

**Lorain K-12 Digital Academy**  
Lorain County, Ohio

*Audited Financial Statements*

***Years Ended June 30, 2011 and 2010***





# Dave Yost • Auditor of State

Board of Directors  
Lorain K-12 Digital Academy  
2350 Pole Ave  
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, 2010 through June 30, 2011. 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 cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

March 1, 2012

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**LORAIN K-12 DIGITAL ACADEMY**

For the Fiscal Years Ended June 30, 2011 and 2010  
Table of Contents

	<b>Page</b>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Statements of Net Assets .....	7
Statements of Revenues, Expenses and Changes in Net Assets .....	8
Statements of Cash Flows .....	9
Notes to the Basic Financial Statements .....	11
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 .....	21
Independent Accountant’s Report on Applying Agreed-Upon Procedures .....	23

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December 28, 2011

To 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 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, 2011 and 2010, 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 the Academy, as of June 30, 2011 and 2010, 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 28, 2011, 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. 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 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

*Rea & Associates, Inc.*

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**Lorain K-12 Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2011 and 2010*

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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, 2011 and 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.

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 2010 and fiscal year 2009 is also required.

**Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2011 are as follows:

- Net assets totaled \$607,318, which is an increase of \$109,726 from fiscal year 2010.
- Operating revenues equaled \$611,645, up 4% from fiscal year 2010. Operating expenses of \$566,343 showed a decrease of 3% from fiscal year 2010.

**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.

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 years 2011 and 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.

**Lorain K-12 Digital Academy**  
*Management's Discussion and Analysis*  
For the Fiscal Years Ended June 30, 2011 and 2010

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Table 1 provides a summary of the Academy's net assets for fiscal year 2011, 2010 and 2009 as follows:

**Table 1**  
**Net Assets at June 30**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Current and Other Assets	\$ 572,289	\$ 484,370	\$ 384,591
Capital Assets	<u>38,966</u>	<u>53,202</u>	<u>124,752</u>
Total Assets	<u>611,255</u>	<u>537,572</u>	<u>509,343</u>
<b>Liabilities</b>			
Current Liabilities	<u>3,937</u>	<u>39,980</u>	<u>70,787</u>
<b>Net Assets</b>			
Invested in Capital Assets	38,966	53,202	124,752
Restricted for Other Purposes	29,279	17,296	13,043
Unrestricted	<u>539,073</u>	<u>427,094</u>	<u>300,761</u>
Total Net Assets	<u>\$ 607,318</u>	<u>\$ 497,592</u>	<u>\$ 438,556</u>

Total assets increased \$73,683 from fiscal year 2010 to fiscal year 2011. This includes an increase in cash of \$87,919, partially due to an increase in state foundation revenue and cost cutting measures. Capital assets showed a decrease of \$14,236 through depreciation. Liabilities consisting of accounts payable decreased \$36,043 due to timing of payments and net assets increased \$109,726.

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, 2011 and 2010

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2011, 2010 and 2009, as well as a listing of revenues and expenses.

**Table 2**  
**Changes in Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Revenues</b>			
Operating Revenues	\$ 611,645	\$ 589,715	\$ 592,665
Non-Operating Revenues	<u>64,424</u>	<u>51,197</u>	<u>163,333</u>
<b>Total Revenues</b>	676,069	640,912	755,998
<b>Operating Expenses</b>	<u>566,343</u>	<u>581,876</u>	<u>589,444</u>
<b>Increase (Decrease) in Net Assets</b>	<u><u>\$ 109,726</u></u>	<u><u>\$ 59,036</u></u>	<u><u>\$ 166,554</u></u>

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.

Revenue from foundation payments increased nearly \$22,000 from fiscal year 2010 contributing to the increase in operating revenues and fiscal stabilization grant revenues account for most of the \$13,227 increase in non-operating revenues.

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.

**Capital Assets**

At the end of fiscal year 2011, the Academy had invested \$38,966 in improvements and equipment. Table 3 shows the net capital assets for fiscal years 2011, 2010 and 2009.

