



Dave Yost • Auditor of State



**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Report on the Financial Statements, Internal Control, and Compliance.....	1
Schedule of Findings.....	3
Schedule of Prior Audit Findings.....	23
Prepared by Management:	
Management’s Discussion and Analysis For the Fiscal Year Ended June 30, 2016 .....	25
Basic Financial Statements:	
Statement of Net Position as of June 30, 2016 .....	29
Statement of Revenues, Expenses, and Change in Net Position For the Fiscal Year Ended June 30, 2016 .....	30
Statement of Cash Flows For the Fiscal Year Ended June 30, 2016 .....	31
Notes to the Basic Financial Statements – June 30, 2016 .....	33
Management’s Discussion and Analysis For the Fiscal Year Ended June 30, 2015 .....	41
Basic Financial Statements:	
Statement of Net Position as of June 30, 2015 .....	45
Statement of Revenues, Expenses, and Change in Net Position For the Fiscal Year Ended June 30, 2015 .....	46
Statement of Cash Flows For the Fiscal Year Ended June 30, 2015 .....	47
Notes to the Basic Financial Statements – June 30, 2015 .....	49

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# Dave Yost • Auditor of State

## REPORT ON THE FINANCIAL STATEMENTS, INTERNAL CONTROL, AND COMPLIANCE

Lawrence County Academy  
Lawrence County  
304 N. 2<sup>nd</sup> Street  
Ironton, Ohio 45638

To the Members of the Board of Directors:

We have selectively tested certain accounts, financial records, reports and other documentation of the Lawrence County Academy, Lawrence County, (the Academy), as of and for the years ended June 30, 2016 and June 30, 2015. These procedures were designed to satisfy the audit requirements of Section 117.11, Ohio Rev. Code, and Section 117-4-02, Ohio Admin. Code. Our engagement was not designed as a basis to opine on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinions on these matters.

### ***Emphasis of Matter***

As discussed in Note 11 to the 2016 financial statements and Note 10 to the 2015 financial statements, a settlement agreement was signed stating the Lawrence County Academy will close as of June 30, 2017.

### ***Internal Control Over Financial Reporting***

Certain of the aforementioned tests relate to internal control over financial reporting. The results of those tests may allow us to identify internal control deficiencies. An internal control deficiency 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, whether caused by error or fraud.

Our internal control tests were not designed to identify all internal control deficiencies that might exist. Therefore, unidentified weaknesses may exist. However, we consider Findings 2016-001 through 2016-004 and 2016-006 through 2016-008 reported in the Schedule of Findings to be internal control deficiencies management and those charged with governance should address.

### ***Compliance and Other Matters***

We also tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Academy, noncompliance with which could directly and materially affect the determination of financial statement amounts. The results of our tests disclosed instances of noncompliance we believe could directly and materially affect the determination of financial statement amounts, that we reported in the Schedule of Findings as items 2016-001, 2016-002, 2016-005, and 2016-009 through 2016-012.

***Academy's Response to Findings***

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

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

June 26, 2018

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2016 AND JUNE 30, 2015**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS</b>
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**FINDING NUMBER 2016-001**

**Noncompliance and Internal Control Deficiency**

Ohio Admin. Code § 117-2-02(A) requires public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. Per Ohio Admin. Code § 117-2-02(D), accounting records that can help achieve these objectives include:

- Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of payor, purpose, receipt number, and other information required for such transactions to be recorded on this ledger.
- Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

The Academy lacked management controls to maintain an accounting system and accounting records sufficient to enable the Academy to identify, assemble, analyze, classify, record and report its transactions and prepare financial statements as evidenced by the following conditions:

*Inaccurate Reconciliations and Untimely Monthly and Fiscal Year End Close-outs*

The Academy utilized the South Central Ohio Computer Association (SCOCA) accounting system which provides all of the required journals and ledgers. The SCOCA accounting software also includes a monthly reconciliation process to assist the Academy's fiscal agent in the monthly book to bank reconciliation. However, the monthly reconciliations included in the accounting records were not accurate. The Academy started in fiscal year 2014, and the Treasurer of the Lawrence County Educational Service Center (the Center) acted as the fiscal agent for the Academy until December 1, 2015. During that time, there were no accurate reconciliations performed between the Academy's bank account balances and the Academy's SCOCA accounting system, resulting in the following conditions:

- Memo checks (check numbers 15002 through 15004, issued on June 30, 2014) to the Center, totaling \$65,852 and memo check number 15007, issued July 31, 2014, in the amount of \$60,689, were posted to the Academy's SCOCA accounting system; however, the wire transfers were not made to move the monies from the Academy's bank account to the Center's bank account until January 30, 2015. These items were not recorded as outstanding checks on the Academy's reconciliations for July 31, 2014 through January 30, 2015.

**FINDING NUMBER 2016-001  
(Continued)**

- Memo checks (check numbers 15005, 15006 and 150080, issued on July 31, 2014) to the Center, totaling \$506,626 were posted to the Academy's SCOCA accounting system; however, the wire transfers were not made to move the monies from the Academy's bank account to the Center's bank account until November 26, 2014. These items were not recorded as outstanding checks on the Academy's reconciliations for July 31, 2014 through October 31, 2014.
- The Academy's fiscal agent posted memo check number 15014 from the Academy to the Center, in the amount of \$400,165 to the Academy's SCOCA accounting system on July 30, 2015; however, the wire transfer was not made between the Academy's bank account and the Center's bank account until August 31, 2015. This item was not recorded as an outstanding check on the Academy's reconciliation for July 2015. Furthermore, the wire transfer made on August 31, 2015 was \$390,165 instead of \$400,165, but the \$10,000 difference was not included as a reconciling item on the August 2015 and subsequent reconciliations.

In addition to the above items, we noted that the monthly and fiscal year end close-outs of the Academy's SCOCA accounting system were not performed timely as follows:

- July 2014 SCOCA accounting system was not closed out until January 20, 2015;
- August 2014 SCOCA accounting system was not closed out until January 28, 2015;
- The SCOCA accounting system for the months of September and October 2014 were not closed out until January 29, 2015;
- November 2014 SCOCA accounting system was not closed out until January 30, 2015;
- December 2014 SCOCA accounting system was not closed out until May 13, 2015;
- The SCOCA accounting system for the months of January and February 2015 were not closed out until August 14, 2015;
- March 2015 SCOCA accounting system was not closed out until August 26, 2015;
- The SCOCA accounting system for the months of April and May 2015 were not closed out until August 27, 2015;
- June 2015 and fiscal year 2015 SCOCA accounting system were not closed out until September 15, 2015;
- July 2015 SCOCA accounting system was not closed out until September 15, 2015;
- The SCOCA accounting system for the months of August and September 2015 were not closed out until January 6, 2016 after the Academy's new fiscal agent took over that position; and
- The SCOCA accounting system for the months of October, November and December 2015 were not closed out until January 7, 2016.



**FINDING NUMBER 2016-001  
(Continued)**

As a result of these types of errors, reconciliations provided to the Board of Directors were not accurate through the November 2015, after which the Board hired the Treasurer of Rock Hill Local School District as the fiscal agent.

*Inaccurate Financial Reporting*

The Academy contracted with the Center for purchased services. Initially, in fiscal year 2014, Center's Treasurer (also the Academy's fiscal agent) set up separate General Fund special cost centers (SCCs 9913 and 9914) within the Center's SCOCA accounting system to track the expenditures related to the services that the Center was providing to the Academy in order to bill the Academy. However, in fiscal year 2014, instead of posting only the charges for services receipts to the Center's General Fund SCCs 9913 and 9914 for amounts the Academy paid to the Center for purchased services, the Center's Treasurer posted all of the Academy's receipts (which included state foundation monies, casino monies and interest earned on the Academy's bank account) to the Center's General Fund SCCs 9913 and 9914.

In co-mingling financial information, the Center's Treasurer was unable to accurately track and calculate the exact amount of Intergovernmental Payable owed by the Academy to the Center at June 30, 2015 and June 30, 2016. Furthermore, the Center charged the Academy for unallowable expenditures totaling \$233,731 [see Finding for Recovery issued in Finding Number 2016-005 for \$233,731]. As a result, the Academy's Intergovernmental Payable and Purchased Services expenditures were overstated by \$386,657 at June 30, 2015 and \$54,702 at June 30, 2016. Furthermore, at June 30, 2015 and June 30, 2016, the Academy had prepaid the Center for services totaling \$35,563 and \$59,977, respectively.

Also, the Academy's fiscal agent made a wire transfer in the amount of \$390,165 from the Academy's bank account to the Center's bank account for \$10,000 less than the related memo check (number 15014) which was issued July 30, 2015 for \$400,165. Therefore, Cash and Cash Equivalents and Purchased Services were overstated by \$10,000.

