



Dave Yost • Auditor of State

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Lancaster Digital Academy
Fairfield County
111 South Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the accompanying financial statements of Lancaster Digital Academy, Fairfield County, Ohio (the Academy), a component unit of Lancaster City School District as of and for the 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 opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lancaster Digital Academy, Fairfield County, Ohio, as of June 30, 2012, and the respective changes in financial position and its cash flows, for the 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 1, 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.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

October 1, 2012

**LANCASTER DIGITAL ACADEMY
FAIRFIELD**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

The discussion and analysis of the Lancaster Digital Academy's (LDA) financial performance provides an overall review of the LDA's financial activities for the fiscal year ended June 30, 2012. Readers should also review the basic financial statements and notes to enhance their understanding of the LDA's financial performance.

Highlights

LDA completed its seventh year of operation during fiscal year 2012 as a kindergarten through twelfth grade online internet school. Each student is provided a computer, scanner, printer, and internet access which are used to access a curriculum based on the state model and which uses certified/licensed instructors. Students may sign a waiver from using LDA's equipment and if they have their own equipment available for use. Enrollment varied during the year but averaged 96 students.

Key highlights for fiscal year 2012 are as follows:

- Net assets increased \$155,849.
- LDA had an operating loss in the amount of \$6,675 compared to an operating loss in the amount of \$70,865 in fiscal year 2011. The fiscal year 2011 Ohio Department of Education (ODE) audit revealed that LDA had been under funded by \$3,102 and the amount was received from ODE during fiscal year 2012. The fiscal year 2012 ODE audit revealed a \$163 underpayment to LDA which will be received during fiscal year 2013.
- Total assets increased \$134,351 or 18 percent due to increases in cash and cash equivalents and intergovernmental receivables.
- Total liabilities decreased \$21,498 due mainly to the decrease in intergovernmental payables for amounts owed to Tri-Rivers Education Computer Association (TRECA) for contracted services.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how LDA did financially during fiscal year 2012. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report LDA's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of LDA has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

LDA uses enterprise presentation for all of its activities.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

Table 1 provides a summary of LDA's net assets for 2012 compared to 2011:

Table 1
Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
<u>Assets:</u>			
Current Assets	\$864,180	\$722,898	\$141,282
Capital Assets	<u>12,947</u>	<u>19,878</u>	<u>(6,931)</u>
Total Assets	<u>877,127</u>	<u>742,776</u>	<u>134,351</u>
<u>Liabilities:</u>			
Current Liabilities	18,897	43,124	(24,227)
Long-Term Liabilities	<u>7,570</u>	<u>4,841</u>	<u>2,729</u>
Total Liabilities	<u>26,467</u>	<u>47,965</u>	<u>(21,498)</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	9,354	15,037	(5,683)
Unrestricted	<u>841,306</u>	<u>679,774</u>	<u>161,532</u>
Total Net Assets	<u>\$850,660</u>	<u>\$694,811</u>	<u>\$155,849</u>

Total assets increased in the amount of \$134,351. The increase was mainly due to an increase in cash and cash equivalents in the amount of \$61,758 and an increase in cash and cash equivalents in segregated accounts in the amount of \$8,339. The amount in cash and cash equivalents in segregated accounts represents the cash balance in the payroll bank account. The remaining balance in the payroll bank account was for monies owed to other governments; therefore, an intergovernmental payable was shown at fiscal year-end for the amounts not paid out until July 2012. There was a large increase in intergovernmental receivables in the amount of \$70,286 which was due mainly to increased receivables for the Title I grant in the amount of \$49,342 and for the School Improvement grant in the amount of \$55,000. This increase in intergovernmental receivables was offset by decreases in Education Jobs grant in the amount of \$17,859 and decreases in the American Recovery and Reinvestment Act (ARRA) funding in the amount of \$18,835. The ARRA program was a two year program that ended in fiscal year 2011. Capital assets decreased \$6,931 which was the result of LDA disposing of outdated equipment and the current year depreciation expense.

Liabilities decreased \$21,498. Current liabilities decreased by \$24,227 due mainly to a fiscal year 2011 payable to TRECA which did not reoccur in fiscal year 2012. Long-term liabilities increased in fiscal year 2012 due to the inclusion of compensated absences due to LDA hiring new employees in fiscal year 2012. During fiscal year 2012, LDA made capital lease principal payments in the amount of \$1,248 for the copier lease.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

Table 2 reflects the changes in net assets for fiscal years 2012 and 2011.

