

Lorain Elementary Digital Academy

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Basic Financial Statements

Years Ended June 30, 2008 and 2007



Mary Taylor, CPA
Auditor of State

Board of Directors
Lorain Elementary Digital Academy
2350 Pole Avenue
Lorain, Ohio 44052

We have reviewed the *Independent Auditor's Report* of the Lorain Elementary Digital Academy, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2007 through June 30, 2008. 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 Lorain Elementary Digital Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 6, 2009

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LORAIN ELEMENTARY DIGITAL ACADEMY

For the Year Ended June 30, 2008 and 2007
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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 19, 2008

The Board of Directors
Lorain Elementary Digital Academy
Lorain County
2350 Pole Ave
Lorain, Ohio 44052

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Lorain Elementary Digital Academy, Lorain County, Ohio (the Academy), a component unit of the Lorain City School District, as of and for the year ending June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Lorain Elementary Academy for the year ended June 30, 2007 were audited by other auditors whose report dated December 7, 2007 expressed an unqualified opinion on those statements.

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lorain Elementary Digital Academy, Lorain County, Ohio, as of June 30, 2008 and the respective changes in financial position and 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 December 19, 2008 on our consideration of the School'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hea & Associates, Inc.

Lorain Elementary Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2008 and 2007

The discussion and analysis of the Lorain Elementary Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2008. 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 the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999.

Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. Due to the comparative presentation within the basic financial statements, a comparison analysis between fiscal year 2007 and fiscal year 2006 is also required. The Academy suspended its operations on December 10, 2007, which is apparent with the following decreases in revenues, expenses, assets and liabilities.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2008 are as follows:

- Net assets in 2008 totaled \$16,342 which is a decrease of \$61,206 from fiscal year 2007.
- Total current assets were \$75 and \$10,622 in fiscal years 2008 and 2007, respectively.
- Total capital assets were \$50,410, a decrease of \$18,389 from fiscal year 2007.
- Operating revenues equaled \$32,747 and non-operating revenues were \$7,242, which represent a decrease of \$92,587 and \$7,177, respectively from fiscal year 2007.
- Operating expenses amounted to \$101,195, which is a decrease of \$82,039 from fiscal year 2007.

Using this Annual Report

This annual report consists of the MD&A, the basic financial statements and the notes to the basic financial statements. The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows.

Lorain Elementary Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2008 and 2007

The statement of net assets and the statement of revenues, expenses and changes in net assets answer the question, "How did we do financially during fiscal year 2008?" The statement of net assets includes all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2008, 2007 and 2006 as follows:

Table 1
Net Assets at June 30

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Current and Other Assets	\$ 75	\$ 10,622	\$ 39,759
Capital Assets	<u>50,410</u>	<u>68,799</u>	<u>86,112</u>
Total Assets	<u>50,485</u>	<u>79,421</u>	<u>125,871</u>
Liabilities			
Current Liabilities	<u>34,143</u>	<u>1,873</u>	<u>4,842</u>
Net Assets			
Invested in Capital Assets	50,410	68,799	86,112
Restricted for Other Purposes	75	48	7
Unrestricted	<u>(34,143)</u>	<u>8,701</u>	<u>34,910</u>
Total Net Assets	<u>\$ 16,342</u>	<u>\$ 77,548</u>	<u>\$ 121,029</u>

Total assets in fiscal year 2008 decreased \$28,936 from fiscal year 2007. This includes a decrease in cash of \$10,547, a decrease in intergovernmental receivables of \$47 and a decrease in capital assets of \$18,389. The Academy had a substantial payable to the Ohio Department of Education in 2008 creating an increase in liabilities of \$32,270 over fiscal year 2007. This payable also contributed to the decrease in net assets of \$27,063 from the previous year. Net assets in fiscal year 2007 decreased \$43,481 from fiscal year 2006. All decreases can be attributed to declining enrollment each year then suspended operations in fiscal year 2008.

Lorain Elementary Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2008 and 2007

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008, 2007 and 2006, as well as a listing of revenues and expenses.

Table 2
Changes in Net Assets

	2008	2007	2006
Revenues			
Operating Revenues	\$ 32,747	\$ 125,334	\$ 155,441
Non-Operating Revenues	7,242	14,419	20,805
Total Revenues	39,989	139,753	176,246
Operating Expenses	101,195	183,234	288,745
Increase (Decrease) in Net Assets	\$ (61,206)	\$ (43,481)	\$ (112,499)

The Academy's activities consist of enterprise activity. Community schools receive no support from taxes. The State Foundation Program is the primary support for the Academy's students.

