



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

FINAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2014



Dave Yost • Auditor of State

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

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Cardington-Lincoln Local Digital Academy, a component unit of Cardington-Lincoln Local School District, Morrow County, Ohio (the Academy), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 9 of the financial statements, the Academy formally ceased operations on June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2015, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

July 15, 2015

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

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

Financial Highlights

The Academy ceased operations effective June 30, 2014. The assets and liabilities reported at June 30, 2014 reflect the amounts to be collected and owed as of the date of closure. The Academy's Sponsor, Cardington-Lincoln Local School District will administer the close out procedures of the Academy. See Note 9 for a description of expenses and adjustments related to the close out of the Academy and the amount owed to Ohio Department of Education.

Using these Basic Financial Statements

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

Reporting the Academy Financial Activities

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

The statement of net position and the statement of revenues, expenses and changes in net position includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid. This change in net position is important because it tells the reader that, for the Academy as a whole, the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on page 7 and 8 of this report.

The statement of cash flows can be found on page 9 of this report.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The table below provides a summary of the Academy's net position at June 30, 2014 and June 30, 2013.

Net Position		
	2014	2013
<u>Assets</u>		
Current assets	\$ 183,637	\$ 256,683
Capital assets, net	-	21,001
Total assets	183,637	277,684
<u>Liabilities</u>		
Current liabilities	5,263	13,431
Total liabilities	5,263	13,431
<u>Net Position</u>		
Invested in capital assets	-	21,001
Unrestricted	178,374	243,252
Total net position	\$ 178,374	\$ 264,253

The Academy ceased operations on June 30, 2014.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The table below shows the changes in net position for fiscal year 2014 and 2013.

Change in Net Position

	<u>2014</u>	<u>2013</u>
<u>Operating Revenues:</u>		
State foundation	\$ 197,077	\$ 226,314
Other revenue	32,311	11,467
Total operating revenue	<u>229,388</u>	<u>237,781</u>
<u>Operating Expenses:</u>		
Purchased services	323,754	247,663
Materials and supplies	8,525	736
Depreciation	9,800	11,415
Other	11,714	6,574
Total operating expenses	<u>353,793</u>	<u>266,388</u>
<u>Non-operating revenues (expenses):</u>		
Federal and state grants	49,646	14,367
Interest income	81	278
Loss on Disposal of Capital Assets	<u>(11,201)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>38,526</u>	<u>14,645</u>
Change in net position	(85,879)	(13,962)
Net position at beginning of year	<u>264,253</u>	<u>278,215</u>
Net position at end of year	<u>\$ 178,374</u>	<u>\$ 264,253</u>

Capital Assets

At June 30, 2014, the Academy ceased operations and all remaining capital assets, net of accumulated depreciation, of \$11,201, became the property of the Sponsor. See Notes 4 and 9 to the basic financial statements for more detail on capital assets and the Academy's continued existence.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Scott Osborne, Treasurer, Cardington-Lincoln Local Digital Academy, 121 Nichols St., Cardington, Ohio 43315.

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

STATEMENT OF NET POSITION
JUNE 30, 2014

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 174,450
Receivables:	
Intergovernmental.	<u>9,187</u>
Total assets.	<u>183,637</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	372
Intergovernmental payable	<u>4,891</u>
Total liabilities	<u>5,263</u>
 Net position:	
Unrestricted.	<u>178,374</u>
Total net position.	<u><u>\$ 178,374</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Operating revenues:	
Foundation revenue	\$ 197,077
Other	32,311
Total operating revenues	<u>229,388</u>
 Operating expenses:	
Purchased services.	323,754
Materials and supplies	8,525
Depreciation	9,800
Other.	11,714
Total operating expenses.	<u>353,793</u>
 Operating loss	 <u>(124,405)</u>
 Non-operating revenues (expenses):	
Grants and subsidies.	49,646
Interest revenue	81
Loss on Disposal of Capital Assets.	(11,201)
Total nonoperating revenues (expenses).	<u>38,526</u>
 Change in net position	 (85,879)
 Net position at beginning of year.	 <u>264,253</u>
 Net position at end of year	 <u>\$ 178,374</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:

Cash received from state foundation	\$	197,364
Cash received from other operations		32,311
Cash payments for purchased services		(331,954)
Cash payments for materials and supplies		(8,606)
Cash payments for other expenses		(11,888)
		(11,888)

Net cash used in operating activities		(122,773)
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Cash flows from noncapital financing activities:

Cash received from grants and subsidies.		40,459
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Cash flows from investing activities:

Interest received		81
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Net decrease in cash and cash equivalents		(82,233)
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Cash and cash equivalents at beginning of year		256,683
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Cash and cash equivalents at end of year	\$	174,450
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Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$	(124,405)
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Adjustments:

Depreciation		9,800
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Changes in assets and liabilities:

Increase in accounts payable.		291
Decrease in intergovernmental payable		(8,459)
		(8,459)

Net cash used in operating activities	\$	(122,773)
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Cardington-Lincoln Local Digital Academy (the "Academy") was a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy was an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect its tax exempt status. The Academy's objective was to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the kindergarten through grade 12 populations entirely through distance learning technologies. It was operated under a contract with the Cardington-Lincoln Local School District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which were not available locally, and other, including home-schooled students who were not currently enrolled in any public school and who were not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which was part of the State's education program, was nonsectarian in its programs, admissions policies, employment practices and all other operations. The Academy could acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was certified by the State of Ohio Secretary of State as a non-profit organization on October 1, 2002. The Academy was approved for operation under a contract between the Cardington-Lincoln Local School District (the "Sponsor") for five years commencing July 1, 2004. On June 10, 2013, the Academy entered into a new 5 year sponsorship agreement with the Sponsor. The Sponsor was responsible for evaluating the performance of the Academy and had the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. On June 30, 2014, the Academy ceased operations (see Note 9).

The Academy operated under the direction of a five-member Board of Directors which consists of 5 community members who are neither officers nor employees of the Cardington-Lincoln Local School District, or other public official representing a governmental entity that desires to further the establishment and operation of the School District. Due to the amount of influence the Cardington-Lincoln Local School District has over the Academy's Board, the Academy was a component unit of the Cardington-Lincoln Local School District. The Board of Directors was responsible for carrying out the provisions of the contract which included, but were not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Treasurer of Cardington-Lincoln Local School District was also the Treasurer of the Academy.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(CONTINUED)

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

A. Basis of Presentation

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

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

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

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

D. Cash

All monies received by the Academy were deposited in a demand deposit account.

E. Capital Assets and Depreciation

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(CONTINUED)**

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

In accordance with the Sponsorship Contract and as discussed in Note 9, the Academy transferred all capital assets, net of accumulated depreciation, to the Sponsor on June 30, 2014.

F. Intergovernmental Revenue

The Academy currently participates in the IDEA Part B Grant, Rural Education Achievement Program Grant (REAP) and the State Foundation Program. Grants and entitlements were recognized as non-operating revenues in the accounting period in which all eligibility requirements had been met. Eligibility requirements included timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy was required to provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources were provided to the Academy on a reimbursement basis. Revenues received from the State Foundation Program were recognized as operating revenues.

G. Estimates

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

NOTE 3 - DEPOSITS

All monies received by the Academy were deposited in a demand deposit account. Based on the criteria discussed in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, the Academy's bank balance of \$183,625 was covered by the FDIC. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

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

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

The Academy had no investments.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(CONTINUED)

NOTE 4 - CAPITAL ASSETS

	Balance <u>6/30/2013</u>	Additions	Transfer of Assets to Sponsor	Balance <u>6/30/2014</u>
Equipment	\$ 159,220	\$ -	\$ (159,220)	\$ -
Less: accumulated depreciation	<u>(138,219)</u>	<u>(9,800)</u>	<u>148,019</u>	<u>-</u>
Net capital assets	<u>\$ 21,001</u>	<u>\$ (9,800)</u>	<u>\$ (11,201)</u>	<u>\$ -</u>

In accordance with the Sponsorship Contract and as discussed in Note 9, the Academy transferred all capital assets, net of accumulated depreciation, to the Sponsor on June 30, 2014.

