

LAKWOOD DIGITAL ACADEMY

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

LICKING COUNTY

REGULAR AUDIT

JULY 1, 2011 – JUNE 30, 2012





Dave Yost • Auditor of State

Board of Directors
Lakewood Digital Academy
525 East Main Street
P.O. Box 70
Hebron, Ohio 43021

We have reviewed the *Independent Auditors' Report* of the Lakewood Digital Academy, Licking County, prepared by Wilson, Shannon & Snow, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

December 7, 2012

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**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY**

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INDEPENDENT AUDITORS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Lakewood Digital Academy, Licking County (the Academy), a component unit of the Lakewood Local School District, Licking County, as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lakewood Digital Academy, Licking County, Ohio as of June 30, 2012, and the respective changes in its financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

Lakewood Digital Academy
Licking County
Independent Auditors' Report

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Wilson, Shuman & Snow, Inc.

October 22, 2012

LAKEWOOD DIGITAL ACADEMY

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

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012

Unaudited

The management's discussion and analysis of Lakewood Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

- Net Assets at June 30, 2012 were \$54,485.
- Operating revenues accounted for \$292,617 in revenue or 94% of all revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

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

The following tables represent the Academy's condensed financial information for 2012 and 2011 derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

	Net Assets	
	2012	2011
Current and other assets	\$123,625	\$76,485
Capital assets, Net	27,400	40,788
Total assets	151,025	117,273
Other liabilities	96,540	41,872
Total liabilities	96,540	41,872
Net assets		
Invested in capital assets	27,400	40,788
Restricted	0	6,845
Unrestricted	27,085	27,768
Total net assets	\$54,485	\$75,401

LAKWOOD DIGITAL ACADEMY

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

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2012 and 2011:

	Change in Net Assets	
	2012	2011
Revenues		
Foundation Payments	\$290,863	\$246,610
Fees	1,693	40
All Other Revenue	61	8
Total revenues	<u>292,617</u>	<u>246,658</u>
Expenses		
Purchased Services	300,959	259,856
Supplies and Materials	6,333	8,526
Depreciation	13,174	27,364
Other Operating Expense	11,425	11,547
Total expenses	<u>331,891</u>	<u>307,293</u>
Operating Loss	(39,274)	(60,635)
Nonoperating Revenues (Expenses)		
Federal and State Restricted Grants	18,451	32,299
Investment Earnings	121	81
Loss on Disposal of Capital Assets	(214)	(117)
Total Nonoperating Revenues (Expenses)	<u>18,358</u>	<u>32,263</u>
Total Change in Net Assets	(20,916)	(28,372)
Net Assets Beginning of Year	<u>75,401</u>	<u>103,773</u>
Net Assets End of Year	<u>\$54,485</u>	<u>\$75,401</u>

The Academy operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds are included in the discussion and analysis. Results of fiscal year 2012 indicate a decrease in net assets of \$20,916 and ending net assets of \$54,485. The decrease in net assets is the result of depreciation expense on capital assets and a decrease in Federal grants revenues.

BUDGET

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

LAKEWOOD DIGITAL ACADEMY

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

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012 the Academy had \$27,400 net of accumulated depreciation invested in equipment. The following table shows fiscal years 2012 and 2011:

	Business-Type Activities		Increase (Decrease)
	2012	2011	
Equipment	\$186,925	\$196,451	(\$9,526)
Less: Accumulated Depreciation	(159,525)	(155,663)	(3,862)
Totals	\$27,400	\$40,788	(\$13,388)

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

Debt

The Academy has not issued any debt.