The Academy has corrected the financial statements; however, the Academy's SCOCA accounting system was not corrected.

We recommend the Academy's fiscal agent prepare the monthly book-to-bank reconciliation in a timely manner. We also recommend the Academy's fiscal agent immediately follow-up on any discrepancies noted in the reconciliation process. This will allow the Academy to maintain accurate records which the Board can rely on for budgeting and planning purposes. Furthermore, we recommend the Academy's fiscal agent close out the SCOCA accounting system each month and for fiscal year end in a timely manner.

**Officials' Response:**

The Academy closed June 30, 2017.

## FINDING NUMBER 2016-002

### Noncompliance and Internal Control Deficiency

Ohio Rev. Code §3314.03 (D) states that the contract shall specify the duties of the sponsor which shall be in accordance with the written agreement entered into with the department of education under division (B) of section 3314.05 of the Ohio Revised Code and shall include the following:

- (1) Monitor the community school's compliance with all laws applicable to the school and with the terms of the contract;
- (2) Monitor and evaluate the academic and fiscal performance and the organization and operation of the community school on at least an annual basis;
- (3) Report on an annual basis the results of the evaluation conducted under division (D)(2) of this section to the Department of Education and to the parents of students enrolled in the community school;
- (4) Provide technical assistance to the community school in complying with laws applicable to the school and terms of the contract;
- (5) Take steps to intervene in the school's operation to correct problems in the school's overall performance, declare the school to be on probationary status pursuant to Section 3314.073 of the Ohio Revised Code, suspend the operation of the school pursuant to Section 3314.072 of the Ohio Revised Code, or terminate the contract of the school pursuant to Section 3314.07 of the Ohio Revised Code as determined necessary by the sponsor; and
- (6) Have in place a plan of action to be undertaken in the event the community school experiences financial difficulties or closes prior to the end of a school year.

The Lawrence County Educational Service Center (the Center) entered into a contract with the Lawrence County Academy (the Academy) on May 10, 2013 wherein the Center agreed to be the sponsor for the Academy, a conversion community school.

The responsibilities of the Center as listed in Article V of the contract include, but are not limited to, the following:

- Monitor the Academy's compliance with all applicable laws to the Academy and with the terms of the contract;
- Monitor and evaluate the academic and fiscal performance and the organization and operation of the Academy on at least an annual basis;
- Provide technical assistance to the Academy in compliance with the laws applicable to the Academy and the terms of the contract.

Exhibit 3 of the contract (Management and administration plan for the Academy) states that the Academy Board of Directors utilizes the services of the Center as the qualified fiscal officer. The Center's Treasurer was appointed to be the fiscal agent/treasurer of the Academy on August 9, 2013. The Center's Treasurer then resigned as the fiscal agent effective December 1, 2015. The Rock Hill Local School District's Treasurer replaced the Center's Treasurer as the Academy's fiscal agent.

**FINDING NUMBER 2016-002  
(Continued)**

Ohio Attorney General Opinion 2010-020 States in part that a person may serve simultaneously in the positions of treasurer of a school district and treasurer or fiscal officer of a conversion community school sponsored by the school district when the position of treasurer or fiscal officer of the community school is a separate and distinct employment position with the community school. In his capacity as treasurer of the school district he may *not participate, either directly or indirectly, in (1) reviewing or evaluating the finances or financial records of the community school as part of the district board of education's oversight of the community school or (2) overseeing the provision of technical services to the community school.*

We identified the following noncompliance and internal control issues related to the contract:

- Contrary to Ohio Attorney General Opinion 2010-020 as referred to in Article V (C) of the contract stating that a representative of the Center shall meet with the Board of Directors *or Treasurer of the Academy* and shall review the financial and enrollment records of the Academy at least once every month, the Center's Treasurer acted as the Academy's fiscal agent; and, there was no evidence that anyone from the Center not directly involved with the Academy participated in the review or evaluation of the finances or financial records of the Academy.
- The Center's Treasurer, acting as fiscal agent for the Academy, prepared requisitions, purchase orders and invoices for services that the Academy purchased from the Center. The Center's Treasurer established two special cost centers within the Center's General Fund (SCCs 9913 and 9914) to track Academy expenditures and determine amounts to bill the Academy for the services provided by the Center. However, the Center's Treasurer also posted the Academy's state foundation monies, casino monies and interest earned on the Academy's bank account as receipts in the Center's General Fund cost center (001-9913). After opening a separate SCOCA accounting system for the Academy during fiscal year 2014, the Center's Treasurer failed to adjust those receipts out of the Center's special cost center. The Center's Treasurer attempted to net the erroneous 2014 revenue postings against fiscal year 2015 activity and failed to post a charges for services receipt in the Center's General Fund special cost center. This resulted in an inaccurate cash balance in the Center's General Fund. Therefore, the Center's Treasurer was unable to determine how much the Academy owed the Center, and the financial information being reported to the Academy's Board was inaccurate. [See Finding Numbers 2016-001 and 2016-003.]

We recommend that a representative of the Center not directly involved with the Academy participate in reviewing or evaluating the finances or financial records with the Academy Board. We further recommend the Academy's fiscal agent provide the Academy Board with accurate financial information from the Academy's SCOCA accounting system to allow for monitoring of fiscal performance.

**Officials' Response:**

The Academy closed June 30, 2017.

### FINDING NUMBER 2016-003

#### Internal Control Deficiency

The Lawrence County Educational Service Center (the Center) entered into a contract with the Lawrence County Academy (the Academy) on May 10, 2013 wherein the Center agreed to be the sponsor for the Academy, a conversion community school. Article VI of the sponsorship contract states, in part, the following:

- If and as agreed by the parties, the Academy shall purchase special education and related services from the Center;
- If the Center provides or secures fiscal services for the Academy, the Academy shall pay the Center for such services agreed upon by them;
- If the Center performs payroll functions for the Academy, the Academy shall reimburse the Center for the actual costs incurred by the Center in compensating and providing benefits to the Academy employees, together with any fees reasonably assessed by the Center;
- If and as agreed by the parties, the Academy shall purchase other services from the Center, which services may include but not be limited to educational administrative, fiscal, technological, EMIS and/or other services;
- As permitted by applicable law, including Section 3314.03(C) of the Ohio Revised Code, the Academy may periodically, in the discretion of its Board of Directors, elect to make additional payments to the Center for any other purposes which the Board of Directors, in its exclusive discretion, deems appropriate, except that the Academy shall not make payments to the Center for the Center's oversight and monitoring of the Academy in excess of three percent of the total amount of payments for operating expenses that the Academy receives from the State. Conversely, the Center may, in the discretion of its governing board, periodically elect to utilize local funds to make enhancements grants to the Academy for any purpose which the governing board, in its exclusive discretion, deems appropriate.

Based on Article VI of the sponsorship contract, the Center agreed to provide staffing to the Academy wherein the Center hired the Director/Superintendent and other staff (with the Academy Board's approval) and pay related expenses. The Center was to then bill the Academy for expenses incurred.

We identified the following conditions related to payments from the Academy to the Center:

- None of the fiscal year 2015 requisitions for the seven memo expenditures totaling \$1,765,553, which were wire transferred from the Academy to the Center were signed/approved by the Academy's fiscal agent (i.e. the Center's Treasurer), the Academy's Chief Executive Officer (i.e. the Center's Superintendent) or the Academy's Director/Superintendent. Furthermore, there was no evidence on the invoices that anyone approved them. The minutes of the Academy's Board provided no evidence that the Board reviewed or approved the expenditures.

