

**LONDON ACADEMY
MADISON COUNTY**

BASIC FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2014





Dave Yost • Auditor of State

Governing Body
London Academy
40 South Walnut Street
London, Ohio 43140

We have reviewed the Independent Auditor's Report of the London Academy, Madison County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2013 through June 30, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The London 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

February 24, 2015

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**LONDON ACADEMY
MADISON COUNTY**

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
Notes to the Financial Statements	11
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards	19

INDEPENDENT AUDITOR'S REPORT

London Academy
Madison County
380 Elm Street
London, Ohio 43140

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of London Academy, Madison County, Ohio (the Academy), a component unit of the London City School District, as of and for the year ended June 30, 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 London Academy, Madison 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.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Kennedy Cottrell Richards LLC
December 29, 2014

LONDON ACADEMY
(A Component Unit of London City School District)
Madison County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

This discussion and analysis of London Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 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 basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

- The liabilities of the Academy exceeded its assets as the close of the most recent fiscal year by \$322,795 (negative net position), a decrease of \$516,026 in comparison with the prior fiscal year.

Using this Financial Report

This report consists of three parts, Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer the question, "How did we do financially during fiscal year 2014?" These statements are prepared using the economic resources measurement focus. With this measurement focus, all assets and liabilities are reported, both short and long-term. These statements use the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the fiscal year, regardless of when the cash is received or paid.

LONDON ACADEMY
(A Component Unit of London City School District)
Madison County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 1 provides a summary of the Academy's net position for fiscal year 2014 and fiscal year 2013:

	(Table 1)		
	Net Position		
	2014	2013	Increase (Decrease)
Assets:			
Current Assets	\$ 1,084,206	\$ 314,796	\$ 769,410
Depreciable Capital Assets, Net	2,030	2,707	(677)
Total Assets	<u>1,086,236</u>	<u>317,503</u>	<u>768,733</u>
Liabilities:			
Current Liabilities	981,924	122,242	859,682
Non-Current Liabilities	425,077	-	425,077
Total Liabilities	<u>1,407,001</u>	<u>122,242</u>	<u>1,284,759</u>
Net Position:			
Net Investment in Capital Assets	2,030	2,707	(677)
Unrestricted	(322,795)	192,554	(515,349)
Total Net Position	<u>\$ (320,765)</u>	<u>\$ 195,261</u>	<u>\$ (516,026)</u>

Total assets increased significantly in comparison with the prior fiscal year. This increase is the result of an increase in cash and cash equivalents based on the timing of payments made to London City School District (the "District") for services provided.

Total liabilities also increased significantly in comparison with the prior fiscal year. This increase is primarily the result of the foundation settlement agreement executed with the Ohio Department of Education to refund excess foundation receipts from prior fiscal years.

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LONDON ACADEMY
(A Component Unit of London City School District)
Madison County, Ohio

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

Table 2 shows the changes in net position for fiscal year 2014 and fiscal year 2013, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Position

	2014	2013	Increase (Decrease)
Operating Revenues:			
Foundation Payments	\$ 1,581,553	\$ 1,590,248	\$ (8,695)
Miscellaneous Revenues	166	543	(377)
Non-Operating Revenues:			
Federal and State Grants	137,631	147,193	(9,562)
Interest	77	109	(32)
Total Revenues	<u>\$1,719,427</u>	<u>\$ 1,738,093</u>	<u>\$ (18,666)</u>
Operating Expenses:			
Purchased Services	\$ 1,519,142	\$ 1,510,628	\$ 8,514
Materials and Supplies	221,474	186,472	35,002
Depreciation	677	2,222	(1,545)
Miscellaneous	16,766	17,297	(531)
Non-Operating Expenses:			
Foundation Settlement Agreement	477,394	0	477,394
Total Expenses	<u>2,235,453</u>	<u>1,716,619</u>	<u>518,834</u>
Change in Net Position	(516,026)	21,474	(537,500)
Net Position at Beginning of Year	195,261	173,787	21,474
Net Position at End of Year	<u>\$ (320,765)</u>	<u>\$ 195,261</u>	<u>\$ (516,026)</u>

The increase in expenses is primarily the result of the foundation settlement agreement executed with the Ohio Department of Education.

