

LAKWOOD DIGITAL ACADEMY
*(A COMPONENT UNIT OF THE
LAKWOOD LOCAL SCHOOL DISTRICT)*

LICKING COUNTY

REGULAR AUDIT

JULY 1, 2013 – JUNE 30, 2014





Dave Yost • Auditor of State

Board of Directors
Lakewood Digital Academy
525 East Main Street PO Box 70
Hebron, Ohio 43025

We have reviewed the *Independent Auditor's Report* of the Lakewood Digital Academy, Licking County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State
December 8, 2014

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**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY**

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Lakewood Digital Academy
Licking County
525 East Main Street
P.O. Box 70
Hebron, Ohio 43025

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Lakewood Digital Academy, Licking County, Ohio, a component unit of the Lakewood Local School District, Licking County (the Academy), as of and for the fiscal year ended June 30, 2014, 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 overall financial statement presentation.

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

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
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Lakewood Digital Academy
Licking County
Independent Auditor's Report

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lakewood Digital Academy, Licking County as of June 30, 2014, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

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 October 28, 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 Academy's internal control over financial reporting and compliance.

Wilson, Shuman & Snow, Inc.

October 28, 2014
Newark, Ohio

LAKEWOOD DIGITAL ACADEMY

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

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014

Unaudited

The management's discussion and analysis of Lakewood Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

- Net Position at June 30, 2014 was \$42,803.
- Operating revenues accounted for \$331,174 in revenue or 95% of all revenues.
- There were no capital asset additions in 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

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

The following tables represent the Academy's condensed financial information for 2014 and 2013 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	Net Position	
	2014	2013
Current and other assets	\$127,455	\$86,667
Capital assets, Net	14,633	24,090
Total assets	142,088	110,757
Other liabilities	99,285	61,007
Total liabilities	99,285	61,007
Net position		
Investment in capital assets	14,633	24,090
Restricted	2,000	0
Unrestricted	26,170	25,660
Total net position	\$42,803	\$49,750

LAKWOOD DIGITAL ACADEMY

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

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2014 and 2013:

	Change in Net Position	
	2014	2013
Revenues		
Foundation Payments	\$325,564	\$301,478
Fees	5,610	7,817
All Other Revenue	0	18
Total revenues	<u>331,174</u>	<u>309,313</u>
Expenses		
Purchased Services	314,056	292,534
Supplies and Materials	19,293	18,397
Depreciation	9,457	8,846
Other Operating Expense	13,362	12,528
Total expenses	<u>356,168</u>	<u>332,305</u>
Operating Loss	<u>(24,994)</u>	<u>(22,992)</u>
Nonoperating Revenues		
Intergovernmental Grants	17,993	18,182
Investment Earnings	54	75
Total Nonoperating Revenues	<u>18,047</u>	<u>18,257</u>
Total Change in Net Position	(6,947)	(4,735)
Net Position Beginning of Year	<u>49,750</u>	<u>54,485</u>
Net Position End of Year	<u>\$42,803</u>	<u>\$49,750</u>

The Academy operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds are included in the discussion and analysis. Results of fiscal year 2014 indicate a decrease in net position of \$6,947 and ending net position of \$42,803. The decrease in net position is the result of depreciation expense on capital assets which was somewhat offset by an increase in Foundation payments from the State.

BUDGET

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five year projection that is reviewed twice a year by the Board of Directors.

LAKEWOOD DIGITAL ACADEMY

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

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2014 the Academy had \$14,633 net of accumulated depreciation invested in equipment. The following table shows fiscal years 2014 and 2013:

	Business-Type Activities		Increase (Decrease)
	2014	2013	
Equipment	\$181,866	\$185,342	(\$3,476)
Less: Accumulated Depreciation	(167,233)	(161,252)	(5,981)
Totals	\$14,633	\$24,090	(\$9,457)

The decrease in capital assets is due to depreciation expense on existing capital assets. Additional information on the Academy's capital assets can be found in Note 4.

Debt

The Academy has not issued any debt.

ECONOMIC FACTORS

The Academy is sponsored by the Lakewood Local School District and is in its eleventh year of operation. The Academy relies primarily on the State Foundation funds. In order to continually provide learning opportunities to the Academy's students, the Academy will apply resources to best meet the needs of its students. It is the intent of the Academy to apply for State and Federal funds that are made available to finance its operations.