**FINDING NUMBER 2016-003**  
**(Continued)**

- The Academy's fiscal agent did not maintain documentation for the amounts charged by the Center for services provided to the Academy. Related invoices only showed a total dollar amount along with the description "Purchased Services." Documentation was eventually identified by the auditors, while performing the audit of the Center, to support the purchased services billed to the Academy. [See Findings for Recovery issued in Finding Number 2016-005 for \$233,731.]
- During fiscal year 2015, the Center had four employees who worked at the special education cooperative, and one special education cooperative employee whose fiscal year 2014 contract ended in fiscal year 2015. The special education cooperative was not related to the Academy; however, the special education salaries and benefits totaling \$196,965 were charged to the Center's General Fund SCC 9913 and billed to the Academy as purchased services. Furthermore, on August 9, 2013, the Academy Board of Directors approved compensation in the amount of \$500 per month for Teresa Lawless, the Center's Treasurer, to act as fiscal agent, through her resignation effective December 1, 2015. In addition to billing the Academy for the \$500 per month compensation, the Center also erroneously billed the Academy for some of Ms. Lawless' fringe benefits (e.g. SERS pick up, health insurance, life insurance, etc.) in the amount of \$4,402 for fiscal year 2015 and \$1,229 for fiscal year 2016. Also, in August 2015 the Academy made a duplicate payment of \$31,135 to the Center for administrative services performed by the Center for the Academy's NECCO Center students for November and December 2014; however, the Academy had already been billed and paid for these services. Of the total purchased services that the Center billed the Academy for, \$233,731 was billed in error by the Center. [See Finding for Recovery issued in Finding Number 2016-005 for \$233,731.]
- The Academy's fiscal agent posted all of the Academy payments to the Center to the Academy's SCOCA accounting system as memo checks and wire transferred the check amount from the Academy's bank account to the Center's bank account. The last three memo checks for fiscal year 2014 were posted to the Academy's SCOCA accounting system on June 30, 2014; however, the related wire transfers from the Academy's bank account to the Center's bank account did not occur until January 30, 2015. Four memo checks from the Academy to the Center were posted to the Academy's SCOCA accounting system on July 31, 2014; however, the related wire transfers for three memo checks were not made until November 26, 2014, and the fourth related wire transfer was not made until January 30, 2015.
- The Academy's fiscal agent did not post any payments from the Academy to the Center from August 1, 2014 until April 29, 2015, when memo check number 15009, for \$112,732, was issued to the Center and posted to the Academy's SCOCA accounting system. In April 2015, the bank made three transfers from the Academy's bank account to the Center's payroll bank account to cover overdrafts in the Center's payroll bank account, totaling \$1,962. In an attempt to correct this, the Academy's fiscal agent only wire transferred \$110,770 from the Academy to the Center since the Center already had the \$1,962 in their payroll bank account. The Center's Treasurer then posted a charges for services receipt in the Center's SCOCA accounting system for \$112,732 to offset what the Academy owed the Center for purchased services.

**FINDING NUMBER 2016-003**  
**(Continued)**

- The only documentation for the transaction retained by the Academy's fiscal agent was an invoice showing a total amount owed of \$110,770. During the audit, the Academy's fiscal agent prepared an activity report for November 2014 which showed that \$110,770 owed by the Academy to the Center was comprised of \$27,598 federal monies owed to the Center, \$38,234 for Title I FY14, \$60,689 for foundation FY14, and less overdrafts of \$11,715 and \$4,036. Documentation was eventually identified by the auditors, while performing the audit of the Center, to support the purchased services billed to the Academy.
- We identified three memo checks issued by the Academy to the Center (number 15002 for \$38,234; number 15003 for \$363; and number 15004 for \$27,235) that were not posted to the Academy's SCOCA accounting system until June 30, 2014, and memo check number 15007, issued to the Center in the amount of \$60,689 and posted on July 31, 2014. The wire transfers related to these memo checks did not occur until January 30, 2015.
- The Academy's fiscal agent posted one other memo check to the Academy's SCOCA accounting system in fiscal year 2015. Memo check number 15010 and the related wire transfer was issued to the Center on May 29, 2015 in the amount of \$1,063,366; however, the memo check and related wire transfer were not supported by any documentation. The amount appeared to be the balance remaining in the Center's SCOCA accounting system special cost center used to track services the Center was providing to the Academy.
- In fiscal year 2016, prior to the Center's Treasurer resigning effective December 1, 2015, only two memo checks were posted to the Academy's SCOCA accounting system. Memo check number 15014 was issued to the Center on July 30, 2015 in the amount of \$400,165 to pay the Academy's June 30, 2015 fund balance over to the Center [see Finding Number 2016-007]. The Academy's fiscal agent wire transferred \$390,165 from the Academy's bank account to the Center's bank account on August 31, 2015, which left a difference of \$10,000 at the Academy which was the amount that was approved by the Academy Board to remain at the Academy as its carryover balance for fiscal year 2015. The other memo check, number 15017, was issued to the Center on August 13, 2015, in the amount of \$31,135, for administrative services from November and December 2014 for which the Academy had previously paid during fiscal year 2015 [see Finding for Recovery issued in Finding Number 2016-005 for the \$31,135].
- There was no segregation of duties related to the Academy's purchased services expenditures. The Center's Treasurer tracked the purchased services expenditures for the Center, prepared the invoices from the Center to the Academy to bill them for the purchased services, prepared and posted the memo expenditures for the Academy, wire transferred the monies from the Academy's bank account to the Center's bank account, and was responsible for posting charges for services receipts to the Center's SCOCA accounting system.

Without providing the detailed documentation of the purchased services and related wire transfers, it was difficult for the Academy to ensure that the memo expenditures were coded to the proper expenditure line items or whether expenditures were recorded in the proper period. Lack of segregation of duties could result in unauthorized and unsupported transactions and increases the risk that errors, theft or fraud could occur and not be detected in a timely manner.

**FINDING NUMBER 2016-003  
(Continued)**

We recommend the Board review and approve all expenditures prior to those transactions being made. We recommend that the Academy maintain support for all payments made to the Center. Finally, we recommend the Academy's fiscal agent wire transfer monies between bank accounts in a timely manner after the memo expenditure has been recorded in the accounting system.

**Officials' Response:**

The Academy closed June 30, 2017.

**FINDING NUMBER 2016-004**

**Internal Control Deficiency**

The Center's and Academy's bank accounts were all with the same bank. When the Academy's accounts were initially opened with the bank, the Center's taxpayer identification number (TIN) was used for the Academy's accounts instead of the Academy's TIN. As a result, all of the Center's bank accounts were tied to the Academy's bank accounts, and, according to the Center's payroll bank statements, overdraft protection was provided by the Academy's bank account. Therefore, each time the Center's payroll bank account was overdrawn, the bank transferred the required monies from the Academy's bank account to the Center's payroll bank account to cover the overdraft.

The following overdraft transfers occurred when the bank transferred monies from the Academy's bank account to the Center's payroll bank account to cover the overdrafts within the Center's payroll bank account:

- \$124 on August 21, 2014
- \$11,591 on August 26, 2014
- \$468 on November 4, 2014
- \$190 on November 5, 2014
- \$3,185 on November 6, 2014
- \$192 on November 12, 2014
- \$50 on April 9, 2015
- \$526 on April 10, 2015
- \$1,386 on April 30, 2015
- \$3,941 on May 4, 2015
- \$1,582 on May 5, 2015
- \$864 on May 6, 2015

**FINDING NUMBER 2016-004  
(Continued)**

Rather than correct the erroneous transfers from the Academy's bank account to the Center's bank account, the Academy's fiscal agent first issued memo check number 15009 to the Center on April 29, 2015, in the amount of \$112,733, of which only \$110,771 was wire transferred from the Academy's bank account to the Center's bank account. The difference of \$1,962 was not wire transferred since it was already transferred from the Academy's bank account to the Center's bank account by the bank to cover the three overdraft occurrences in April 2015. The Center posted a charges for services receipt in the amount of \$112,733 to offset what the Academy owed the Center for purchased services.

The bank also made transfers in nine other instances totaling \$22,137 from the Academy's bank account to the Center's payroll bank account for overdrafts in the Center's payroll bank account. Again, rather than correct the erroneous transfers from the Academy's bank account to the Center's bank account, the Academy's fiscal agent recorded the cash transfers by issuing memo check number 15011 from the Academy to the Center in the amount of \$22,137, on May 29, 2015, and recorded the transaction as payment by the Academy for amounts due for services provided by the Center. The receipt was used by the Center to offset purchased services which the Academy had yet to be billed for at that time.

We recommend the Academy's fiscal agent contact the bank to update the Academy's account to include the taxpayer identification number for the Academy.

**Officials' Response:**

The Academy closed June 30, 2017.

**FINDING NUMBER 2016-005**

**Finding for Recovery**

The Lawrence County Academy contracted with the Lawrence County Educational Service Center (the Center) for all purchased services. In turn, the Center employed staff to work at the Academy. The Center tracked their expenditures for Academy services in two special cost centers (SCCs 9913 and 9914) within the Center's General Fund. During fiscal year 2015, the Center had four employees who worked at the special education cooperative (not related to the Academy) with salaries and benefits, totaling \$192,108, and one employee from fiscal year 2014 whose final pays in fiscal year 2015 with salaries and benefits totaling \$4,857, whose salaries and benefits were charged to SCC 9913 and, therefore, erroneously billed to the Academy as purchased services. Special education cooperative expenditures were tested during the Special Audit performed by the Public Integrity Assurance Team of the Auditor of State that were deemed to not be posted properly. See the Special Audit report released by the Auditor of State for additional information on this matter.

Also, on August 9, 2013, the Academy Board of Directors approved compensation in the amount of \$500 per month for Teresa Lawless, the Center's Treasurer, to act as fiscal agent. In addition to billing the Academy for the \$500 per month compensation, the Center also erroneously billed the Academy for some of Ms. Lawless' fringe benefits (e.g. SERS pick up, health insurance, life insurance, etc.) in the amount of \$4,402 for fiscal year 2015 and in the amount of \$1,229 for fiscal year 2016.