LONDON ACADEMY
(A Component Unit of London City School District)
Madison County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Capital Assets

At the end of fiscal year 2014, the Academy had \$2,030 invested in furniture, fixtures and equipment, a decrease of \$677 in comparison with the prior fiscal year. This decrease represents the amount of current year depreciation of \$677.

For more information on capital assets see Note 5 to the basic financial statements.

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. For questions about this report or additional information, contact Ms. Jill Smith, Treasurer of London Academy, 40 South Walnut Street, London, Ohio 43140.

LONDON ACADEMY
(A COMPONENT UNIT OF LONDON CITY SCHOOL DISTRICT)
MADISON COUNTY

STATEMENT OF NET POSITION
AS OF JUNE 30, 2014

Assets

Current Assets

Cash and Cash Equivalents	\$ 1,069,205
Intergovernmental Receivable	15,001

Non-current Assets

Depreciable Capital Assets, Net	2,030
Total Assets	1,086,236

Liabilities

Current Liabilities

Accounts Payable	5,170
Due To Primary Government	924,437
Foundation Settlement Agreement Payable	52,317

Noncurrent Liabilities

Foundation Settlement Agreement Payable	425,077
Total Liabilities	1,407,001

Net Position

Net Investment in Capital Assets	2,030
Unrestricted	(322,795)
Total Net Position	\$ (320,765)

See accompanying notes to the basic financial statements.

LONDON ACADEMY
(A COMPONENT UNIT OF LONDON CITY SCHOOL DISTRICT)
MADISON COUNTY

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

Operating Revenues:	
Foundation Revenues	\$ 1,581,553
Miscellaneous	166
Total Operating Revenues	<u>1,581,719</u>
Operating Expenses:	
Purchased Services	1,519,142
Supplies and Materials	221,474
Depreciation	677
Miscellaneous	16,766
Total Operating Expenses	<u>1,758,059</u>
Operating Loss	<u>(176,340)</u>
Non-Operating Revenues/(Expenses):	
State Subsidies	12,178
Federal Subsidies	125,453
Interest Earnings	77
Foundation Settlement Agreement	(477,394)
Total Non-Operating Revenues	<u>(339,686)</u>
Change in Net Position	(516,026)
Net Position at Beginning of Year	195,261
Net Position at End of Year	<u>\$ (320,765)</u>

See accompanying notes to the basic financial statements.

LONDON ACADEMY
(A COMPONENT UNIT OF LONDON CITY SCHOOL DISTRICT)
MADISON COUNTY

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

Cash Flows From Operating Activities	
Cash Received from Foundation Payments	\$ 1,581,553
Cash Received from Other Revenues	166
Cash Payments for Contract Services	(711,641)
Cash Payments for Supplies and Materials	(221,474)
Cash Payments for Miscellaneous	<u>(16,766)</u>
Net Cash Provided by Operating Activities	<u>631,838</u>
 Cash Flows From Noncapital Financing Activities	
Cash from Federal and State Subsidies	<u>135,001</u>
Net Cash Provided by Noncapital Financing Activities	<u>135,001</u>
 Cash Flows From Investing Activities	
Interest Received	<u>77</u>
Net Cash Provided by Investing Activities	<u>77</u>
 Net Increase in Cash and Cash Equivalents	 766,916
 Cash and Cash Equivalents at Beginning of Year	 <u>302,289</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,069,205</u></u>

See accompanying notes to the basic financial statements.

LONDON ACADEMY
(A COMPONENT UNIT OF LONDON CITY SCHOOL DISTRICT)
MADISON COUNTY

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

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

Operating Loss	\$ (176,340)
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**Adjustments to Reconcile Operating Loss
to Net Cash Provided by Operating Activities:**

Add Depreciation Expense	677
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Change in Assets and Liabilities	
Decrease in Accounts Payable	(213)
Increase in Due to Primary Government	807,714

Total Adjustments	<u>808,178</u>
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Net Cash Provided by Operating Activities	<u><u>\$ 631,838</u></u>
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See accompanying notes to the basic financial statements.

