

**Lorain K-12
Digital Academy**

Audited Basic Financial Statements

Years Ended June 30, 2010 and 2009



Dave Yost • Auditor of State

Board of Directors
Lorain K-12 Digital Academy
2350 Pole Avenue
Lorain, Ohio 44052

We have reviewed the *Independent Auditor's Report* of the Lorain K-12 Digital Academy, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. 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 K-12 Digital Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

February 7, 2011

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LORAIN K-12 DIGITAL ACADEMY

For the Years Ended June 30, 2010 and 2009

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 22, 2010

The Board of Directors
Lorain K-12 Digital Academy
2350 Pole Ave
Lorain, Ohio 44052

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Lorain K-12 Digital Academy, (the "Academy"), a component unit of the Lorain City School District, as of and for the years ending June 30, 2010 and 2009, 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 audits.

We conducted our audits 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 K-12 Digital Academy, as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows for the years 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 22, 2010, 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.

Lorain K-12 Digital Academy
Independent Auditor's Report
December 22, 2010
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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 K-12 Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

On July 8, 2008 the Lorain High School Digital Academy changed its name to Lorain K-12 Digital Academy and combined its student population with the Lorain K-8 Digital Academy, Lorain Elementary Digital Academy and the Lorain Alternative Academy, which suspended operations on that same date. The discussion and analysis of the Lorain K-12 Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2010. 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 2009 and fiscal year 2008 is also required.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2010 are as follows:

- Net assets totaled \$497,592, which is an increase of \$59,036 from fiscal year 2009.
- Total cash was \$484,370 in fiscal year 2010 and \$384,591 in fiscal year 2009, this increase is partially due to additional grant money.
- Operating revenues in fiscal year 2010 equaled \$589,715 and operating expenses totaled \$581,876.

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 K-12 Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

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 2010?" 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 2010, 2009 and 2008 as follows:

Table 1
Net Assets at June 30

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Current and Other Assets	\$ 484,370	\$ 384,591	\$ 232,112
Capital Assets	<u>53,202</u>	<u>124,752</u>	<u>56,283</u>
Total Assets	<u>537,572</u>	<u>509,343</u>	<u>288,395</u>
Liabilities			
Current Liabilities	<u>39,980</u>	<u>70,787</u>	<u>16,393</u>
Net Assets			
Invested in Capital Assets	53,202	124,752	56,283
Restricted for Other Purposes	17,296	13,043	938
Unrestricted	<u>427,094</u>	<u>300,761</u>	<u>214,781</u>
Total Net Assets	<u>\$ 497,592</u>	<u>\$ 438,556</u>	<u>\$ 272,002</u>

Total assets increased \$28,229 from fiscal year 2009 to fiscal year 2010. This includes an increase in cash of \$99,779, partially due to grant money from the fiscal stabilization program, and a decrease in capital assets of \$71,550 through disposals and depreciation of capital assets. Liabilities consisting of accounts and intergovernmental payable decreased \$30,807 and net assets increased \$59,036. The Academy absorbed the liabilities of the Lorain K-8 Digital Academy, Lorain Elementary Digital Academy and the Lorain Alternative Academy in fiscal year 2009 when they merged. The liabilities in fiscal year 2010 are more in line with the Academy as it currently operates. The Academy is dependent on grants and foundation money to fund operations.

Lorain K-12 Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2010, 2009 and 2008, as well as a listing of revenues and expenses.

Table 2
Changes in Net Assets

	2010	2009	2008
Revenues			
Operating Revenues	\$ 589,715	\$ 592,665	\$ 292,653
Non-Operating Revenues	51,197	163,333	33,758
Total Revenues	640,912	755,998	326,411
Operating Expenses	581,876	589,444	403,195
Increase (Decrease) in Net Assets	\$ 59,036	\$ 166,554	\$ (76,784)

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.

The revenues and expenses in fiscal year 2010 remained fairly consistent with fiscal year 2009 with the exception of non-operating revenues, which reflects a capital contribution from the Sponsor in fiscal year 2009.

The revenues and expenses in fiscal year 2009 increased substantially from fiscal year 2008 with the addition of the student population from the Lorain K-8 Digital Academy, Lorain Elementary Digital Academy and the Lorain Alternative Academy which took place on July 8, 2008.

Capital Assets

At the end of fiscal year 2010, the Academy had invested \$53,202 in improvements and equipment. Table 3 shows the net capital assets for fiscal years 2010, 2009 and 2008.

Table 3
Capital Assets (Net)

	2010	2009	2008
Improvements	\$ 10,603	\$ 11,536	\$ 7,037
Furniture and Equipment	42,599	113,216	49,246
Totals	\$ 53,202	\$ 124,752	\$ 56,283

The \$71,550 decrease in capital assets in fiscal year 2010 from fiscal year 2009 was the result of disposals and recognizing depreciation expense for the fiscal year.

Lorain K-12 Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2010 and 2009

In fiscal year 2009, the Academy received \$149,678 in capital asset contributions from the Sponsor, which accounts for the increase in capital assets of \$68,469 over fiscal year 2008.