**FINDING NUMBER 2016-005**  
**(Continued)**

On August 11, 2014, the Center, as sponsor for the Academy, contracted with Haugland Learning Center to provide educational services during the 2015 fiscal year to the NECCO Center students at the facility operated by the Academy. As part of the agreement, the Center provided administrative services for the Academy's NECCO Center students, and the Academy paid the Center for those services based on a daily rate per student. The Center's administrative fees of \$23,420 for November 2014 were posted as memo check number 22863 to the Center's General Fund SCC 9914 on December 13, 2014. The Center's administrative fees of \$7,715 for December 2014 were posted as memo check number 23042 to the Center's General Fund SCC 9914 on January 14, 2015. The Center then billed the Academy for these administrative fees as part of purchased services which the Academy paid to the Center in April and May of 2015.

On August 13, 2015, the Academy's fiscal agent (which was the Center's Treasurer at that time) issued memo check number 15017 to the Center, in the amount of \$31,135, which the Academy's fiscal agent wire transferred from the Academy's bank account to the Center's bank account on August 13, 2015. The supporting documentation for that memo expenditure included a requisition and purchase order both describing the disbursement as 'purchased services' along with a copy of two of the Center's receipts (receipt number 5148, dated January 30, 2015, in the amount of \$7,715 and receipt number 5149, dated January 30, 2015, in the amount of \$23,420) with the descriptions 'ESC Admin Fee' and 'ESC Haugland Services', respectively. Both receipts, totaling \$31,135, correspond with the Academy's memo check written to the Center. As a result, the Academy paid the Center twice for November and December 2014 administrative services related to Haugland.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against the Lawrence County Educational Services Center in the amount of \$233,731, and in favor of the Lawrence County Academy General Fund.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code §9.39; State, ex. Rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

The Academy's Fiscal Officer / Center's Treasurer authorized the improper payments. The Lawrence County Educational Center's former Treasurer Teresa Lawless and her bonding company, Travelers Casualty and Surety Company of America, will be jointly and severally liable in the amount of \$233,731 (\$192,108 + \$4,857 + \$4,402 + \$1,229 + \$31,135) and in favor of the Lawrence County Academy General Fund to the extent that recovery is not obtained from the Lawrence County Educational Service Center.

**Officials' Response:**

The Academy closed June 30, 2017. The Center cannot and will not satisfy the findings against former Treasurer Lawless, and she should remain personally liable for them.

## FINDING NUMBER 2016-006

### Internal Control Deficiency

The Academy minute record is the official record of Board meetings and should provide a complete and accurate description of Board proceedings. Board members should acknowledge their approval of the minute record through their signature.

We noted the following conditions related to the Academy's minute records:

- The minute record was not signed for any of the monthly Board meetings.
- While financial information was reviewed by the Board through November 2015, there was no indication that the financial information was approved. Furthermore, the financial information reviewed by the Board as prepared by the Academy's fiscal agent (the Treasurer of the Lawrence County Educational Service Center through December 1, 2015) was not accurate.
- The Academy's fiscal agent through November 2015 failed to provide the Board with disbursement information such as a listing of disbursements and documentation to support how the purchased services billing was calculated since the Academy contracted with the Center for all purchased services.
- The financial reports were not consistently approved by the Board. Also, the minutes did not always indicate to which months the financial reports related, nor did the minutes disclose which financial reports were being presented for approval.

This resulted in an inability to determine whether the minute record was accurate and complete and whether there was proper monitoring by the Academy's Board.

We recommend the minute record be signed by the Board President and the Academy's fiscal agent. We further recommend financial reports be presented to the Board for monitoring purposes, and the minute record document what items are being reviewed and approved. In order to effectively monitor the financial activity and condition of the Academy, we recommend the Academy's fiscal agent provide accounting system-generated reports to the Board on a monthly basis.

### Officials' Response:

The Academy closed June 30, 2017.

## FINDING NUMBER 2016-007

### Internal Control Deficiency

The Lawrence County Educational Service Center (the Center) sponsored and functioned as the fiscal agent for the Lawrence County Academy (Academy) Community School. The Academy agreed to reimburse the Center for all costs incurred by the Center on behalf of the Academy, including the cost of compensating and providing benefits to Academy employees, and other purchased services (including but not limited to educational, administrative, fiscal, technological, EMIS and/or other services). The community school contract stated that the Academy had the option, at the discretion of the Board of Directors, to elect to make additional payments to the Center for any other purposes which the Board of Directors deemed appropriate, except that the Academy could not make payments to the Center for the Center's oversight and monitoring of the Academy in excess of three percent of the total amount of payments of operating expenses that the school receives from the state.

We identified the following conditions related to the Center's role as sponsor and fiscal agent:

- *Lack of support for Center invoices to the Academy and lack of timely transfers from the Academy to the Center*

Amounts charged to cost centers for expenses incurred by the Center on behalf of the Academy lacked adequate support. The Center prepared invoices to the Academy which indicated only that the invoice related to purchased services, educational services, etc., and the dollar amount owed by the Academy to the Center; there was no other support provided. There were five disbursements totaling \$304,675 from the Academy to the Center in fiscal year 2014. Of the five checks written in fiscal year 2014, three checks, totaling \$65,832, were included in the June 30, 2014 bank balance because the Center did not wire those monies from the Academy's bank account to the Center's bank account until January 30, 2015.

At June 30, 2014, the Academy's bank balance was \$506,627. The Academy prepared three memo checks totaling \$506,627 to the Center on July 31, 2014: two memo checks totaling \$23,935 for sponsorship and administration for fiscal year 2014, and a \$482,692 check for "purchased services" related to fiscal year 2014. The wire transfers related to the three memo checks were not made from the Academy's bank account to the Center's bank account until November 26, 2014. Based on documentation eventually identified by the auditors, at June 30, 2014, the Academy owed the Center less than \$200,000 for purchased services related to fiscal year 2014. The Center later determined that \$84,555 of the amounts paid by the Academy for purchased services related to fiscal year 2014 were actually surplus Academy funds that the Center reimbursed to local school districts on behalf of the Academy in fiscal year 2015.

At June 30, 2015, the Academy's fund balance totaled \$400,166. The Academy prepared one memo check (number 15014) totaling \$400,165 to the Center on July 31, 2015 for "purchased services" related to fiscal year 2015. Based on documentation eventually identified by the auditors, at June 30, 2015, the Academy owed the Center less than \$50,000 for administrative costs related to fiscal year 2015. The wire transfer related to the memo check was not made from the Academy's bank account to the Center's bank account until August 31, 2015, and was in the amount of \$390,165, a variance of \$10,000. The Academy Board approved leaving the \$10,000 balance as the Academy's balance carried forward on July 1, 2014. Instead of leaving the \$10,000 at the Academy, as approved by the Board, the entire June 30, 2014 balance was swept to the Center with the memo check written on July 31, 2014 and remained uncorrected until the wire transfer was made for memo check number 15014. On September 10, 2015, the

**FINDING NUMBER 2016-007  
(Continued)**

Academy Board approved transferring unused funds back to the local school districts. According to the Academy Board's calculation, \$24,200 was to remain at the Academy for the July 1, 2015 balance to be used in fiscal year 2016. The \$24,200 was received by the Academy from the Center on May 23, 2016.

We recommend that the Center, as fiscal agent, maintain a separate accounting of Academy resources. This can be accomplished through various options, including: charging Academy related expenses (personnel services, supplies, etc.) directly to the Academy cost centers; maintaining detailed support related to the invoices charged to the Academy; or maintaining Academy accounting records in a separate accounting system.

- *Excess Academy funds returned to districts of Academy board members*

The Center disbursed a total of \$84,555 on December 11, 2014 to the school districts of the superintendents that sit on the Academy Board. The funds disbursed were identified as a surplus of funds from the Academy's fiscal year 2014 operations that were transferred to the Center and were intended to offset the loss of funding to Academy's constituent school districts due to the Academy receiving the funding for students from those districts attending the Academy.

The Center disbursed a total of \$130,000 on November 13, 2015 to the school districts of the superintendents that sit on the Academy Board. The funds disbursed were identified as a surplus of funds from the Academy's fiscal year 2015 operations that were transferred to the Center and were intended to offset the loss of funding to Academy's constituent school districts due to the Academy receiving the funding for students from those districts attending the Academy.

The distributions were based on a determination by the Academy's legal counsel that such a distribution was lawful. However, the Ohio Department of Education (ODE) communicated in a September 12, 2017 letter to the Auditor of State that based on their review of the community school contract and applicable Ohio Revised Code sections, ". . . it is the Department's position that there is no legal authority for a school to simply send unused funds beyond the amounts statutorily permitted to its sponsor."

