015. These increases represent the amount in which current year acquisitions exceeded current year depreciation.

Current Liabilities 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 agreement, offset by an increase in Foundation Settlement Agreement Payable for excess foundation funds received in fiscal year 2015.



**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, 2015  
Unaudited

Table 2 shows the changes in net position for fiscal year 2015 and fiscal year 2014, as well as a listing of revenues and expenses.

(Table 2)  
**Change in Net Position**

	2015	2014	Increase (Decrease)
<b>Operating Revenues:</b>			
Foundation Revenues	\$ 991,082	\$ 1,581,553	\$ (590,471)
Miscellaneous Revenues	205,392	166	205,226
<b>Non-Operating Revenues:</b>			
Federal and State Subsidies	219,534	137,631	81,903
Interest Earnings	66	77	(11)
Total Revenues	<u>1,416,074</u>	<u>1,719,427</u>	<u>(303,353)</u>
<b>Operating Expenses:</b>			
Purchased Services	1,062,659	1,519,142	(456,483)
Supplies and Materials	253,399	221,474	31,925
Depreciation	3,353	677	2,676
Miscellaneous	59,583	16,766	42,817
<b>Non-Operating Expenses:</b>			
Foundation Settlement Agreement	-	477,394	(477,394)
Total Expenses	<u>1,378,994</u>	<u>2,235,453</u>	<u>(856,459)</u>
Change in Net Position	37,080	(516,026)	553,106
Net Position at Beginning of Year, Restated	<u>(300,127)</u>	<u>215,899</u>	<u>(516,026)</u>
Net Position at End of Year	<u>\$ (263,047)</u>	<u>\$ (300,127)</u>	<u>\$ 37,080</u>

Foundation Payments decreased significantly in comparison with the prior fiscal year. This decrease is primarily the result of the adjustments made by the Ohio Department of Education based on review of student enrollment data and "brick and mortar" classification of the Academy.

The significant increase in Federal and State Grants is the result of additional Title I funding received from the Ohio Department of Education.

The significant decrease in expenses is the result of the Foundation Settlement Agreement, which was executed in fiscal year 2014, coupled with a decrease in payments to London City School District based on the decrease in Foundation 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, 2015  
Unaudited

**Capital Assets**

At the end of fiscal year 2015, the Academy had \$60,079 invested in capital assets, an increase of \$37,411 in comparison with the prior fiscal year. This increase represents the amount of current year purchases of \$40,764 exceeded current year depreciation of \$3,353.

For more information on capital assets see Note 5 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, 2015

**Assets**

**Current Assets**

Cash and Cash Equivalents	\$ 787,163
Intergovernmental Receivable	13,298
Prepaid Items	5,052

**Non-current Assets**

Depreciable Capital Assets, Net	60,079
Total Assets	<u>865,592</u>

**Liabilities**

**Current Liabilities**

Accounts Payable	7,931
Due To Primary Government	492,071
Foundation Settlement Agreement Payable	175,831

**Noncurrent Liabilities**

Foundation Settlement Agreement Payable	452,806
Total Liabilities	<u>1,128,639</u>

**Net Position**

Net Investment in Capital Assets	60,079
Unrestricted	(323,126)
Total Net Position	<u>\$ (263,047)</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, 2015

<b>Operating Revenues:</b>	
Foundation Revenues	\$ 991,082
Miscellaneous	205,392
Total Operating Revenues	<u>1,196,474</u>
<b>Operating Expenses:</b>	
Purchased Services	1,062,659
Supplies and Materials	253,399
Depreciation	3,353
Miscellaneous	59,583
Total Operating Expenses	<u>1,378,994</u>
Operating Loss	<u>(182,520)</u>
<b>Non-Operating Revenues:</b>	
State Subsidies	52,983
Federal Subsidies	166,551
Interest Earnings	66
Total Non-Operating Revenues	<u>219,600</u>
Change in Net Position	37,080
Net Position at Beginning of Year, Restated	(300,127)
Net Position at End of Year	<u><u>\$ (263,047)</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, 2015