Foundation funds account for most of the revenues, which have decreased with each year of operation. Expenses have also decreased each year with decreasing enrollment.

Capital Assets

At the end of fiscal year 2008, the Academy invested \$50,410 in equipment, net of depreciation. The table shows the net capital assets for the fiscal years 2008, 2007 and 2006.

Table 3
Capital Assets

	2008	2007	2006
Equipment	\$ 50,410	\$ 68,799	\$ 86,112

See Note 5 to the basic financial statements for more information.

Lorain Elementary Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2008 and 2007

Current Issues

The Academy suspended operations effective December 10, 2007. The current student enrollment was combined with the Lorain Middle School Academy.

Contacting the Academy's Management

This financial report is designed to provide our citizens, 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 any questions about this report or need additional financial information, contact the Treasurer, at Lorain Elementary Digital Academy - 2350 Pole Avenue, Lorain, OH 44052.

Lorain Elementary Digital Academy

Statements of Net Assets

June 30, 2008 and June 30, 2007

	<u>2008</u>	<u>2007</u>
Assets		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$ 75	\$ 10,575
Intergovernmental receivables	0	47
<i>Total current assets</i>	<u>75</u>	<u>10,622</u>
<i>Noncurrent assets:</i>		
Capital assets (net of accumulated depreciation)	50,410	68,799
<i>Total assets</i>	<u>50,485</u>	<u>79,421</u>
Liabilities		
<i>Current liabilities:</i>		
Accounts payable	0	1,873
Intergovernmental payable	34,143	0
<i>Total current liabilities</i>	<u>34,143</u>	<u>1,873</u>
Net assets		
Invested in capital assets	50,410	68,799
Restricted for other purposes	75	48
Unrestricted	(34,143)	8,701
<i>Total net assets</i>	<u>\$ 16,342</u>	<u>\$ 77,548</u>

See accompanying notes to the basic financial statements.

Lorain Elementary Digital Academy
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2008 and June 30, 2007

	2008	2007
Operating revenues		
Foundation payments	\$ 32,747	\$ 124,943
Other	0	391
<i>Total operating revenues</i>	32,747	125,334
Operating expenses		
Purchased services	81,406	160,841
Materials and supplies	0	3,090
Depreciation	19,789	19,303
<i>Total operating expenses</i>	101,195	183,234
<i>Operating income (loss)</i>	(68,448)	(57,900)
Non operating revenues (expenses)		
Grants	7,242	14,419
<i>Total non-operating revenues (expenses)</i>	7,242	14,419
<i>Change in net assets</i>	(61,206)	(43,481)
<i>Net assets at beginning of year</i>	77,548	121,029
<i>Net assets at the end of the year</i>	\$ 16,342	\$ 77,548

Lorain Elementary Digital Academy
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2008 and June 30, 2007

	2008	2007
Increase (decrease) in cash		
Cash flows from operating activities:		
Cash received from foundation payments	\$ 32,794	\$ 129,690
Cash payments for goods and services	(49,136)	(166,900)
<i>Net cash provided by (used for) operating activities</i>	(16,342)	(37,210)
Cash flows from non-capital financing activities:		
Grants received	7,242	14,419
<i>Net cash provided by (used for) non-capital activities</i>	7,242	14,419
Cash flows from capital and related financing activities:		
Purchase of property	(1,400)	(1,990)
<i>Net cash provided by (used for) capital and related financing activities</i>	(1,400)	(1,990)
<i>Net increase (decrease) in cash and cash equivalents</i>	(10,500)	(24,781)
<i>Cash and cash equivalents at beginning of year</i>	10,575	35,356
<i>Cash and cash equivalents at end of year</i>	\$ 75	\$ 10,575
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (68,448)	\$ (57,900)
Depreciation	19,789	19,303
Adjustments:		
(Increase) decrease in assets:		
Intergovernmental receivable	47	4,356
Increase (decrease) in liabilities:		
Accounts payable	(1,873)	(2,969)
Intergovernmental payable	34,143	0
<i>Total adjustments</i>	52,106	20,690
<i>Net cash provided by (used for) operating activities</i>	\$ (16,342)	\$ (37,210)

See accompanying notes to the basic financial statements.