Because the ODE disburses state foundation funds to specific public schools districts and community schools for a specific student population, we recommend that the Academy consult with the ODE regarding questions on the appropriate use of foundation funds.

**Officials' Response:**

The Academy closed June 30, 2017.

## FINDING NUMBER 2016-008

### Internal Control Deficiency

The Lawrence County Educational Service Center (the Center), as the sponsor of the Academy, entered into a Mutual Services Agreement with Haugland Learning Center on August 11, 2014 for the 2014-2015 academic year. Haugland Learning Center served students eligible for an autism scholarship in Lawrence County, Ohio and received payments directly from the Ohio Department of Education. These students attended classes at the Haugland Learning Center's NECCO Center location in Lawrence County. The Academy also operated and had facilities at the NECCO Center. As part of the agreement, Haugland Learning Center's Ohio resident students at the NECCO Center facility enrolled and become students in the Academy at the NECCO Center location. The agreement also provided that the Academy subcontracted the educational component of the Haugland Learning Center's students to Haugland Learning Center.

Article IV of the Mutual Services Agreement stated that the Academy received \$6,000 per student in state funding from the Ohio Department of Education. The remainder of the state funding subsidy was paid over to the Haugland Learning Center as payment for educating the autism students at the NECCO Center.

Article V of the Mutual Services Agreement stated that the Academy waived the 3% per year fee that could be charged pursuant to the community school sponsorship contract between the Lawrence County Educational Service Center as Sponsor and the Board of Directors of the Lawrence County Academy.

The contract between the Center and Haugland Learning Center did not clearly establish the daily rates to be charged for the autistic and mentally disabled students being educated by Haugland Learning Center. Furthermore, the Center provided administrative services for the Haugland Learning Center students at the NECCO Center. However, the contract did not clearly document the daily rate charged for administrative services per student. Lastly, Haugland Learning Center did not invoice the Center for services provided. Instead, the Center's Superintendent and the Academy's Director calculated the daily rate for Haugland Learning Center and the Center's administrative rate based on the Category 5 and Category 6 rates per student along with the regular rate per student included in the Ohio Department of Education's fiscal year 2015 Community School Report for November 2014. The Center's Superintendent then obtained the monthly NECCO Center attendance information and performed a manual calculation of the amount owed to Haugland Learning Center and the amount owed for administrative services to the Center. The Center's Treasurer (the fiscal agent to the Academy through December 1, 2015) used those calculations to support the check issued to Haugland Learning Center. The Center's Treasurer then billed the Academy for the amount that the Center paid to Haugland Learning Center on behalf of the Academy as part of the services the Academy purchased from the Center.

We recommend contracts entered into by the Center on behalf of the Academy clearly define the services to be provided by all parties. We further recommend the Academy only enter into contracts that contain a detailed breakdown of the daily rates to be charged per student based on the categories of student.

### Officials' Response:

The Academy closed June 30, 2017.

#### **FINDING NUMBER 2016-009**

##### **Noncompliance**

Ohio Rev. Code § 117.38 requires that GAAP-basis entities must file annual reports with the Auditor of State within 150 days of the fiscal year end. The Auditor of State may extend the deadline for filing a financial report and establish terms and conditions for any such extension. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled after the filing date; provided that the penalty payments shall not exceed seven hundred fifty dollars.

The Academy's fiscal year 2015 annual report was filed with the Auditor of State on September 12, 2016 which was after the filing extension due date of March 31, 2016.

We recommend the Academy file the annual financial report with the Auditor of State within 150 days of the fiscal year end.

##### **Officials' Response:**

The Academy closed June 30, 2017.

#### **FINDING NUMBER 2016-010**

##### **Noncompliance**

Ohio Rev. Code § 3314.03 (A) (29) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify the following if the school operates using the blended learning model as defined in section 3301.079 of the Revised Code:

- An indication of what blended learning model or models will be used;
- A description of how student instructional needs will be determined and documented;
- The method to be used for determining competency, granting credit, and promoting students to a higher grade level;
- The school's attendance requirements, including how the school will document participation in learning opportunities;
- A statement describing how student progress will be monitored;
- A statement describing how private student data will be protected;
- A description of the professional development activities that will be offered to teachers

**FINDING NUMBER 2016-010  
(Continued)**

The Academy used the blended learning model; however, there was no documentation provided to support that the Academy had provided notification, in writing, to the Ohio Department of Education, of the method/model of blended learning that the Academy chose to follow.

We recommend the Academy maintain documentation from the Ohio Department of Education (ODE) to support notification to ODE of the Academy's chosen model of blended learning.

**Officials' Response:**

The Academy closed June 30, 2017.

**FINDING NUMBER 2016-011**

**Noncompliance**

Ohio Rev. Code § 3314.02(E)(2)(c) states that each community school sponsor shall annually verify that a finding for recovery has not been issued against any governing authority member of that school, any individuals that propose to create the school, the operator, or any employee of the school. Ohio Rev. Code § 9.24 defines a finding for recovery as "a determination issued by the Auditor of State (AOS), contained in a report the AOS gives to the Attorney General pursuant to section 117.28 of the Revised Code, that public money has been illegally expended, public money has been collected but not been accounted for, public money is due but has not been collected, or public property has been converted or misappropriated." AOS Bulletins 2003-009 and 2004-006 provide more information about Unresolved Findings for Recovery and searching the database. Sponsors may review these Bulletins and perform a certified search of the Unresolved Finding for Recovery database at the following link: <https://www.ohioauditor.gov/findings.html> . Sponsors should maintain documentation to support performance of their certified searches of the Finding for Recovery database.

There was no documentation on file to support that the Lawrence County Educational Service Center, as Sponsor of the Academy, had performed any type of verification that the governing board had no findings for recovery issued against them. Without proper verification, questions could arise to possible findings for recovery against governing board members.

We recommend the Academy's Sponsor annually verify the governing board does not have findings for recovery issued against them. This verification should be documented and maintained.

**Officials' Response:**

The Academy closed June 30, 2017.

## FINDING NUMBER 2016-012

### Noncompliance

Ohio Rev. Code §§ 3317.031 and 3314.08 outline standards for Community School Funding. Ohio Rev. Code § 3314.08 provides the formula by which Community Schools are funded. Community Schools receive funding from the state through the per-pupil foundation allocation. Unlike city, local, exempted village and joint vocational school districts, Community Schools have no tax base from which to draw funds for buildings and investment in infrastructure. Ohio Rev. Code § 3314.191 states that no payments will be made under Ohio Rev. Code § 3314.08 during the first year of operations unless certain conditions are met.

Pursuant to Ohio Rev. Code § 3317.031, districts are required to maintain a “membership record” that includes certain information regarding every student enrolled, including withdrawal dates and days absent. Districts are required to maintain each such record “for at least five years.” Further, districts must maintain documentation to support any withdrawal code reported for a student. Information regarding the preferred documentation that districts should maintain in student files for the different withdrawal codes varies. Also, in instances where districts are unable to secure the preferred documents, other documentation may be considered acceptable alternatives to support the relevant withdrawal code. A table of the acceptable documentation can be found in the EMIS manual.

We identified the following conditions where proper attendance documentation was not maintained by the Academy:

#### *Fiscal Year 2015:*

- Out of 10 students tested who were admitted during the year, 3 of the students' files did not contain a birth certificate. However, other documentation was on file to verify the student did exist. Items such as proof residence, an Individualized Education Plan (IEP), or Enrollment Form were on file.
- Out of 10 students tested who were withdrawn during the year, 2 of the students' files did not contain a withdrawal form or any other type of support to show that the withdrawal date and code in the system were accurate.
- Out of 25 students tested who were enrolled during the year, 3 of the students' files did not contain a birth certificate. However, other documentation was on file to verify the student did exist. Items such as an Individualized Education Plan (IEP) or Evaluation Team Report (ETR) were on file.
- Out of 25 students tested who were enrolled during the year, 2 of the students' files did not contain support that proof of residency was obtained. All other documentation on file indicated that the students lived in the school's residence with no documentation or evidence to indicate otherwise. However, there was no documentation that verification was performed.
- Out of 25 students tested who were enrolled during the year, 3 of the students' files did not contain an enrollment form. Thus, we could not verify the date of enrollment in the system.



**FINDING NUMBER 2016-012  
(continued)**

*Fiscal Year 2016:*

- Out of 15 students tested who were enrolled during the year, 2 of the students' files did not contain support that proof of residency was obtained. All other documentation on file indicated that the students lived in the school's residence with no documentation or evidence to indicate otherwise. However, there was no documentation that a verification was performed.

We recommend the Academy implement procedures to ensure that all documentation required for student enrollment and attendance is maintained.

**Officials' Response:**

The Academy closed June 30, 2017.