<b>Cash Flows From Operating Activities</b>	
Cash Received from Foundation Payments	\$ 1,142,325
Cash Received from Other Revenues	205,392
Cash Payments for Contract Services	(1,492,794)
Cash Payments for Supplies and Materials	(252,979)
Cash Payments for Miscellaneous	(64,525)
Net Cash Used by Operating Activities	<u>(462,581)</u>
 <b>Cash Flows From Noncapital Financing Activities</b>	
Cash from Federal and State Subsidies	<u>221,237</u>
Net Cash Provided by Noncapital Financing Activities	<u>221,237</u>
 <b>Cash Flows From Capital and Related Financing Activities</b>	
Payments for Capital Acquisitions	<u>(40,764)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(40,764)</u>
 <b>Cash Flows From Investing Activities</b>	
Interest Received	<u>66</u>
Net Cash Provided by Investing Activities	<u>66</u>
 Net Decrease in Cash and Cash Equivalents	 (282,042)
 Cash and Cash Equivalents at Beginning of Year	 <u>1,069,205</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 787,163</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, 2015

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

Operating Loss	\$ (182,520)
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**Adjustments to Reconcile Operating Loss  
to Net Cash Used by Operating Activities:**

Add Depreciation Expense	3,353
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Change in Assets and Liabilities

Increase in Prepaid Items	(5,052)
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Increase in Accounts Payable	2,761
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Decrease in Due to Primary Government	(432,366)
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Increase in Foundation Settlement Agreement Payable	151,243
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Total Adjustments	<u>(280,061)</u>
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Net Cash Used by Operating Activities	<u><u>\$ (462,581)</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, 2015

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**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 215 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, 2015

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**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, 2015

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**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 2015.

**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, 2015

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**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, 2015

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**NOTE 3 – DEPOSITS**

At fiscal year-end, the carrying amount of the Academy's deposits was \$787,163 and the bank balance was \$793,829. Of the Academy's bank balance, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC), while the remaining \$543,829 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, 2015, 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 the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Grants to Local Education Agencies (Title I)	<u>\$ 13,298</u>
	<u><u>\$ 13,298</u></u>

**LONDON ACADEMY**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2015

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2015, was as follows:

	Restated Beginning Balance	Additions	Deletions	Ending Balance
Depreciable Capital Assets:				
Buildings Improvements	\$ -	\$ 13,650	\$ -	\$ 13,650
Furniture, Fixtures and Equipment	61,569	27,114	-	88,683
Total Depreciable Capital Assets	<u>61,569</u>	<u>40,764</u>	<u>-</u>	<u>102,333</u>
Less Accumulated Depreciation:				
Buildings Improvements	-	(284)	-	(284)
Furniture, Fixtures and Equipment	(38,901)	(3,069)	-	(41,970)
Total Accumulated Depreciation	<u>(38,901)</u>	<u>(3,353)</u>	<u>-</u>	<u>(42,254)</u>
Capital Assets, Net	<u>\$ 22,668</u>	<u>\$ 37,411</u>	<u>\$ -</u>	<u>\$ 60,079</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 30<sup>th</sup> of each fiscal year, as mutually agreed upon. See Note 8 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 \$1,062,659. Of this amount, \$934,747 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 \$127,912.

**LONDON ACADEMY**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2015

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**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 2015, 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, 2015, if applicable, cannot be determined at this time.

**State 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. A reviewed performed by ODE revealed the Academy was overpaid by \$203,560 during fiscal year 2015. This amount will be repaid in 23 equal monthly installments.

As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy; therefore, any additional financial statement impact is not determinable at this time. ODE and management believe this will result in either an increase or reduction to the liability of the Academy.

The ODE performed a Full-Time Equivalent (FTE) review of London Academy on February 9, 2016. The review resulted in recommendations to be implemented by May, 2016. Failure to implement could result in loss of funding. For more information on this ODE review see Note 14.