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Lorain Elementary Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

Note 1 – Description of the Academy and Reporting Entity

The Lorain Elementary Digital Academy (the "Academy") is a nonprofit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through the fifth grade. The Academy 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 is considered a component unit of the Lorain City School District (the "Sponsor") for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14. The Academy's operations were suspended on December 10, 2007, and the student population was combined with the Lorain K-8 Digital Academy.

The Academy is an innovative initiative that is a cooperative effort with Lorain City Schools. It is a conversion community school sponsored by the Lorain City School District. Furthermore, the Academy uses the services of the Tri-Rivers Educational Computer Association (TRECA) and the TRECA Digital Academy to assist with overall programming and operations. The Academy uses the latest technology to reach a diverse student population. This population includes, but is not limited to home schoolers, children with special physical and mental needs, students removed from the classroom for discipline concerns, students who need an alternative to the traditional classroom including religious reasons, and students within the district that desire a specific course not currently offered. Enrollment is limited to students within the attendance area of the Lorain City School District.

The Academy was approved for sponsorship under resolution on May 13, 2002 with the Sponsor for a period of five years commencing on the first day of the 2002-2003 academic year. The Sponsor has designated three of its administrative officers to represent the Sponsor in the occupants' official capacities as members of the Academy's Board of Directors. The individuals who hold such office with the Sponsor shall be formally instructed by the Sponsor that, as directors of the Academy, they are to represent the Sponsor and its interests. From time to time in its discretion, the Sponsor may substitute other administrative positions for those previously designated for this purpose.

Pursuant to the Sponsor's authority under section 3314.08(G) of the Ohio Revised Code to provide the School with services, the Sponsor shall be the fiscal agent of the School and shall direct the Sponsor's treasurer to serve as the School's fiscal officer. The Sponsor shall evaluate the performance of the Academy according to the standards set forth in the Assessment and Accountability Plan. The Sponsor is not legally responsible for the final outcome of the community school.

A service contract for the fiscal year 2007-2008 between the Academy and the Sponsor was also approved. In agreement with the contract, the Sponsor agrees to provide to the Academy professional, technical support and other services upon the Academy's request, but is subject to the availability of such services. The price for services rendered by the Sponsor to the Academy is established as the Sponsor's "cost of providing such services including, without limitation, employee salaries and fringe benefits, equipment costs if any, and administrative overhead". All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.

Lorain Elementary Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

Note 2 – Summary of Significant Accounting Policies

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, to its proprietary activities, subject to the same limitation. The Academy has elected not to apply these FASB Statements and Interpretations.

The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

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

C. Basis of Accounting

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

Lorain Elementary Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

The Academy shall operate in compliance with a bi-annual budget which must be reviewed and approved by the Academy's Board of Directors. The Academy must maintain financial records in a similar manner to those records of the Sponsor. The Academy complies with the policies and procedures regarding internal financial controls which are apparent under GASB and FASB. Also, the Auditor of State provides financial policy and procedure guidance to the Academy.

E. Cash

Cash held by the Academy is reflected as "Equity in pooled cash and cash equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2008 and 2007, the Academy had no investments.

F. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not have 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.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Improvements are depreciated over 15 years, furniture is depreciated over 20 years and computers are depreciated over 5 years.

G. Net Assets

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

Lorain Elementary Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

I. Intergovernmental Revenues

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

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education.

In addition, the Academy participates in the State Education Management Information System (“EMIS”) through the Ohio Department of Education.

J. Estimates

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

Note 3 – Deposits

At fiscal year end June 30, 2008, the carrying amount and bank balance of the Academy’s deposits was \$75. Based on the criteria described in GASB Statement No. 40, “*Deposit and Investment Risk Disclosure*”, as of June 30, 2008, none of the Academy’s bank balance of \$75 was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

At fiscal year end June 30, 2007, the carrying amount of the Academy’s deposits was \$10,575, and the bank balance was \$10,575. All of the bank balance was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in the amount 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 the Federal Reserve Banks or at a 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 for as specific collateral held at the Federal Reserve Bank in the name of the Academy.

Lorain Elementary Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

Non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

Note 4 – Receivables

Receivables at June 30, 2007, consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of state programs. All receivables are expected to be collected within one fiscal year. There were no receivables at June 30, 2008.