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**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016 AND JUNE 30, 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2014-001	Noncompliance and Internal Control – Inaccurate reconciliations and inaccurate financial reporting	No	Not Corrected – See Finding Number 2016-001
2014-002	Noncompliance and Internal Control – Violations related to sponsor contract	No	Not Corrected – See Finding Number 2016-002
2014-003	Internal Control – Lack of detailed information related to disbursements, and lack of segregation of duties	No	Not Corrected – See Finding Number 2016-003
2014-004	Internal Control – Minute record not signed, and financial reports and listing of disbursements not approved	No	Not Corrected – See Finding Number 2016-006
2014-005	Finding for Recovery against Lawrence County Educational Service Center and its former Treasurer	No	Not Corrected
2014-006	Finding for Recovery against Lawrence Schools Council of Governments and the Lawrence County Educational Service Center's former Treasurer	No	Not Corrected
2014-007	Internal Control – Timeliness of the SCOCA accounting system monthly close-outs and timeliness of deposits and posting of receipts	No	Partially Corrected – See Finding Number 2016-001
2014-008	Noncompliance – Annual financial report filed late	No	Not Corrected – See Finding Number 2016-009

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**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
UNAUDITED**

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The discussion and analysis of the Lawrence County Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

- Total Assets were \$187,078.
- Total Liabilities were \$54,702.
- Total Change in Net Position was a decrease of \$253,101.

**Using this Annual Financial Report**

This report consists of three parts, the 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 change in net position, and statement of cash flows.

**Reporting the Academy as a Whole**

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net position— the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net positions – as reported in the Statement of Net Position – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Position and the Statement of Revenues, Expenses and Change in Net Position report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its operations.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
UNAUDITED  
(Continued)**

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***Statement of Net Position***

The Statement of Net Position answers the question, "How did we do financially during 2016?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net position for fiscal year 2016 as compared to 2015.

**Table 1  
Net Position**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current Assets	\$ 187,078	\$ 435,727
Total Assets	<u>187,078</u>	<u>435,727</u>
<b>Liabilities</b>		
Current Liabilities	<u>54,702</u>	<u>50,250</u>
Total Liabilities	<u>54,702</u>	<u>50,250</u>
<b>Net Position</b>		
Unrestricted	<u>132,376</u>	<u>385,477</u>
Total Net Position	<u>\$ 132,376</u>	<u>\$ 385,477</u>

Total assets decreased \$248,649. This decrease is due to a decrease to cash and cash equivalents.

Current liabilities increased due to timing of payments made for services provided to the Academy.

The \$132,376 in unrestricted net position represents the accumulated results of the current year's operations. The operating results of the Academy will have a significant impact on the change in unrestricted net position from year to year.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
UNAUDITED  
(Continued)**

Table 2 shows the changes in net position for fiscal year 2016 as compared to 2015.

**Table 2  
Change in Net Position**

	2016	2015
<b>Revenues</b>		
Operating Revenues:		
Foundation Payments	\$ 507,898	\$ 1,589,324
Non-Operating Revenues:		
Interest	308	1,168
Other Non-Operating Revenues	-	50
Federal and State Subsidies	95,352	5,057
<b>Total Revenues</b>	<b>603,558</b>	<b>1,595,599</b>
<b>Expenses</b>		
Operating Expenses		
Purchased Services	510,826	1,210,122
Materials and Supplies	615	-
Other	2,500	-
<b>Total Expenses</b>	<b>513,941</b>	<b>1,210,122</b>
<b>Special Item</b>		
Surplus Funds Paid to Lawrence Co. ESC	(342,718)	(370,176)
<b>Change in Net Position</b>	<b>(253,101)</b>	<b>15,301</b>
<b>Net Position at Beginning of Year</b>	<b>385,477</b>	<b>370,176</b>
<b>Net Position at End of Year</b>	<b>\$ 132,376</b>	<b>\$ 385,477</b>

During the 2015-2016 school year, there were approximately 79 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2016 amounted to \$5,900 per student. Foundation payments and purchased services decreased as a direct result of the decrease in students from the prior year.

The Academy's business-type activities consist of enterprise activity. Community Schools receive no support from tax revenues.

Most expenses are purchased services. Per contract, the Academy remits 3% of the monies received from the State to the Lawrence County Educational Service Center for administrative costs. The remaining purchased services amount was paid to the Educational Service Center for additional purchased services to provide instruction and other costs. See Note 7 for more detail.

**Capital Assets and Long-Term Debt**

At June 30, 2016, the Academy had no capital assets or long-term debt.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
UNAUDITED  
(Continued)**

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**Current Financial Issues**

The state foundation revenue is determined based on the student count and the foundation allowance per pupil. Approximately 99% of revenue is from the foundation allowance, while less than 1% is comprised of federal and state operating grant funds and interest. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Since the Academy's revenue is heavily dependent on state funding and the health of the State's school aid, the actual revenue received depends on the State's ability to collect revenues. The impact on the Academy of the State's projected revenue is not known. The Lawrence County Educational Service Center did not receive a favorable sponsor rating, so the Academy evaluated its options and closed June 30, 2017.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives to all vested and interest parties. If you have questions about this report or need additional information, contact Brenda Hill, 304 N. 2<sup>nd</sup> Street, Ironton, Ohio 45638.



**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2016**

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**Assets:**

Current Assets:

Cash and Cash Equivalents	\$          127,101
Prepaid Assets	<u>          59,977</u>
Total Current Assets	<u>          187,078</u>

Total Assets	<u>          187,078</u>
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**Liabilities:**

Current Liabilities

Intergovernmental Payable	<u>          54,702</u>
Total Liabilities	<u>          54,702</u>

**Net Position:**

Unrestricted	<u>          132,376</u>
Total Net Position	<u><u>          \$      132,376</u></u>

See accompanying notes to the basic financial statements.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

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

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<b>Operating Revenues:</b>	
Foundation Revenue	\$ 507,898
Total Operating Revenues	<u>507,898</u>
<b>Operating Expenses:</b>	
Purchased Services	510,826
Materials and Supplies	615
Other	2,500
Total Operating Expenses	<u>513,941</u>
Operating Loss	<u>(6,043)</u>
<b>Non-Operating Revenues:</b>	
Interest	308
Grants- Federal and State	95,352
Total Non-Operating Revenues	<u>95,660</u>
<b>Special Item:</b>	
Surplus Funds Paid to Lawrence Co. ESC	<u>(342,718)</u>
Change in Net Position	(253,101)
Net Position at Beginning of Year	<u>385,477</u>
Net Position at End of Year	<u><u>\$ 132,376</u></u>

See accompanying notes to the basic financial statements.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

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

<b>Cash Flows from Operating Activities:</b>	
Cash Received from State foundation	\$ 559,797
Cash Payments to Suppliers for Goods and Services	(585,802)
Net Cash Used for Operating Activities	<u>(26,005)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Intergovernmental	95,352
Surplus Funds Paid to Lawrence Co. ESC	(342,718)
Net Cash Used for Noncapital Financing Activities	<u>(247,366)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest	308
Net Decrease in Cash and Cash Equivalents	(273,063)
Cash and Cash Equivalents at Beginning of Year	<u>400,164</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 127,101</u></u>
<b>Reconciliation of Operating Income to Net Cash Used for Operating Activities:</b>	
Operating Loss	\$ (6,043)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</b>	
Change in Assets:	
Increase in Prepaid	(24,414)
Decrease in Liabilities:	
Increase in Intergovernmental Payable	4,452
Total Adjustments	<u>(19,962)</u>
Net Cash Used for Operating Activities	<u><u>\$ (26,005)</u></u>

See accompanying notes to the basic financial statements.

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**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Lawrence County Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. The Academy's objective is to enhance and facilitate student learning among non-traditional student populations while utilizing a variety of innovative resources and educational strategies, which are customized to meet the needs of the individual students. 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 Sponsor 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. In consideration of permitting the creation of the Academy, for the time, organization, oversight, fees, and costs of the Sponsor, the Academy makes annual payments of 3% of the total state funds received each year to the Sponsor.

The Academy operates under the direction of a seven member board of directors. 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 governing board has entered into a management contract with Lawrence County Educational Service Center to provide consulting services, including teacher training, curriculum development, financial management, and state relations. (See Note 7)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to a governmental nonprofit organization. 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.

**A. Basis of Presentation**

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

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**B. Measurement Focus**

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 revenues, expenses, and change 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.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenues 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.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 Academy on reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. 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 5705.391, the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction, unless specifically provided in the contract between the academy and its sponsor. The contract between the Academy and the Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast that is to be updated on an annual basis.

**E. Cash and Cash Equivalents**

All monies received by the Academy are accounted for by the Rock Hill Local School District, which served as the Academy's fiscal agent during fiscal year 2016. All cash received by the fiscal agent were maintained in a separate bank account in the Academy's name.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

**F. Accrued Liabilities Payable**

The Academy has recognized certain liabilities on its statement of net position, which are due but unpaid as of June 30, 2016.