Table 2
Change in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
<u>Operating Revenues:</u>			
Foundation	\$648,412	\$563,165	\$85,247
<u>Non-Operating Revenues:</u>			
State and Federal Grants	158,326	137,109	21,217
Interest Revenue	5,874	5,325	549
Other	700	0	700
Total Revenues	<u>813,312</u>	<u>705,599</u>	<u>107,713</u>
<u>Operating Expenses:</u>			
Salaries	150,549	12,000	138,549
Fringe Benefits	60,681	2,880	57,801
Purchased Services	433,545	587,518	(153,973)
Materials and Supplies	5,415	11,636	(6,221)
Depreciation	4,897	19,535	(14,638)
Other Operating Expenses	0	461	(461)
Loss on Disposal of Capital Assets	2,034	0	2,034
Interest and Fiscal Charges	342	438	(96)
Total Expenses	<u>657,463</u>	<u>634,468</u>	<u>22,995</u>
Total Increase in Net Assets	<u><u>\$155,849</u></u>	<u><u>\$71,131</u></u>	<u><u>\$84,718</u></u>

During fiscal year 2012, foundation revenues and expenses reflect increases due to additional students being served by the LDA. The State and federal grant monies received in fiscal year 2012 represented amounts received for the Title I, Title II-A, Title II-D, Title IV-A, School Improvement, Special Education IDEA B, and Education Jobs. Salaries and fringe benefits reflect an increase during fiscal year 2012 due to the LDA hiring staff effective July 1, 2012. The new staff was hired to fill positions that were previously performed by TRECA through a contract agreement; therefore, purchased services reflect a large decrease during fiscal year 2012. LDA contracts for computer services with the Metropolitan Educational Council and guidance and computer services with Tri-Rivers Educational Association, and space rental and oversight services with the Sponsor. On March 1, 2010, LDA hired a treasurer. Prior to March 1, 2010, the Sponsor performed the duties under contract services with LDA.

Budgeting

The LDA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705. The contract between LDA and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD**

**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, LDA had \$12,947 invested in computer and copier equipment. Table 3 shows fiscal year 2012 balances compared to 2011. See Note 6 for additional information.

Table 3
Capital Assets (Net of Depreciation)

	<u>2012</u>	<u>2011</u>
Computer Equipment	\$12,947	\$19,878

Debt

LDA has no bonded or note debt. In fiscal year 2010, LDA entered into a capital lease for a copier. The outstanding balance as of June 30, 2012 was \$3,593. See Note 12 for additional information.

Current Issues

LDA continues to help students receive a good education. The nature of instruction over the internet has improved over the course of the LDA's existence with education materials being presented on a web based system. The LDA remains a successful alternative to traditional schooling.

Contacting the LDA's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the LDA's finances and to show the LDA's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Paul F. Shaw, CPA, RSBFO, Treasurer, Lancaster Digital Academy, 111 South Broad Street, Lancaster, Ohio 43130, or E-Mail at SHAWSPRINGS@AOL.COM.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 705,050
Cash and Cash Equivalents in Segregated Accounts	8,339
Accrued Interest Receivable	223
Intergovernmental Receivable	148,832
Accounts Receivable	590
Prepaid Items	1,146
Total Current Assets	<u>864,180</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net of Accumulated Depreciation	12,947
Total Assets	<u><u>877,127</u></u>
<u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	3,666
Intergovernmental Payable	14,834
Matured Capital Leases Payable	321
Matured Interest Payable	76
Total Current Liabilities	<u>18,897</u>
Long-Term Liabilities:	
Due Within One Year	1,352
Due In More Than One Year	6,218
Total Long-Term Liabilities	<u>7,570</u>
Total Liabilities	<u>26,467</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	9,354
Unrestricted	841,306
Total Net Assets	<u><u>\$ 850,660</u></u>