NOTE 5 - SERVICE AGREEMENTS

A. Tri-Rivers Educational Computer Association

The Academy entered into a one-year agreement with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative and technical services required for the operation of the Academy for fiscal year 2014. Under the contract, TRECA was required to provide the following services:

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

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

Enrollment - \$3,910 per full time student enrolled per year. In case of a student enrolled with an Individualized education program (IEP), the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, actual costs for that student are provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(CONTINUED)

NOTE 5 - SERVICE AGREEMENTS - (Continued)

Department of Education for special education and related services is due to TRECA for that student. The Academy receives a maximum reduction of \$47,500 to the enrollment fee by providing one full-time certified teacher who meets the staffing needs of TRECA. This is contingent on the staffing needs of TRECA and the reduction will be prorated with the actual amount dependent upon the number of days the teacher is contracted to work with TRECA.

B. Cardington-Lincoln Local School District

The Community School Sponsorship Contract and the annual Purchased Services Contract between the Academy and Cardington-Lincoln Local School District outlined the specific payments to be made by the Academy to Cardington-Lincoln Local School District during fiscal year 2014. In addition, the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Cardington-Lincoln Local School District.

The following payments were made in fiscal year 2014 from the Academy to Cardington-Lincoln Local School District:

Administrative services	\$ 48,350
Professional services	117,572
Materials and supplies	3,060
Other purposes	<u>6,351</u>
Total amount of payments made by the Academy to Cardington-Lincoln Local School District for fiscal year 2014	<u>\$ 175,333</u>

NOTE 6 - RISK MANAGEMENT

The Academy was exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the Academy was named as an additional insured party on Cardington-Lincoln Local School District's, the Sponsor, insurance policy.

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

NOTE 7 - CONTINGENCIES

A. Grants

The Academy received significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Academy.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(CONTINUED)**

NOTE 7 – CONTINGENCIES- (Continued)

B. Litigation

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

C. State Foundation Funding

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As a result of the review after fiscal year-end, the Academy owed ODE \$287.

NOTE 8 - PURCHASED SERVICES

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

Professional and technical services \$ 323,754

NOTE 9 - CONTINUED EXISTENCE

Due to a lack of grant funding and the expectations of the operation of the Academy that would have resulted in the ineffective spending and an overuse of personnel, the Academy ceased operations as of June 30, 2014 upon the expiration of the Sponsorship Contract.

In accordance with the Sponsorship Contract, upon dissolution, any remaining assets and liabilities of the Academy are to be conveyed in accordance with Ohio Revised Code Sections 3314.015 and 3314.074 and the Ohio Department of Education Community School Closing Procedure Assurances. On June 30, 2014, the Academy transferred the capital assets to the Cardington-Lincoln Local School District.

All remaining assets and liabilities of the Academy have been reported on the Statement of Net Position to reflect the amounts to be collected and owed as of the date of closure. The Academy's Sponsor, Cardington-Lincoln Local School District administered the close out procedures of the Academy. Below are related close out expenses that were incurred between June 30, 2014 and the date of this report.

Date	Amount of Expenditure	Payee/Vendor	Description
7/25/2014	\$187.50	Hylant Group	Treasurer's Bond
10/31/2014	\$3,321.00	Auditor of State	Fiscal year 2014 audit costs
4/15/2015	\$1,100	Julian and Grube	GAAP Compilation
4/15/2015	\$2,275.50	Auditor of State	Fiscal year 2014 audit costs

As of the date of this report the Academy will have an additional payable to the Auditor of State of \$184.50. The remaining cash balance still needs to be paid to the Ohio Department of Education by the Academy. The Ohio Department of Education will then redistribute this balance to the home school districts of the students who were enrolled at the Academy at the time it ceased operations.



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Cardington-Lincoln Local Digital Academy, a component unit of Cardington-Lincoln Local School District, Morrow County, (the Academy) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated July 15, 2015, wherein we noted the Academy formally ceased operations on June 30, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

July 15, 2015

**CARDINGTON LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2014**

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

FINDING NUMBER 2014-001

Closeout Procedures - Noncompliance/Material Weakness

Ohio Rev. Code § 3314.015 (E) provides that the Ohio Department of Education (ODE) shall adopt procedures for use by a community school governing authority and sponsor when the school permanently closes and ceases operation, which shall include at least procedures for data reporting to the department, handling of student records, distribution of assets in accordance with section 3314.074 of the Revised Code, and other matters related to ceasing operation of the school.