**G. Net Position**

Net position represents the difference between assets and liabilities. 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.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

**I. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Basic Aid Program. Revenues from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are met. 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 expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

**J. Estimates**

The preparation of 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 may differ from those estimates.

**K. Capital Assets and Long-Term Debt**

The Academy had no capital assets or long-term debt at June 30, 2016.

**L. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the year in which services are consumed.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 3 – NEW ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2016, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Academy.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Academy.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Academy.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Academy.

**NOTE 4 - DEPOSITS**

At June 30, 2016, the carrying amount of the Academy's deposits was \$127,101 and the bank balance was \$163,434. As of June 30, 2016, the entire bank balance was covered by the Federal Deposit Insurance 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 percent 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.



**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 5 - 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. For the fiscal year ended 2016, the Academy obtained insurance through their Sponsor. The Lawrence County Educational Service Center participates in the Ohio School Plan (OSP), a public entity insurance purchasing pool. The Lawrence County Educational Service Center pays an annual premium to the OSP (See Note 9).

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	\$3,000,000
Aggregate Limit	5,000,000
Products – Complete Operations Aggregate Limit	3,000,000
Fire Legal Liability	500,000
Medical Expense Limit – per person/accident	10,000
Employers Liability – Stop Gap:	
Per Accident	3,000,000
Per Disease Each Employee	3,000,000
Per Disease Policy Limit	3,000,000
Employee Benefits Liability:	
Per Claim	3,000,000
Aggregate Limit	

Claims did not exceed coverage for the past three fiscal years.

**NOTE 6 - MANAGEMENT AGREEMENT**

The Academy entered into a 5-year contract, effective May 10, 2013 with an expiration date of June 30, 2018, with the Lawrence County Educational Service Center for educational management services. The contract contains a provision which extends the contract for successive one-year periods unless terminated by either party. In exchange for its services, the Lawrence County Educational Service Center receives a management fee equal to 3% percent of all revenue received from the State. Terms of the contract require the Educational Service Center to provide the following:

1. Monitor the Academy's compliance with all applicable laws;
2. Monitor and evaluate the academic and fiscal performance and the organization and operation of the Academy on at least an annual basis;
3. Report on an annual basis the results of the evaluation to the Department of Education and to the parents of the students enrolled in the Academy;
4. Provide technical assistance to the Academy;
5. Intervene in the Academy's operation to correct problems in the overall performance, declare the Academy to be on probationary status pursuant to Section 3314.073 of the Ohio Revised Code, suspend the operation of the Academy pursuant to Section 3314.072 of the Ohio Revised Code, or terminate the sponsorship contract as pursuant to Section 3314.07 of the Ohio Revised Code;
6. Have in place a plan of action to be undertaken in the event the Academy experiences financial difficulties or closes prior to the end of a school year.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 7 - PURCHASED SERVICES**

For the year ended June 30, 2016 purchased service expenses were payments for services rendered by various vendors, as follows:

Other Direct Costs	\$ 510,826
Total Purchased Services	<u>\$ 510,826</u>

**NOTE 8 – CONTINGENCIES**

**A. Grants**

The Academy receives financial assistance from federal and state 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 of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on any of the financial statements of included herein or on the overall financial position of the Academy at June 30, 2016.

ODE has finalized the impact of enrollment adjustments for June 30, 2015 and 2016 state foundation funding for the Academy. The financial statement impact for the Academy is a liability in the amount of \$54,702.

**B. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

**C. Litigation**

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**NOTE 9 - INSURANCE PURCHASING POOL**

The Academy's Sponsor, the Lawrence County Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**NOTE 10 – SPECIAL ITEM**

The Academy's fiscal agent posted a memo check in the Academy's SCOCA accounting system to the Lawrence County Educational Service Center (the Center) on July 31, 2015 in the amount of the Academy's total fund balance as of June 30, 2015. The Academy's fiscal agent wire transferred the monies from the Academy's bank account to the Center's bank account on August 30, 2015. Of the amount that was wire transferred, \$342,718 represented the Academy's surplus balance that was swept to the Center. The Center used \$130,000 of the surplus balance to issue checks to local school districts as reimbursement to partially offset losses to the districts on account of students who enrolled in the Academy, as approved by the Board of Directors on September 10, 2015.

**NOTE 11 – SUBSEQUENT EVENT**

A settlement agreement was signed stating that the Lawrence County Academy will close as of June 30, 2017. Assets of any kind shall be transferred to the Educational Service Center.

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**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
UNAUDITED**

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The discussion and analysis of the Lawrence County Academy's (the Academy) financial performance provides an overall view 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 notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

- Total Assets were \$435,727.
- Total Liabilities were \$50,250.
- Total Change in Net Position was an increase of \$15,301.

**Using this Annual Financial Report**

This report consists of three parts, the 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 change in net position, and statement of cash flows.

**Reporting the Academy as a Whole**

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net position— the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net positions – as reported in the Statement of Net Position – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The Statement of Net Position and the Statement of Revenues, Expenses and Change in Net Position report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, and food services. Unrestricted state aid and state and federal grants finance most of these activities.

The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its operations.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
UNAUDITED  
(Continued)**

***Statement of Net Position***

The Statement of Net Position answers the question, "How did we do financially during 2015?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net position for fiscal year 2015 as compared to 2014.

Table 1 Net Position		
	2015	2014
<b>Assets</b>		
Current Assets	\$ 435,727	\$ 567,316
Total Assets	435,727	567,316
<b>Liabilities</b>		
Current Liabilities	50,250	197,140
Total Liabilities	50,250	197,140
<b>Net Position</b>		
Unrestricted	385,477	370,176
Total Net Position	\$ 385,477	\$ 370,176

Total assets decreased \$131,589. This decrease is due to a decrease to intergovernmental receivables and cash and cash equivalents.

The most significant liabilities were payable to the Lawrence County Educational Service Center, the Academy's sponsor. Current liabilities decreased due to decreased services provided.

The \$385,477 in unrestricted net position represents the accumulated results of the current year's operations. The operating results of the Academy will have a significant impact on the change in unrestricted net position from year to year.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
UNAUDITED  
(Continued)**

Table 2 shows the changes in net position for fiscal year 2015 as compared to 2014.

**Table 2  
Change in Net Position**

	2015	2014
<b>Revenues</b>		
Operating Revenues:		
Foundation Payments	\$ 1,589,324	\$ 806,153
Non-Operating Revenues:		
Interest	1,168	6
Other Non-Operating Revenues	50	-
Federal and State Subsidies	5,057	65,832
Total Revenues	1,595,599	871,991
<b>Expenses</b>		
Operating Expenses		
Purchased Services	1,210,122	499,815
Materials and Supplies	-	2,000
Total Expenses	1,210,122	501,815
<b>Special Item</b>		
Surplus Funds Paid to Lawrence Co. ESC	(370,176)	-
Change in Net Position	15,301	370,176
Net Position at Beginning of Year	370,176	-
Net Position at End of Year	\$ 385,477	\$ 370,176

During the 2014-2015 school year, there were approximately 118 students enrolled in the Academy. Per pupil base formula amount for fiscal year 2015 amounted to \$5,800 per student. Foundation payments and purchased services increased a direct result of the increase in students from the prior year.

The Academy's business-type activities consist of enterprise activity. Community Schools receive no support from tax revenues.

Most expenses are purchased services. Per contract, the Academy remits 3% of the monies received from the State to the Lawrence County Educational Service Center for administrative costs. The remaining purchased services amount was paid to the Educational Service Center for additional purchased services to provide instruction and other costs. See Note 7 for more detail.

**Capital Assets and Long-Term Debt**

At June 30, 2015, the Academy had no capital assets or long-term debt.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
UNAUDITED  
(Continued)**

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**Current Financial Issues**

The state foundation revenue is determined based on the student count and the foundation allowance per pupil. Approximately 99% of revenue is from the foundation allowance, while less than 1% is comprised of federal and state operating grant funds and interest. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Since the Academy's revenue is heavily dependent on state funding and the health of the State's school aid, the actual revenue received depends on the State's ability to collect revenues. The impact on the Academy of the State's projected revenue is not known.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our citizens with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives to all vested and interest parties. If you have questions about this report or need additional information, contact Brenda Hill, 304 N. 2<sup>nd</sup> Street, Ironton, Ohio 45638.