LONDON ACADEMY
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2014

NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

London Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy’s objective is to deliver a comprehensive educational program of high quality, tied to State and national standards, which can be delivered to students in the ninth through twelfth grade population entirely through distance learning technologies. It is to be operated in cooperation with the public schools.

The Academy is a discretely presented component unit of the London City School District (the “District”). On June 25, 2007, the District signed a renewal contract with the Academy to be the Academy’s sponsor for the period July 1, 2007 through June 30, 2012, with automatic renewal for successive one-year terms provided the District has determined that the Academy’s compliance with applicable laws and terms of the contract and progress in meeting academic goals are satisfactory. The District is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a self-appointed five-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract which include, but is not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the Academy’s one instructional/support facility staffed by two non-certified and nine certificated full-time teaching personnel (employed by the District) who provide services to 250 students.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

The Academy’s basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

During the fiscal year, the Academy segregates transactions related to certain Academy functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For financial reporting, the Academy uses a single enterprise fund presentation.

LONDON ACADEMY
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Measurement Focus

The accounting and financial reporting treatment of the Academy's financial transactions is determined by the Academy's measurement focus. Enterprise fund accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows provides information about how the Academy finances and meets its cash flow needs.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of the measurements made. The Academy's financial statements are prepared using the accrual basis of accounting.

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

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore, no budgetary information is presented in the financial statements.

LONDON ACADEMY
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The Academy's Treasurer accounts for all monies received by the Academy. The Academy maintains one interest bearing depository account and all funds of the Academy are maintained in this account. This account is presented on the Statement of Net Position as "Cash and Cash Equivalents". The Academy did not have any investments during fiscal year 2014.

Capital Assets

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of \$500 for all capital assets. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

The Academy's only capital assets class is furniture, fixtures and equipment which is depreciated using the straight-line method over a useful life of five years.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Academy did not have any deferred outflows of resources at fiscal year-end.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy did not have any deferred inflows of resources at fiscal year-end.

Net Position

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consist of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

LONDON ACADEMY
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities of the Academy. These revenues consist of foundation payments. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

Intergovernmental Revenues

The Academy currently participates in the State Foundation and Special Education Programs. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The remaining grants and entitlements received by the Academy are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

Estimates

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

NOTE 3 – DEPOSITS

At fiscal year-end, the carrying amount of the Academy's deposits was \$1,069,205 and the bank balance was \$1,125,810. Of the Academy's bank balance, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC), while the remaining \$875,810 was exposed to custodial risk. There are no significant statutory restrictions regarding the deposit and investments of funds by the Academy.

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

LONDON ACADEMY
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2014

NOTE 4 – RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Grants to Local Education Agencies (Title I)	\$ 14,803
Improving Teacher Quality Grant (Title II-A)	198
	\$ 15,001

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Capital Assets Being Depreciated:				
Furniture, Fixtures and Equipment	\$ 86,651	\$ -	\$ (25,082)	\$ 61,569
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(83,944)	(677)	25,082	(59,539)
Capital Assets, Net	\$ 2,707	\$ (677)	\$ -	\$ 2,030

NOTE 6 – AGREEMENT WITH LONDON CITY SCHOOL DISTRICT

On June 29, 2011, the Academy entered into an agreement with the District for educational and administrative services commencing on July 1, 2013 and expiring on June 30, 2016. The District is reimbursed by the Academy monthly for all costs associated with operating the Academy. Such cost areas include, but are not limited to: personnel (all teaching and administrative personnel are employees of the District); insurance; pension and retirement benefits; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, and legal and financial management services. The District is responsible for maintenance of the Academy's facility. Per the agreement, the Academy pays the District 80 percent of General Fund revenues received and unencumbered as of June 30th of each fiscal year, as mutually agreed upon. See Note 8 for the amount of actual expenses incurred by the District on behalf of the Academy.