See accompanying notes to the basic financial statements

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Operating Revenues:</u>	
Foundation	\$ 648,412
	<hr/>
<u>Operating Expenses:</u>	
Salaries	150,549
Fringe Benefits	60,681
Purchased Services	433,545
Materials and Supplies	5,415
Depreciation	4,897
Total Operating Expenses	<hr/> 655,087
Operating Loss	<hr/> (6,675)
<u>Non-Operating Revenues and Expenses:</u>	
State and Federal Grants	158,326
Interest Revenue	5,874
Other Non-Operating Revenue	700
Loss on Sale of Capital Asset	(2,034)
Interest and Fiscal Charges	(342)
Total Non-Operating Revenues and Expenses	<hr/> 162,524
Change in Net Assets	155,849
Net Assets at Beginning of Year	694,811
Net Assets at End of Year	<hr/> \$ 850,660

See accompanying notes to the basic financial statements

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$ 648,249
Cash Payments for Employee Services and Benefits	(204,377)
Cash Payments to Suppliers for Goods and Services	(475,679)
Other Non-Operating Revenues	850
Net Cash Used for Operating Activities	<u>(30,957)</u>

Cash Flows from Noncapital Financing Activities:

State and Federal Grants Received	<u>88,203</u>
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Cash Flows for Capital and Related Financing Activities:

Principal Paid on Capital Leases	(1,126)
Interest Paid on Capital Leases	(333)
Net Cash Used for Capital and Related Financing Activities	<u>(1,459)</u>

Cash Flows from Investing Activities:

Interest on Investments	<u>5,971</u>
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Net Increase in Cash and Cash Equivalents	61,758
Cash and Cash Equivalents Beginning of Year	<u>643,292</u>
Cash and Cash Equivalents End of Year	<u>\$ 705,050</u>

Reconciliation of Operating Loss to
Net Cash Used for Operating Activities:

Operating Loss	\$ (6,675)
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Adjustments to Reconcile Operating Loss
to Net Cash Used for Operating Activities:

Depreciation	4,897
Other Non-Operating Revenues	850

Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable	(163)
Increase in Prepaid Items	(1,146)
Decrease in Accounts Payable	(2,289)
Decrease in Intergovernmental Payable	(30,408)
Increase in Compensated Absences Payable	<u>3,977</u>

Net Cash Used for Operating Activities	<u>\$ (30,957)</u>
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See accompanying notes to the basic financial statements

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**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Note 1 - Description of the School

The Lancaster Digital Academy (LDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. LDA is an approved tax-exempt conversion school. Management is not aware of any course of action or series of events that have occurred that might adversely affect LDA's tax exempt status. LDA's mission is to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students within the Lancaster City School District, Sponsor school district, that desire a specific course not currently offered but is available through online instruction.

LDA was created on August 27, 2002 by entering into a contract with the Lancaster City School District (the Sponsor) which was renewed May 17, 2007 for an additional five years. The Sponsor is responsible for evaluating the performance of LDA and has the authority to deny renewal of the contract at its expiration. The Treasurer of the Sponsor completed the role of Treasurer for the LDA until March 1, 2010 when a new treasurer was hired.

LDA was created to operate under the direction of a five-member Board of Directors made up of individuals from the community and parents of the students served by the LDA. LDA is a component unit of the Sponsor. The Sponsor appoints the board and is able to impose its will on the LDA. The Sponsor can suspend the LDA's operations for any of the following reasons: 1) The LDA's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The LDA's failure to meet generally accepted standards of fiscal management, 3) The LDA's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of LDA and the children it serves. During fiscal year 2012, LDA paid purchased services to Tri-Rivers Educational Computer Association (TRECA) for providing planning, design, implementation, and some instructional services. July 1, 2012 LDA hired some of its own employees and had less dependence on TRECA for the first year since they began. LDA rented facilities from the Sponsor.

LDA participates in the Ohio School Plan which is considered an insurance purchasing pool. This organization is presented in Note 13 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the LDA have been prepared in conformity with generally accepted accounting principles (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. LDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the LDA's accounting policies are described below.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

The LDA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

LDA uses a single enterprise presentation for its financial reports. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of LDA are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how LDA finances meet its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. LDA'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. Revenue resulting from nonexchange transactions, in which LDA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which LDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to LDA on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by LDA's contract with its Lead Sponsor. The contract between LDA and its Lead Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

E. Cash and Cash Equivalents

Cash received by LDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. During fiscal year 2012, investments were limited to nonparticipating certificates of deposit. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit are reported at cost.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by LDA are considered to be cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

LDA maintains a segregated bank account for monies held separate from LDA's central bank account for payroll purposes. This bank account is presented on the financial statements as "Cash and cash equivalents in segregated accounts".