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

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 K-12 Digital Academy, 2350 Pole Avenue, Lorain, OH 44052.

Lorain K-12 Digital Academy
Statements of Net Assets
June 30, 2010 and June 30, 2009

	2010	2009
Assets		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$ 484,370	\$ 384,591
<i>Total current assets</i>	484,370	384,591
<i>Noncurrent assets:</i>		
Capital assets (Net of accumulated depreciation)	53,202	124,752
<i>Total assets</i>	537,572	509,343
Liabilities		
<i>Current liabilities:</i>		
Accounts Payable	39,980	69,385
Intergovernmental Payable	0	1,402
<i>Total current liabilities</i>	39,980	70,787
Net Assets		
Invested in capital assets	53,202	124,752
Restricted for other purposes	17,296	13,043
Unrestricted	427,094	300,761
<i>Total net assets</i>	\$ 497,592	\$ 438,556

See accompanying notes to the basic financial statements.

Lorain K-12 Digital Academy
Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and June 30, 2009

	2010	2009
Operating revenues		
Foundation payments	\$ 589,507	\$ 592,508
Other	208	157
<i>Total operating revenues</i>	589,715	592,665
Operating expenses		
Purchased services	482,240	504,867
Materials and supplies	6,138	3,368
Depreciation	66,842	81,209
Other	26,656	0
<i>Total operating expenses</i>	581,876	589,444
<i>Operating income (loss)</i>	7,839	3,221
Non operating revenues (expenses)		
Grants	50,511	12,105
Interest Income	686	1,550
Capital Contribution	0	149,678
<i>Total non-operating revenues (expenses)</i>	51,197	163,333
<i>Change in net assets</i>	59,036	166,554
<i>Net assets at beginning of year</i>	438,556	272,002
<i>Net assets at the end of the year</i>	\$ 497,592	\$ 438,556

See accompanying notes to the basic financial statements.

Lorain K-12 Digital Academy
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2010 and June 30, 2009

	2010	2009
Increase (decrease) in cash		
Cash flows from operating activities:		
Cash received from foundation payments	\$ 589,507	\$ 592,665
Other revenues	208	0
Cash payments for goods and services	(541,133)	(453,841)
<i>Net cash provided by (used for) operating activities</i>	<u>48,582</u>	<u>138,824</u>
Cash flows from non-capital financing activities:		
Grants received	50,511	12,105
<i>Net cash provided by (used for) non-capital activities</i>	<u>50,511</u>	<u>12,105</u>
Cash flows from investing activities:		
Interest on Investments	686	1,550
<i>Net cash provided by (used for) investing activities</i>	<u>686</u>	<u>1,550</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	99,779	152,479
<i>Cash and cash equivalents at beginning of year</i>	<u>384,591</u>	<u>232,112</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 484,370</u>	<u>\$ 384,591</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 7,839	\$ 3,221
Depreciation	66,842	81,209
Loss on disposal of assets	4,708	0
Adjustments:		
Increase (decrease) in liabilities:		
Accounts payable	(29,405)	52,992
Intergovernmental payable	(1,402)	1,402
<i>Total adjustments</i>	<u>40,743</u>	<u>135,603</u>
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 48,582</u>	<u>\$ 138,824</u>

Noncash items:

In fiscal year 2009, the Academy received capital assets transferred from the Sponser in the amount of \$149,678.

See accompanying notes to the basic financial statements.

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Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

Note 1 – Description of the Academy and Reporting Entity

The Lorain K-12 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 twelfth 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 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 for the 2008-2009 academic year through an amendment to the original agreement after the merging of the Lorain K-8 Digital Academy, Lorain Elementary Digital Academy and the Lorain Alternative Academy. The Academy was approved for continuing sponsorship under a resolution on August 26, 2009 with the Sponsor for a period of five years ending August 26, 2014. 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 Academy with services, the Sponsor shall be the fiscal agent of the Academy and shall direct the Sponsor's treasurer to serve as the Academy'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 exists between the Academy and the Sponsor in which 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 K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies

The Academy applies generally accepted accounting principles that were issued prior to November 30, 1989 by the Financial Accounting Standards Board (“FASB”) to its business-type activities provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to follow FASB guidance for business-type activities issued after November 30, 1989. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification.

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 statements of net assets. The statements of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statements of cash flows provide 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.

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

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

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 the standards. 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 statements 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.

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 one thousand 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 and furniture and equipment is depreciated over 5 to 20 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.

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.

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

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.

K. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction. The Academy did not receive any contributions during fiscal year 2010.

L. Change in Accounting Principles

For the year ended June 30, 2010, the Academy has implemented GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets,” GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments,” and GASB Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies.”

GASB Statement No. 51 establishes standards of accounting and financial reporting for intangible assets for all state and local governments. Inconsistencies in the accounting and financial reporting for intangible assets, particularly in the areas of recognition, initial measurement, and amortization, have occurred in practice due to the absence of sufficiently specific authoritative guidance that addresses these questions. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

Implementation of these GASB Statements did not affect the presentation of the financial statements of the Academy.