**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015**

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**Assets:**

Current Assets:

Cash and Cash Equivalents	\$          400,164
Prepaid Assets	35,563
Total Current Assets	<u>435,727</u>

Total Assets	<u>435,727</u>
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**Liabilities:**

Current Liabilities

Intergovernmental Payable	<u>50,250</u>
Total Liabilities	<u>50,250</u>

**Net Position:**

Unrestricted	<u>385,477</u>
Total Net Position	<u>\$          385,477</u>

See accompanying notes to the basic financial statements.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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<b>Operating Revenues:</b>	
Foundation Revenue	\$ 1,589,324
Total Operating Revenues	<u>1,589,324</u>
<b>Operating Expenses:</b>	
Purchased Services	1,210,122
Total Operating Expenses	<u>1,210,122</u>
Operating Income	<u>379,202</u>
<b>Non-Operating Revenues:</b>	
Interest	1,168
Other Non-Operating Revenue	50
Grants- Federal and State	5,057
Total Non-Operating Revenues	<u>6,275</u>
<b>Special Item:</b>	
Surplus Funds Paid to Lawrence Co. ESC	<u>(370,176)</u>
Change in Net Position	15,301
Net Position at Beginning of Year	<u>370,176</u>
Net Position at End of Year	<u><u>\$ 385,477</u></u>

See accompanying notes to the basic financial statements.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<b>Cash Flows from Operating Activities:</b>	
Cash Received from State foundation	\$ 1,589,324
Cash Payments to Suppliers for Goods and Services	<u>(1,392,575)</u>
Net Cash Used for Operating Activities	<u>196,749</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Intergovernmental	70,889
Surplus Funds Paid to Lawrence Co. ESC	(370,176)
Other Nonoperating Revenues	<u>50</u>
Net Cash Provided by Noncapital Financing Activities	<u>(299,237)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest	<u>1,168</u>
Net Decrease in Cash and Cash Equivalents	(101,320)
Cash and Cash Equivalents at Beginning of Year	<u>501,484</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 400,164</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities:</b>	
<hr/>	
Operating Income	\$ 379,202
<b>Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:</b>	
Changes in Assets:	
Increase in Prepaid	(35,563)
Increase in Liabilities:	
Decrease in Intergovernmental Payable	<u>(146,890)</u>
Total Adjustments	<u>(182,453)</u>
Net Cash Used for Operating Activities	<u><u>\$ 196,749</u></u>

See accompanying notes to the basic financial statements.

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**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Lawrence County Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. The Academy's objective is to enhance and facilitate student learning among non-traditional student populations while utilizing a variety of innovative resources and educational strategies, which are customized to meet the needs of the individual students. 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 Sponsor 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. In consideration of permitting the creation of the Academy, for the time, organization, oversight, fees, and costs of the Sponsor, the Academy makes annual payments of 3% of the total state funds received each year to the Sponsor.

The Academy operates under the direction of a seven member board of directors. 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 governing board has entered into a management contract with Lawrence County Educational Service Center to provide consulting services, including teacher training, curriculum development, financial management, and state relations. (See Note 7)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to a governmental nonprofit organization. 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.

**A. Basis of Presentation**

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

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**B. Measurement Focus**

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 revenues, expenses, and change 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.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenues 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.

Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. 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 Academy on reimbursement basis.

Expenses are recognized at the time they are incurred.

**D. 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 5705.391, the Academy must prepare a five year spending plan and submit it to the Ohio Superintendent of Public Instruction, unless specifically provided in the contract between the academy and its sponsor. The contract between the Academy and the Sponsor does prescribe an annual budget requirement in addition to preparing a five-year forecast that is to be updated on an annual basis.

**E. Cash and Cash Equivalents**

All monies received by the Academy are accounted for by the Academy's Sponsor, the Lawrence County Educational Service Center, which served as the Academy's fiscal agent during fiscal year 2015. All cash received by the fiscal agent were maintained in a separate bank account in the Academy's name.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

**F. Accrued Liabilities Payable**

The Academy has recognized certain liabilities on its statement of net position relating to expenses, which are due but unpaid as of June 30, 2015.

**G. Net Position**

Net position represents the difference between assets and liabilities. 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.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

**I. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Basic Aid Program. Revenues from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements are met. 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 expenditures requirements, in which the resources are provided to the Academy on a reimbursement basis.

**J. Estimates**

The preparation of 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 may differ from those estimates.

**K. Capital Assets and Long-Term Debt**

The Academy had no capital assets or long-term debt at June 30, 2015.

**L. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the year in which services are consumed.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES**

For 2015, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No.27” and GASB Statement No. 71 “Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.”

Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Statement No. 71 amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

The implementation of GASB Statements No. 68 and 71 had no effect on the financial statements as the Academy had no employees during 2015.

**NOTE 4 - DEPOSITS**

At June 30, 2015, the carrying amount of the Academy’s deposits was \$400,164 and the bank balance was \$400,164. As of June 30, 2015, \$310,000 of the bank balance was covered by the Federal Deposit Insurance Corporation, the remaining balance was covered by pooled collateral as discussed in the following paragraph.

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 percent 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 5 - 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. For the fiscal year ended 2015, the Academy obtained insurance through their Sponsor. The Lawrence County Educational Service Center participates in the Ohio School Plan (OSP), a public entity insurance purchasing pool. The Lawrence County Educational Service Center pays an annual premium to the OSP (See Note 9).

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	\$3,000,000
Aggregate Limit	5,000,000
Products – Complete Operations Aggregate Limit	3,000,000
Fire Legal Liability	500,000
Medical Expense Limit – per person/accident	10,000
Employers Liability – Stop Gap:	
Per Accident	3,000,000
Per Disease Each Employee	3,000,000
Per Disease Policy Limit	3,000,000



**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**NOTE 5 - RISK MANAGEMENT – (Continued)**

Employee Benefits Liability:	
Per Claim	3,000,000
Aggregate Limit	

Claims did not exceed coverage for the past two fiscal years.

**NOTE 6 - MANAGEMENT AGREEMENT**

The Academy entered into a 5-year contract, effective May 10, 2013 with an expiration date of June 30, 2018, with the Lawrence County Educational Service Center for educational management services. The contract contains a provision which extends the contract for successive one-year periods unless terminated by either party. In exchange for its services, the Lawrence County Educational Service Center receives a management fee equal to 3% percent of all revenue received from the State. Terms of the contract require the Educational Service Center to provide the following:

1. Monitor the Academy's compliance with all applicable laws;
2. Monitor and evaluate the academic and fiscal performance and the organization and operation of the Academy on at least an annual basis;
3. Report on an annual basis the results of the evaluation to the Department of Education and to the parents of the students enrolled in the Academy;
4. Provide technical assistance to the Academy;
5. Intervene in the Academy's operation to correct problems in the overall performance, declare the Academy to be on probationary status pursuant to Section 3314.073 of the Ohio Revised Code, suspend the operation of the Academy pursuant to Section 3314.072 of the Ohio Revised Code, or terminate the sponsorship contract as pursuant to Section 3314.07 of the Ohio Revised Code;
6. Have in place a plan of action to be undertaken in the event the Academy experiences financial difficulties or closes prior to the end of a school year.

**NOTE 7 - PURCHASED SERVICES**

For the year ended June 30, 2015 purchased service expenses were payments for services rendered by various vendors, as follows:

Other Direct Costs	\$ 1,186,187
Management Services	23,935
Total Purchased Services	<u>\$ 1,210,122</u>

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**NOTE 8 – CONTINGENCIES**

**A. Grants**

The Academy receives financial assistance from federal and state 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 of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on any of the financial statements of included herein or on the overall financial position of the Academy at June 30, 2015.

As of the date of this report, ODE had not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

**B. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated.

**C. Litigation**

The Academy is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**NOTE 9 - INSURANCE PURCHASING POOL**

The Academy's Sponsor, the Lawrence County Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

**NOTE 10 – SUBSEQUENT EVENTS**

The Academy changed fiscal agents subsequent to June 30, 2015. Rock Hill Local School District now serves as the Academy's fiscal agent.

A settlement agreement was signed stating that the Lawrence County Academy will close as of June 30, 2017. Assets of any kind shall be transferred to the Educational Service Center.

**LAWRENCE COUNTY ACADEMY  
LAWRENCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

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**NOTE 11 – SPECIAL ITEM**

The Academy's fiscal agent posted a memo check in the Academy's SCOCA accounting system to the Lawrence County Educational Service Center (the Center) on July 31, 2014 in the amount of the Academy's bank balance as of June 30, 2014. The Academy's fiscal agent wire transferred the monies from the Academy's bank account to the Center's bank account on November 26, 2014. Of the amount that was wire transferred, \$370,176 represented the Academy's surplus balance that was swept to the Center. The Center used \$84,554 of the surplus balance to issue checks to local school districts as reimbursement to partially offset losses to the districts on account of students who enrolled in the Academy, as approved by the Board of Directors on October 10, 2014.

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# Dave Yost • Auditor of State

LAWRENCE COUNTY ACADEMY

LAWRENCE 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  
AUGUST 7, 2018