ECONOMIC FACTORS

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

REQUESTS FOR INFORMATION

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

LAKWOOD DIGITAL ACADEMY

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

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LAKEWOOD DIGITAL ACADEMY

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

Statement of Net Assets ***June 30, 2012***

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 121,906
Receivables:	
Accounts	321
Prepaid Items	1,398
<i>Total Current Assets</i>	<u>123,625</u>

Non Current Assets:

Capital Assets, Net of Accumulated Depreciation	<u>27,400</u>
Total Assets	<u>151,025</u>

Liabilities:

Current Liabilities:

Intergovernmental Payable	92,407
Unearned Revenue	<u>4,133</u>
Total Liabilities	<u>96,540</u>

Net Assets

Invested in Capital Assets	27,400
Unrestricted	<u>27,085</u>
Total Net Assets	<u>\$ 54,485</u>

See accompanying notes to the basic financial statements

LAKEWOOD DIGITAL ACADEMY

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

Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2012

Operating Revenues:	
Foundation Payments	\$ 290,863
Fees	1,693
All Other Revenue	61
Total Operating Revenues	292,617
Operating Expenses:	
Purchased Services	300,959
Supplies and Materials	6,333
Depreciation	13,174
Other Operating Expense	11,425
Total Operating Expenses	331,891
Operating Loss	(39,274)
Nonoperating Revenue (Expenses):	
Federal and State Restricted Grants	18,451
Investment Earnings	121
Loss on Disposal of Capital Assets	(214)
Total Nonoperating Revenues	18,358
Change in Net Assets	(20,916)
Net Assets Beginning of Year	75,401
Net Assets End of Year	\$ 54,485

See accompanying notes to the basic financial statements

LAKWOOD DIGITAL ACADEMY

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

Statement of Cash Flows For the Fiscal Year Ended June 30, 2012

<u>Cash Flows from Operating Activities:</u>	
Cash Received for School Foundation	\$290,863
Cash Received from Other Revenue	61
Cash Received for Fees	5,505
Cash Payments for Goods and Services	(256,491)
Cash Payments for Other Expenses	(11,425)
Net Cash Provided by Operating Activities	<u>28,513</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Restricted Grants Received	25,296
Net Cash Provided by Noncapital Financing Activities	<u>25,296</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	121
Net Cash Provided by Investing Activities	<u>121</u>
Net Increase in Cash and Cash Equivalents	53,930
Cash and Cash Equivalents at Beginning of Year	67,976
Cash and Cash Equivalents at End of Year	<u>\$121,906</u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Loss	(\$39,274)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	13,174
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(321)
Decrease in Prepaid Items	266
Increase in Intergovernmental Payables	50,535
Increase in Unearned Revenue	4,133
Total Adjustments	<u>67,787</u>
Net Cash Provided by Operating Activities	<u>\$28,513</u>

See accompanying notes to the basic financial statements

LAKWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Lakewood Digital Academy, Hebron, Ohio (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Management is not aware of any course of action or series of events that have occurred that might adversely affect the tax-exempt status. The Academy’s objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the kindergarten through grade 12 population. It is to be operated under a contract with the Lakewood Local School District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive and standards-based educational program. The Academy, which is part of the State’s education program, is nonsectarian in its programs, admissions policies, employment practices and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was certified by the State of Ohio Secretary as a non-profit organization on April 8, 2002. The Academy was approved for operation under a contract with the Lakewood Local School District (the “Sponsor”). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Academy began accepting students on August 25, 2003.

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

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

LAKEWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

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

C. Measurement Focus

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

D. Basis of Accounting

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

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

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Academy follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its enterprise funds.

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

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

LAKWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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

E. Budgetary Process

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

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, and investments with original maturities of three months or less. During fiscal year 2012, the Academy had no investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets and Depreciation

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

1. Property, Plant and Equipment

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

LAKEWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. Depreciation

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

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

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. None of the restricted net assets reported at June 30, 2012 were by enabling legislation.

J. Estimates

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

K. Operating Revenues and Expenses

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

LAKWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

At year end the carrying amount of the Academy's deposits was of \$121,906 and the bank balance was \$129,237. The Federal Deposit Insurance Corporation (FDIC) covered the entire bank balance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

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

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012 consisted of accounts receivables. The total is for fees of which 100% is considered collectible.