LONDON ACADEMY
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2014

NOTE 7 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. The Academy's coverage is provided under the District's policy with the Schools of Ohio Risk Sharing Authority. For fiscal year 2014, the Academy's coverage was for property, equipment breakdown, crime, general liability, educators' legal liability, automobile liability, and gatekeepers' liability.

Settled claims have not exceeded this commercial coverage since the Academy's inception. There has been no significant reduction in coverage from last fiscal year.

NOTE 8 – PURCHASED SERVICES

During the fiscal year, purchased services expenses were \$1,519,142. Of this amount, \$1,395,269 represents services provided by the District, including salaries and benefits (all teaching and administrative personnel are employees of London City School District); insurance; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, legal and financial management services, and sponsorship services. The Academy also had purchased services expenses to other vendors in the amount of \$123,873.

NOTE 9 – CONTINGENCIES

Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2014, if applicable, cannot be determined at this time.

State Funding

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

Litigation

The Academy is currently not party to any legal proceedings.

LONDON ACADEMY
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2014

NOTE 10 – RELATED PARTY TRANSACTION

The Academy is a component unit of the District. The Academy and the District entered into a sponsorship agreement on June 25, 2007 and a purchased services agreement on June 29, 2011. The Academy is required to pay to the District as described in Note 6.

During fiscal year 2014, the Academy paid the District \$470,832 for salaries and benefits; insurance; curriculum materials, textbooks, computers and other equipment, software, and supplies; as well as utilities, janitorial services, legal and financial management services, and sponsorship services. Additionally, at June 30, 2014, the Academy owes the District \$924,437 for services rendered during fiscal year 2014.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2014, the Academy has implemented the following:

GASB Statement No. 66 “Technical Corrections – 2012 - an Amendment of GASB Statements No. 10 and No. 62” resolves conflicting guidance that results from the issuance of GASB Statements No. 54 and No. 62. This Statement also amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This Statement also amends GASB Statement No. 62 to clarify how to apply GASB Statement No. 13 and results in guidance that is consistent with GASB Statement No. 48. The implementation of this statement did not have an effect on the financial statements of the Academy.

GASB Statement No. 70 “Accounting and Financial Reporting for Nonexchange Financial Guarantees” enhances comparability of financial statements by requiring consistent reporting by those governmental entities that extend nonexchange financial guarantees and by those governmental entities that receive nonexchange financial guarantees. The implementation of this statement did not have an effect on the financial statements of the Academy.

LONDON ACADEMY
Notes To The Basic Financial Statements
For The Fiscal Year Ended June 30, 2014

NOTE 12 – SUBSEQUENT EVENT

In October 2014, the Academy entered into a settlement agreement with the Ohio Department of Education (“ODE”) and the State Board of Education and its Superintendent of Public Instruction. The agreement was a compromise of disputed claims between the parties arising from a fiscal year 2013 full-time equivalency (“FTE”) review conducted by the ODE, as well as claims by the Academy that it was owed additional funding due to its erroneous classification as an e-school from 2007 – 2014.

Pursuant to the agreement, ODE shall recover from the Academy \$477,394, which amount is 30% of the total State aid payments made to the Academy for fiscal year 2013. ODE will recover the amount from the Academy by making deductions from school foundation payments to the Academy in equal monthly installments beginning in November 2014 and ending in November 2020.

Also pursuant to the agreement, all parties waived claims related to the Academy’s funding through fiscal year 2014, and the Academy shall be classified by ODE as a “brick and mortar” community school entitled to be funded as such effective with the first monthly community school foundation payment following June 30, 2014.

This has been recorded as a liability at year end and is the primary factor in the Academy’s negative net position of \$320,765.

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

London Academy
Madison County
40 South Walnut Street
London, Ohio 43140

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the London Academy, Madison County, (the Academy), a component unit of the London City School District, 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 December 29, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC
December 29, 2014

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Dave Yost • Auditor of State

LONDON ACADEMY

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 10, 2015**