**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, 2015

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**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 2015, the Academy paid the District \$442,676 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, 2015, the Academy owes the District \$492,071 for services rendered during fiscal year 2015.

**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 amount 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 \$52,317 in payments on the agreement and has \$425,077 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.

**NOTE 12 – NET POSITION RESTATEMENT**

In fiscal year 2015, the Academy extended the useful lives of several capital assets from five to 20 years. The effects of this change on beginning net position were as follows:

Net Position June 30, 2014	(320,765)
Accumulated Depreciation	<u>20,638</u>
Restated Net Position June 30, 2014	<u><u>(300,127)</u></u>

**LONDON ACADEMY**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2015

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**NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2015, the Academy has implemented the following:

*GASB Statement No. 68 “Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27”* improves the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and enhances its value for assessing accountability and interperiod equity by requiring recognition of the entire pension liability and a more comprehensive measure of pension expense. This statement also replaces GASB Statement No. 27 as it relates to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The implementation of this statement did not have an effect on the financial statements of the Academy.

*GASB Statement No. 69 “Government Combinations and Disposals of Government Operations”* provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of this statement did not have an effect on the financial statements of the Academy.

*GASB Statement No. 71 “Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68”* eliminates the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The implementation of this statement did not have an effect on the financial statements of the Academy.

**NOTE 14 – SUBSEQUENT EVENT**

The Ohio Department of Education (ODE) performed a Full-Time Equivalent (FTE) review of London Academy on February 9, 2016. As a result of this review, ODE has identified errors in the Academy's FTE processes. ODE has issued a letter documenting findings and recommendations to correct these findings. ODE findings include the following.

Full time enrollment for the year is 5.0 credits or 2.5/3.0 credits if the student enrolls during the second semester. Each student is required to submit two (2) exams each week and maintain a log which shows at least 28 hours of educational activity each week to be reported as being in attendance for that week.

All students are enrolled in correspondence courses offered by the American School of Correspondence. Completed assignments/exams can be mailed to the school or placed in drop boxes in satellite locations, e.g. public libraries, juvenile detention centers. Students may come to London Academy for computer course work, supervised by a teacher. Students are allowed to report any employment hours for up to 10 hours each week.

**LONDON ACADEMY**  
Notes To The Basic Financial Statements  
For The Fiscal Year Ended June 30, 2015

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**NOTE 14 – SUBSEQUENT EVENT** (continued)

The log to document attendance was reviewed during the on-site visit. The log included a place for both student and parent signatures. The teacher of record reviews the student logs but is not required to sign off. In addition, there were many student math errors in calculating their total weekly hours. It appeared that some teachers reviewed the logs and corrected math errors and some student records were not reviewed by a teacher because several logs had math error to calculate the total number of hours each week.

ODE made the following recommendation regarding the Academy's contract:

Review your current contract to ensure it complies with the new requirements in HB 2 ORC 3314.03(A) (29) for blended learning programs and ORC 3314.19(N) which adds similar requirements. Moreover, the ESSA adds a federal definition of blended learning as “a formal education program that leverages both technology-based and face-to-face instructional approaches A) that include an element of online or digital learning, combined with supervised learning time and student-led learning, in which the elements are connected to provide an integrated learning experience and B) in which students are provided some control over time, path, or pace.” The school's current education model may not comply with the changes to state and federal law. As a result, it is recommended the community school work diligently with its sponsor and legal counsel to ensure it faithfully implements these new requirements going forward in the FY2017 school year.

ODE has scheduled a follow up review over for FTE to be performed between May 1, 2016 and July 1, 2016; at which time the recommendations must be implemented. Failure to implement could result in loss of funding for the Academy.





# 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, Ohio (the Academy), a component unit of the London City School District, as of and for the year ended June 30, 2015, 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 11, 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. 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 "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 11, 2016



# 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  
MARCH 29, 2016**