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance 6/30/07	Additions	Reductions	Balance 6/30/08
<i>Capital Assets Being Depreciated</i>				
Equipment	\$ 110,323	\$ 1,400	\$ 0	\$ 111,723
Less Accumulated Depreciation	(41,524)	(19,789)	0	(61,313)
Capital Assets, Net	<u>\$ 68,799</u>	<u>\$ (18,389)</u>	<u>\$ 0</u>	<u>\$ 50,410</u>

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 6/30/06	Additions	Reductions	Balance 6/30/07
<i>Capital Assets Being Depreciated</i>				
Equipment	\$ 108,333	\$ 1,990	\$ 0	\$ 110,323
Less Accumulated Depreciation	(22,221)	(19,303)	0	(41,524)
Capital Assets, Net	<u>\$ 86,112</u>	<u>\$ (17,313)</u>	<u>\$ 0</u>	<u>\$ 68,799</u>

Note 6 – Purchased Services

For the fiscal year ended June 30, 2008, purchased services were as follows:

Instructional Services	\$ 4,975
Other Professional and Technical Services	51,817
Other Communications Service	<u>24,614</u>
	<u>\$ 81,406</u>

Lorain Elementary Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

For the fiscal year ended June 30, 2007, purchased services were as follows:

Instructional Services	\$ 16,330
Other Professional and Technical Services	74,293
Other Communications Service	<u>70,218</u>
	<u>\$ 160,841</u>

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 to employees and natural disasters. During fiscal year 2008 and 2007, the Academy was covered under its own insurance for property and liability coverage.

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

Note 8 – Agreements with the Tri-Rivers Educational Computer Association

The Academy entered into agreements with the Tri-Rivers Educational Computer Association (“TRECA”), which is a data acquisition site and member of the Ohio Education Computer Network established in accordance with Ohio Revised Code Section 3301.075.

On January 7, 2003, the Academy entered into another agreement with TRECA. TRECA provided the Academy with instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy’s educational plan, and the Academy’s assessment and accountability plan. All personnel providing services in fulfillment of TRECA’s responsibilities hereunder shall be employees or contractors of TRECA and TRECA is solely responsible for all payroll functions including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to its employees. All personnel providing such services possess any certification or licensure which may be required by law. The technical services provided by TRECA to the Academy include access to, and the use of, computer software, computer hardware, networking hardware, network services and the services of technical support personnel necessary to implementation.

Beginning August 2005, the Academy entered into a four year agreement with TRECA where the Academy no longer pays the annual fee, they are only charged on a per student basis.

Lorain Elementary Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

Note 9 – Contingencies

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require 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 disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2008 and 2007.

Note 10 – State Foundation 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. The Academy was reviewed two times during this initial year of operations and zero errors were found in enrollment, withdrawals, and attendance.

Note 11 - Fiscal Agent

The Academy utilizes the services of the Lorain City School District Treasurer as their fiscal officer. The Academy does not directly pay the Treasurer; however, it does reimburse Lorain City School District for the services.

Note 12 – Charter School Funding

On October 25, 2006, the Ohio Supreme Court ruled that publicly funded, privately operated Community (i.e. Charter) Schools is constitutional.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 19, 2008

To the Board of Directors
Lorain Elementary Digital Academy
Lorain County, Ohio
2350 Pole Avenue
Lorain, Ohio 44052

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Lorain Elementary Digital Academy, Lorain County, Ohio, (the Academy), a component unit of the Lorain City School District, as of and for the year ended June 30, 2008 which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 19, 2008. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2008-001.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the significant deficiency described above to be a material weakness.

We also noted a certain internal control matter that we reported to the management of Lorain Elementary Digital Academy in a separate letter dated December 19, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial noncompliance issue that we reported to the management of Lorain Elementary Digital Academy in a separate letter dated December 19, 2008.

This report is intended solely for the information and use of the Board of Directors, Management and the Academy's Sponsor, and is not intended to be and should not be used by anyone other than those specified parties.

Hea & Associates, Inc.

**Lorain Elementary Digital Academy
Lorain County
Schedule of Findings
June 30, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Significant Deficiency

Financial reporting is the responsibility of the Treasurer of the Academy and the Board of Directors and is essential to ensure that the information provided to the readers of the financial statements is complete and accurate.

The Academy made the following audit adjustments to the June 30, 2008 financial statements:

1. To record an intergovernmental payable to show a liability to the ODE as a result of the FTE adjustment as of 6/30/08 in the amount of \$34,143.

Management's Response: Management will monitor documentation more closely to ensure that all liabilities incurred will be recorded accurately in accordance with accounting principles generally accepted in the United States (GAAP).



Mary Taylor, CPA
Auditor of State

LORAIN ELEMENTARY DIGITAL ACADEMY

LORAIN 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
FEBRUARY 19, 2009**