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Prepaid Items

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

G. Capital Assets

LDA's capital assets during fiscal year 2012 consisted of computer equipment. All capital assets are capitalized at cost (or estimated historical cost) 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. LDA maintains a capitalization threshold of five hundred dollars. All of LDA's reported capital assets are depreciated using the straight-line method over six years of useful life.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that LDA will compensate the employees for the benefits through paid time off or some other means. LDA records a liability for vacation time when earned.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those LDA has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in LDA's termination policy. LDA currently has no employees that it anticipates as being probable to retire.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by LDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. LDA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The statement of net assets reports no restricted net assets and has no monies restricted by enabling legislation.

J. Operating Revenues and Expenses

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

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

K. 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

Custodial credit risk is the risk that, in the event of a bank failure, LDA's deposits may not be returned. LDA does not have a deposit policy for custodial credit risk. At June 30, 2012, the bank balance of LDA's deposits was \$778,351. Of the bank balance, \$600,000 was covered by federal depository insurance and \$178,351 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject LDA to a successful claim by the FDIC.

Note 4 - Receivables

Receivables at June 30, 2012, consisted of intergovernmental grants. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
State Foundation Underpayment	\$163
Title II-D Grant	783
Title II-A Grant	3,015
School Improvement	55,000
IDEA Part B ARRA	3,000
Title I Grant	<u>86,871</u>
Total	<u><u>\$148,832</u></u>

Note 5 – Contract with TRECA

LDA contracted with TRECA for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide LDA, via online delivery, its standard digital curriculum, as described at the website of the TRECA Digital Academy.
- TRECA shall cooperate with LDA in conducting assessments and in developing a draft evaluation team report as part of any required initial evaluation of a suspected disabled student or reevaluation of a suspected disabled or disabled student.
- TRECA shall provide for the participation of the teacher(s) of the disabled student, in person or by telephone, in IEP or related meetings.
- TRECA shall communicate with the School regarding educational or related services that are mandated by a disabled student's IEP but which TRECA has reasons to believe are not being provided. TRECA shall also communicate with LDA regarding any disabled or suspected disabled student who requires assessments as part of an initial evaluation or reevaluation and/or the development of a draft evaluation team report.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

Note 5 – Contract with TRECA (Continued)

- TRECA shall provide such other services, including but not limited to the standard hardware and software package, and the standard technical and administrative services, as are provided generally by TRECA to students.
- TRECA shall promptly notify LDA if, at any time, TRECA has reason to believe it (or any contractor) is not fulfilling its obligations hereunder to disabled or suspected disabled students.
- All personnel providing services on behalf of TRECA shall possess any certification, licensure, training and experience that may be required by law.

For fiscal year 2012, \$328,632 was paid to TRECA under this contract. Nothing was payable to TRECA at June 30, 2012.

To obtain TRECA's audited June 30, 2012, financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Computer Equipment	\$181,149	\$0	(\$117,149)	\$64,000
Less Accumulated Depreciation	(161,271)	(4,897)	115,115	(51,053)
Capital Assets, Net	<u>\$19,878</u>	<u>(\$4,897)</u>	<u>(\$2,034)</u>	<u>\$12,947</u>

Note 7 - Risk Management

LDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2012, LDA joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool, for insurance coverage. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The types and amounts of coverage provided are as follows:

Educational General Liability:	
General Aggregate Limit	\$4,000,000
Sexual Abuse Injury	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Personal and Advertising Injury	2,000,000
Employee Benefits Injury:	
Each Occurrence	2,000,000
Aggregate	4,000,000
Employer's Liability for Each Accident	2,000,000
Errors and Omissions:	
Each Occurrence (deductible \$2,500)	2,000,000
Aggregate Limit (deductible \$2,500)	4,000,000
Employment Practices Injury:	
Each Occurrence (deductible \$2,500)	2,000,000
Aggregate (deductible \$2,500)	4,000,000

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

Note 7 - Risk Management (Continued)

Settled claims have not exceeded this commercial coverage in any prior years and there have been no significant reductions in insurance coverage from the prior year.