ODE has adopted the "Community School Closing Procedure Assurances", which governs the reporting of closed community schools in regards to ORC 3314.015 (E). Included in the procedures are that the Academy notify ODE within 24 hours of close of the school, that all Federal grant reports be filed, all assets be separately tracked as to whether they were purchased with Federal grants or state monies, and that all funds be paid in accordance with the disposition process established in the assurances. In addition, the assurances should be submitted to the Office of Community Schools within 30 days of closeout. The Assurances also state that to the extent the Academy's governing authority is unable or unwilling to execute its responsibilities in effecting the orderly closure of the Academy, the sponsor shall assume part or all of such tasks.

Ohio Rev. Code § 3314.074(A) provides that if any community school established under this chapter permanently closes and ceases its operation as a community school, the assets of that school shall be distributed first to the retirement funds of employees of the school, employees of the school, and private creditors who are owed compensation, and then any remaining funds shall be paid to the Ohio department of education for redistribution to the school districts in which the students who were enrolled in the school at the time it ceased operation were entitled to attend school under section 3313.64 or 3313.65 of the Revised Code. The amount distributed to each school district shall be proportional to the district's share of the total enrollment in the community school.

On April 16, 2014 the Academy passed a resolution to close the Academy as of June 30, 2014. The resolution stated that the parties of the Academy and the Sponsor, the Cardington Lincoln School District (the Sponsor), mutually desire that in anticipation of the closure of the Academy, the Sponsor will take over the operation of the online program in order to offer the same program to current students of the Academy and to other students of the Sponsor. The resolution also stated that both parties desired to transfer from the Academy to the Sponsor any currently remaining assets and other assets of the Academy acquired prior to the Academy's closure, as authorized by and in accordance with the instructions of ODE's Office of Community Schools as set forth in the Community School Closing Procedures Assurances dated April 3, 2013 as applicable.

The Academy did not follow the close out procedures related to the disposition of the Academy's capital assets at June 30, 2014. Capital assets purchased with the Public Charter School Program (PCSP) grant monies were not first offered to other community schools with requisite board resolutions consistent with the purpose of the PCSP. If there are no takers then an auction sale must be held to dispose of the assets along with the state funded assets. All of the Academy's capital assets were transferred over to Cardington Lincoln School District without these steps being followed and are being used by the District after June 30, 2014.

**CARDINGTON LINCOLN LOCAL DIGITAL ACADEMY
MORROW COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2014
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2014-001 (Continued)

Although the Sponsor, Cardington-Lincoln Local School District, assumed the closure responsibilities of the Academy, the Academy incorrectly reported transferring all financial activity to the Sponsor on the June 30, 2014 financial statements. The Statement of Net Position of the Academy was adjusted to account for all assets and liabilities of the Academy as of June 30, 2014 and the non-operating expense item, Assets to Cardington-Lincoln Local School District, of \$187,655 was removed from the Statement of Revenues, Expenses, and Changes in Net Position.

The remaining balance after final payments and adjustments should be sent to ODE by the Sponsor for redistribution to the school districts in which the students who were enrolled in the Academy at the time it ceased operation. The final foundation settlement report for the Academy showed that the full time equivalency (FTE) related to students within the Cardington Lincoln Digital Academy was 22.09 out of 27.91. Therefore, the other School Districts related to the remaining FTE are entitled to a proportionate share of the remaining funds.

Failure to complete the "Community School Closeout Procedure Assurances" and its' required steps results in an inability for proper evaluation and monitoring by the Ohio Department of Education and could lead to misappropriation of assets.

We recommend the Academy and the Sponsor complete all tasks listed on the Community School Closing Procedure Assurances document and submit it to the Office of Community Schools. In addition the remaining cash balance after all final payments related to the Academy are paid should be remitted to the Ohio Department of Education.

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Material Weakness – Financial Reporting	No	See Finding 2014-001

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Dave Yost • Auditor of State

CARDINGTON LINCOLN LOCAL DIGITAL ACADEMY

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 25, 2015**