REQUESTS FOR INFORMATION

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

LAKEWOOD DIGITAL ACADEMY

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

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LAKEWOOD DIGITAL ACADEMY

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

Statement of Net Position *June 30, 2014*

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 125,516
Receivables:	
Accounts	275
Prepaid Items	1,664
<i>Total Current Assets</i>	<u>127,455</u>

Non Current Assets:

Capital Assets, Net of Accumulated Depreciation	<u>14,633</u>
Total Assets	<u>142,088</u>

Liabilities:

Current Liabilities:

Intergovernmental Payable	96,090
Unearned Revenue	3,195
Total Liabilities	<u>99,285</u>

Net Position

Investment in Capital Assets	14,633
Restricted For:	
Federally Funded Programs	2,000
Unrestricted	26,170
Total Net Position	<u>\$ 42,803</u>

See accompanying notes to the basic financial statements

LAKWOOD DIGITAL ACADEMY

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

Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2014

Operating Revenues:	
Foundation Payments	\$ 325,564
Fees	5,610
Total Operating Revenues	331,174
Operating Expenses:	
Purchased Services	314,056
Supplies and Materials	19,293
Depreciation	9,457
Other Operating Expense	13,362
Total Operating Expenses	356,168
Operating Loss	(24,994)
Nonoperating Revenue:	
Intergovernmental Grants	17,993
Investment Earnings	54
Total Nonoperating Revenues	18,047
Change in Net Position	(6,947)
Net Position Beginning of Year	49,750
Net Position End of Year	\$ 42,803

See accompanying notes to the basic financial statements

LAKWOOD DIGITAL ACADEMY

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

Statement of Cash Flows For the Fiscal Year Ended June 30, 2014

<u>Cash Flows from Operating Activities:</u>	
Cash Received from School Foundation	\$325,564
Cash Received from Fees	5,955
Cash Payments for Goods and Services	(295,271)
Cash Payments for Other Expenses	(14,026)
Net Cash Provided by Operating Activities	<u>22,222</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Intergovernmental Grants Received	<u>17,993</u>
Net Cash Provided by Noncapital Financing Activities	<u>17,993</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	<u>54</u>
Net Cash Provided by Investing Activities	<u>54</u>
Net Increase in Cash and Cash Equivalents	40,269
Cash and Cash Equivalents at Beginning of Year	<u>85,247</u>
Cash and Cash Equivalents at End of Year	<u>\$125,516</u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Loss	(\$24,994)
Adjustments to Reconcile Operating Loss to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	9,457
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	67
Increase in Prepaid Items	(586)
Increase in Intergovernmental Payables	38,000
Increase in Unearned Revenue	278
Total Adjustments	<u>47,216</u>
Net Cash Provided by Operating Activities	<u>\$22,222</u>

See accompanying notes to the basic financial statements

LAKWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Lakewood Digital Academy, Hebron, Ohio (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status. The Academy’s objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the kindergarten through grade 12 population. It is to be operated under a contract with the Lakewood Local School District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, 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 as a non-profit organization on April 8, 2002. The Academy was approved for operation under a contract with the Lakewood Local School District (the “Sponsor”). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Academy began accepting students on August 25, 2003.

The Academy operates under the direction of a five-member Board of Directors which consists of residents of Lakewood Local School District. The Academy is considered a component unit of the Lakewood Local School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Treasurer of Lakewood Local School District is the Treasurer of the Academy.

The accounting policies and financial reporting practices of the Academy conform to generally accepted accounting principles as applicable to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of its significant accounting policies.

LAKEWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

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

C. Measurement Focus

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

D. Basis of Accounting

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

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

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

LAKEWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, and investments with original maturities of three months or less. During fiscal year 2014, the Academy had no investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets and Depreciation

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

1. Property, Plant and Equipment

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

2. Depreciation

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

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

LAKEWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Net Position

Net position represents the difference between assets and liabilities. Net position 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 policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

J. Estimates

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

K. Operating Revenues and Expenses

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

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

At year end the carrying amount of the Academy's deposits was \$125,516 and the bank balance was \$126,645. The Federal Deposit Insurance Corporation (FDIC) covered the entire bank balance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

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

LAKWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014 consisted of accounts receivables. The total is for fees of which 100% is considered collectible.