NOTE 4 - CAPITAL ASSETS

Summary by category of changes in capital assets at June 30, 2012:

Historical Cost:

<u>Class</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
<i>Capital Assets being depreciated:</i>				
Equipment	\$196,451	\$0	(\$9,526)	\$186,925
Total Cost	\$196,451	\$0	(\$9,526)	\$186,925

Accumulated Depreciation:

<u>Class</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Equipment	(\$155,663)	(\$13,174)	\$9,312	(\$159,525)
Total Depreciation	(\$155,663)	(\$13,174)	\$9,312	(\$159,525)
<i>Net Value:</i>	\$40,788			\$27,400

LAKWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 5 – RELATED PARTY TRANSACTIONS

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

In fiscal year 2012, payments made by the Academy to the Sponsor totaled \$195,749. These represent payments for reimbursements for services provided by the Sponsor to the Academy. Also at fiscal year end, the Academy had an outstanding payable of \$91,276 to the Sponsor which is included in "Intergovernmental Payable" on the Statement of Net Assets.

NOTE 6 – SERVICE AGREEMENTS

A. Jefferson County ESC Virtual Learning Academy

The Academy entered into a one-year contract effective July 1, 2011 with Jefferson County ESC Virtual Learning Academy ("Jefferson ESC") for an online curriculum fully aligned to Ohio's Academic Content Standards. Under the contract, Jefferson ESC is required to provide the following services:

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

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

District Database Setup Fee - \$1,000 annually

Student License Fee - \$150 per student allows the student to enroll in unlimited courses and is valid for 365 days from the date of enrollment. The Lakewood Digital Academy uses the teachers that are provided by Jefferson ESC, so an additional cost of \$250 is charged for a full year course and \$125 for a semester course.

For fiscal year 2012, the Academy remitted to Jefferson ESC a \$1,000 district database setup fee and \$60,331 for student license fees.

LAKEWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 6 – SERVICE AGREEMENTS (Continued)

B. Lakewood Local School District

The Sponsorship Contract and the annual Purchased Services Contracts with Lakewood Local School District outlines the specific payments to be made by the Academy to Lakewood Local School District during fiscal year 2012. In addition the Sponsorship Contract states that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Lakewood Local School District. The following payments were made in fiscal year 2012 from the Academy to Lakewood Local School District:

Purchased Services for Administrative and Fiscal Services	\$ 39,570
Annual Payments of 3% of Funding provided by the Ohio Department of Education (management fee)	8,716
Purchased Services for Director and Student Assistant Specialist	73,810
Purchased Services for Special Education Related Services	4,730
Sponsorship Payments	67,466
Miscellaneous	1,457
Total	<u>\$ 195,749</u>

NOTE 7 – PURCHASED SERVICES

For fiscal year ended June 30, 2012, purchased services expenses were as follows:

Contractual Services	\$ 299,846
Professional Services	625
Travel	51
Other	437
Total	<u>\$ 300,959</u>

NOTE 8 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On August 1, 2003, the Academy was named as an additional insured party on Lakewood Local School District's, the Sponsor, insurance policy. As of July 1, 2011, the Sponsor obtained a policy with Ohio Casualty Insurance Company for general liability insurance and property insurance. The entire risk of loss, less any deductibles, transfers to the commercial carrier. The following limits and deductibles are in aggregate for both the Academy and the Sponsor. Ohio Casualty Insurance Company provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate.

LAKWOOD DIGITAL ACADEMY

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

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 8 – RISK MANAGEMENT (Continued)

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

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

NOTE 9 - CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The Academy receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The Academy is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2012.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. The Academy does not anticipate any material adjustments to state funding for fiscal year 2012 as a result of such review.

NOTE 10 – SUBSEQUENT EVENTS

Starting July 1, 2012, the Academy approved a one-year contract for the first year with ACE Digital Academy for an online curriculum fully aligned to Ohio's Academic Content Standards.



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

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

To the Board of Directors:

We have audited the financial statements of the of the Lakewood Digital Academy, Licking County, Ohio (the Academy), a component unit of the Lakewood Local School District, Licking County, as of and for the fiscal year ended June 30, 2012 which collectively comprise the basic financial statements and have issued our report thereon dated October 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS
Ten West Locust Street
Newark, Ohio 43055
(740) 345-6611
1-800-523-6611
FAX (740) 345-5635

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, Board of Directors, the Community School's sponsor and others within the Academy. We intend it for no one other than these specified parties.

Wilson, Shuman & Snow, Inc.

Newark, Ohio
October 22, 2012

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Dave Yost • Auditor of State

LAKWOOD DIGITAL ACADEMY

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 20, 2012