Note 3 - Deposits and Investments

State statutes classify monies held by the Academy into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Academy treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts.

Protection of Academy's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in these divisions are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Academy, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Academy cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105% of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. These securities, held by the counterparty and not in the Academy's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The Academy's investment in repurchase agreement is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the Academy. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2%. The Academy's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

Deposits

At fiscal year end June 30, 2010, the carrying value of the Academy's deposits totaled \$484,370 and the bank balances of the deposits totaled \$484,370. All of the bank balance was covered by federal depository insurance.

At fiscal year end June 30, 2009, the carrying value of the Academy's deposits totaled \$29,921 and the bank balances of the deposits totaled \$29,921. All of the bank balance was covered by federal depository insurance.

Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

Investments

The Academy had no investments as of June 30, 2010.

As of June 30, 2009, the Academy had the following investments:

	Fair Value	Investment Maturities (in months) 0 - 6
Repurchase Agreement	\$ 354,670	\$ 354,670

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Academy's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the Academy.

Credit Risk: The Academy's investments in the federal agency securities that underlie the Academy's repurchase agreement were rated Aaa by Moody's Investor Services.

Concentration of Credit Risk: The Academy places no limit on the amount the Academy may invest in any one issuer. The Academy's only investment is the repurchase agreement.

Note 4 – Charter School Funding

On October 26, 2006, the Ohio Supreme Court ruled that publicly funded, privately operated community (i.e. charter) schools is constitutional.

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 6/30/09	Additions	Disposals	Balance 6/30/2010
<i>Capital Assets Being Depreciated</i>				
Improvements	\$ 14,000	\$ 0	\$ 0	\$ 14,000
Furniture and Equipment	447,151	0	(17,162)	429,989
	<u>461,151</u>	<u>0</u>	<u>(17,162)</u>	<u>443,989</u>
<i>Accumulated Depreciation</i>				
Improvements	(2,464)	(933)	0	(3,397)
Furniture and Equipment	(333,935)	(65,909)	12,454	(387,390)
	<u>(336,399)</u>	<u>(66,842)</u>	<u>12,454</u>	<u>(390,787)</u>
Capital Assets, Net	<u>\$ 124,752</u>	<u>\$ (66,842)</u>	<u>\$ (4,708)</u>	<u>\$ 53,202</u>

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance 6/30/08	Additions	Transfer of Assets From Sponsor	Balance 6/30/2009
<i>Capital Assets Being Depreciated</i>				
Improvements	\$ 7,280	\$ 0	\$ 6,720	\$ 14,000
Furniture and Equipment	114,253	0	332,898	447,151
	<u>121,533</u>	<u>0</u>	<u>339,618</u>	<u>461,151</u>
<i>Accumulated Depreciation</i>				
Improvements	(243)	(1,642)	(579)	(2,464)
Furniture and Equipment	(65,007)	(79,567)	(189,361)	(333,935)
	<u>(65,250)</u>	<u>(81,209)</u>	<u>(189,940)</u>	<u>(336,399)</u>
Capital Assets, Net	<u>\$ 56,283</u>	<u>\$ (81,209)</u>	<u>\$ 149,678</u>	<u>\$ 124,752</u>

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

Note 6 – Purchased Services

For the fiscal year ended June 30, 2010, purchased services were as follows:

Instructional Services	\$ 308,581
Other Professional and Technical Services	6,000
Other Communications Service	<u>167,659</u>
	<u>\$ 482,240</u>

For the fiscal year ended June 30, 2009, purchased services were as follows:

Instructional Services	\$ 266,860
Other Professional and Technical Services	27,807
Other Communications Service	<u>210,200</u>
	<u>\$ 504,867</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 2010 and 2009, the Academy was covered under commercial 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 an agreement with the Tri-Rivers Educational Computer Association (“TRECA”), which is a member of the Ohio Education Computer Network established in accordance with Ohio Revised Code Section 3301.075.

The Comprehensive Services Agreement with TRECA will provide instructional/curricular, technical, and support services as well as provide student training and technical support for the 2009-2010 school year.

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

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, 2010 and 2009.

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 annually to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Academy was reviewed and no significant 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.



Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 22, 2010

To the Board of Directors
Lorain K-12 Digital Academy
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 K-12 Digital Academy (the "Academy") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 22, 2010. 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 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 expressing an opinion on the effectiveness of the Academy's 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 to be material weaknesses, as defined above.

Lorain K-12 Digital Academy
Report On Internal Control over Financial Reporting And On
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*

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.

Rea & Associates, Inc.



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 22, 2010

Lorain K-12 Digital Academy
2350 Pole Avenue
Lorain, Ohio 44052

To the Board of Directors:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Lorain K-12 Digital Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on May 14, 2010.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;

- (3) A procedure for reporting prohibited incidents;
- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student’s rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Hea & Associates, Inc.



Dave Yost • Auditor of State

LORAIN K-12 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 17, 2011**