Note 8 – Purchased Services

For the period July 1, 2011 through June 30, 2012, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Professional and Technical Services	\$391,794
Sponsor Fees and Rent Paid to Sponsor	35,442
Audit and Legal Services	<u>6,309</u>
Total	<u><u>\$433,545</u></u>

Note 9 – Defined Benefit Pension Plans

A. School Employees Retirement System

Plan Description - LDA contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan, for the treasurer beginning March 1, 2010 then added an additional employee July 1, 2011. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and LDA is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. LDA's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$5,812, \$1,417 and \$511, respectively. For fiscal year 2012, 60.25 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description – LDA participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system, beginning July 1, 2011 for two employees. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

Note 9 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. LDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

LDA's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012 was \$10,512. For fiscal year 2012, 100 percent has been contributed. Contributions to the DC and Combined Plans for fiscal year 2012 were \$1,004 made by LDA and \$717 made by the plan members.

Note 10 – Post-Employment Benefits

A. School Employees Retirement System

Plan Description – LDA participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

Note 10 – Post-Employment Benefits (Continued)

A. School Employees Retirement System (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

LDA's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$252, \$172, and \$18, respectively. For fiscal year 2012, 60.25 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. LDA's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$343, \$91, and \$30 respectively. For fiscal year 2012, 60.25 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

B. State Teachers Retirement System

Plan Description – LDA participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. LDA's contributions for health care for the fiscal years ended June 30, 2012 was \$886. For fiscal year 2012, 100 percent has been contributed.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

Note 11 – Related Party Transactions

Lancaster City School District, Sponsor, appoints all of the five board members of the LDA. LDA is presented as a component unit of the Sponsor. During fiscal year 2012, LDA paid \$35,442 to their Sponsor for rent, oversight services, and miscellaneous reimbursements. As of June 30, 2012, LDA owed \$3,524 to their Sponsor.

Note 12 – Capital Leases Payable and Long Term Obligations

During fiscal year 2011, LDA entered into a copier capital lease. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee, LDA.

The agreement provides for minimum annual lease payments as follows:

Fiscal Year Ending June 30,	Total
2013	\$1,591
2014	1,590
2015	795
Total minimum lease payments	3,976
Less: Amount representing interest	(383)
Present value of minimum lease	<u>\$3,593</u>

Principal payments in fiscal year 2012 totaled \$1,248 in the governmental funds.

Property under Capital Lease	\$6,537
Less: Accumulated Depreciation	(2,724)
Total June 30, 2012	<u>\$3,813</u>

The changes in LDA's long-term obligations during the year consist of the following:

	Principal Outstanding 6/30/2011	Additions	Deductions	Principal Outstanding 6/30/2012	Due in One Year
Capital Leases Payable	\$4,841	\$0	\$1,248	\$3,593	\$1,352
Compensated Absences Payable	0	3,977	0	3,977	0
Total Long-Term Obligations	<u>\$4,841</u>	<u>\$3,977</u>	<u>\$1,248</u>	<u>\$7,570</u>	<u>\$1,352</u>

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

Note 13 – Pool

LDA participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a twelve member Board of Directors consisting of school district superintendents and treasurers. Hylant Administrative Services, LLC is the Administrator of the OSP and is responsible for providing underwriting, claims management, risk management, accounting, system support services, sales, and marketing.

Note 14 - Contingencies

A. Student Attendance and 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.

LDA 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 for LDA. 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 LDA at June 30, 2012, if applicable, cannot be determined at this time.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LDA. These reviews are conducted to ensure LDA is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. The ODE fiscal year 2011 audit of student enrollment revealed that LDA was underpaid by \$3,102 which LDA received from ODE within fiscal year 2012. The fiscal year 2011 review revealed that LDA was underpaid by \$163 which was shown as an intergovernmental receivable as of June 30, 2012.



Dave Yost • Auditor of State

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

Lancaster Digital Academy
Fairfield County
111 South Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the financial statements of Lancaster Digital Academy, Fairfield County, Ohio, (the Academy) a component unit of Lancaster City School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 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.

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, the Board of Directors, and the Lancaster City School District. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

October 1, 2012



Dave Yost • Auditor of State

LANCASTER DIGITAL ACADEMY

FAIRFIELD 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
NOVEMBER 20, 2012