NOTE 4 - CAPITAL ASSETS

Summary by category of changes in capital assets at June 30, 2014:

<i>Historical Cost:</i>				
Class	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<i>Capital Assets being depreciated:</i>				
Equipment	\$185,342	\$0	(\$3,476)	\$181,866
Total Cost	\$185,342	\$0	(\$3,476)	\$181,866
<i>Accumulated Depreciation:</i>				
Class	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Equipment	(\$161,252)	(\$9,457)	\$3,476	(\$167,233)
Total Depreciation	(\$161,252)	(\$9,457)	\$3,476	(\$167,233)
<i>Net Value:</i>	\$24,090			\$14,633

NOTE 5 – RELATED PARTY TRANSACTIONS

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

In fiscal year 2014, payments made by the Academy to the Sponsor totaled \$237,455. These represent payments for reimbursements for services provided by the Sponsor to the Academy. Also at fiscal year end, the Academy had an outstanding payable of \$91,085 to the Sponsor which is included in "Intergovernmental Payable" on the Statement of Net Position.

LAKWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 6 – SERVICE AGREEMENTS

A. ACE Digital Academy

The Academy entered into a one-year contract effective July 1, 2013 with ACE Digital Academy (“ACE”) for an online curriculum fully aligned to Ohio’s Academic Content Standards. Under the contract, ACE is required to provide the following services:

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

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

District Database Setup Fee - \$1,000 annually

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

For fiscal year 2014, the Academy remitted to ACE a \$1,000 district database setup fee and \$39,942 for student license fees.

LAKEWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 6 – SERVICE AGREEMENTS (Continued)

B. Lakewood Local School District

The Sponsorship Contract and the annual Purchased Services Contracts with Lakewood Local School District outlines the specific payments to be made by the Academy to Lakewood Local School District during fiscal year 2014. In addition the Sponsorship Contract states that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Lakewood Local School District. The following payments were made in fiscal year 2014 from the Academy to Lakewood Local School District:

Purchased Services for Administrative and Fiscal Services	\$ 41,700
Annual Payments of 3% of Funding provided by the Ohio Department of Education (management fee)	9,767
Purchased Services for Director and Student Assistant Specialist	92,197
Purchased Services for Special Education Related Services	5,044
Sponsorship Payments	83,872
Tutor/Intervention	3,747
Miscellaneous	1,128
Total	<u>\$ 237,455</u>

NOTE 7 – PURCHASED SERVICES

For fiscal year ended June 30, 2014, purchased services expenses were as follows:

Contractual Services	\$ 312,802
Professional Services	600
Travel	102
Other	552
Total	<u>\$ 314,056</u>

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 to employees; and natural disasters. On August 1, 2003, the Academy was named as an additional insured party on Lakewood Local School District's, the Sponsor, insurance policy. As of July 1, 2013, the Sponsor obtained a policy with Ohio Casualty Insurance Company for general liability insurance and property insurance. The entire risk of loss, less any deductibles, transfers to the commercial carrier. The following limits and deductibles are in aggregate for both the Academy and the Sponsor. Ohio Casualty Insurance Company provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate.

LAKWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

NOTE 8 – RISK MANAGEMENT (Continued)

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

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

NOTE 9 - CONTINGENCIES

A. Grants

The Academy receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2014, if applicable, cannot be determined at this time.

B. Litigation

The Academy is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2014.

NOTE 10 – SUBSEQUENT EVENTS

Starting July 1, 2014, the Academy approved a one-year contract for the third year with ACE Digital Academy for an online curriculum fully aligned to Ohio's Academic Content Standards.

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



Lakewood Digital Academy
Licking County
525 East Main Street
P.O. Box 70
Hebron, Ohio 43025

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Lakewood Digital Academy, Licking County, a component unit of the Lakewood Local School District, Licking County (the Academy) as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 28, 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.

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.

Wilson, Shannon & Snow, Inc.

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Lakewood Digital Academy
Licking County
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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.

Wilson, Shuman & Sons, Inc.

October 28, 2014
Newark, Ohio



Dave Yost • Auditor of State

LAKESWOOD DIGITAL ACADEMY

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 18, 2014**