**Table 3**  
**Capital Assets (Net)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Improvements	\$ 9,670	\$ 10,603	\$ 11,536
Furniture and Equipment	<u>29,296</u>	<u>42,599</u>	<u>113,216</u>
<b>Totals</b>	<u><u>\$ 38,966</u></u>	<u><u>\$ 53,202</u></u>	<u><u>\$ 124,752</u></u>

**Lorain K-12 Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2011 and 2010*

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The \$14,236 decrease in capital assets in fiscal year 2011 from fiscal year 2010 is due to recognizing depreciation expense for the fiscal year.

In fiscal year 2010, capital assets decreased \$71,550 as a result of disposals and depreciation expense for the fiscal year.

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, 2011 and June 30, 2010*

	2011	2010
<b>Assets</b>		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$ 572,289	\$ 484,370
<i>Total current assets</i>	572,289	484,370
<i>Noncurrent assets:</i>		
Capital assets (Net of accumulated depreciation)	38,966	53,202
<i>Total assets</i>	611,255	537,572
<b>Liabilities</b>		
<i>Current liabilities:</i>		
Accounts Payable	3,937	39,980
<i>Total current liabilities</i>	3,937	39,980
<b>Net Assets</b>		
Invested in capital assets	38,966	53,202
Restricted for other purposes	29,279	17,296
Unrestricted	539,073	427,094
<i>Total net assets</i>	\$ 607,318	\$ 497,592

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, 2011 and June 30, 2010*

	2011	2010
<b>Operating revenues</b>		
Foundation payments	\$ 611,454	\$ 589,507
Other	191	208
<i>Total operating revenues</i>	<u>611,645</u>	<u>589,715</u>
<b>Operating expenses</b>		
Purchased services	518,434	482,240
Materials and supplies	2,897	6,138
Depreciation	14,236	66,842
Other	30,776	26,656
<i>Total operating expenses</i>	<u>566,343</u>	<u>581,876</u>
<i>Operating income (loss)</i>	45,302	7,839
<b>Non operating revenues (expenses)</b>		
Grants	64,424	50,511
Interest Income	0	686
<i>Total non-operating revenues (expenses)</i>	<u>64,424</u>	<u>51,197</u>
<i>Change in net assets</i>	109,726	59,036
<i>Net assets at beginning of year</i>	<u>497,592</u>	<u>438,556</u>
<i>Net assets at the end of the year</i>	<u>\$ 607,318</u>	<u>\$ 497,592</u>

See accompanying notes to the basic financial statements.

**Lorain K-12 Digital Academy**  
*Statements of Cash Flows*  
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

	2011	2010
<b>Increase (decrease) in cash and cash equivalents</b>		
<b>Cash flows from operating activities:</b>		
Cash received from foundation payments	\$ 611,454	\$ 589,507
Other revenues	191	208
Cash payments for goods and services	(588,150)	(541,133)
<i>Net cash provided by (used for) operating activities</i>	<u>23,495</u>	<u>48,582</u>
<b>Cash flows from non-capital financing activities:</b>		
Grants received	64,424	50,511
<i>Net cash provided by (used for) non-capital activities</i>	<u>64,424</u>	<u>50,511</u>
<b>Cash flows from investing activities:</b>		
Interest on Investments	0	686
<i>Net cash provided by (used for) investing activities</i>	<u>0</u>	<u>686</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	87,919	99,779
<i>Cash and cash equivalents at beginning of year</i>	<u>484,370</u>	<u>384,591</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 572,289</u>	<u>\$ 484,370</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>		
Operating income (loss)	\$ 45,302	\$ 7,839
Depreciation	14,236	66,842
Loss on disposal of assets	0	4,708
Adjustments:		
Increase (decrease) in liabilities:		
Accounts payable	(36,043)	(29,405)
Intergovernmental payable	0	(1,402)
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 23,495</u>	<u>\$ 48,582</u>

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, 2011 and 2010*

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**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 members of the community 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, 2011 and 2010*

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**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.

**Lorain K-12 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2011 and 2010*

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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 the standards. Also, the Auditor of State provides financial policy and procedure guidance to the Academy.

***E. Cash and Cash Equivalents***

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 are 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.

**Lorain K-12 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2011 and 2010*

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***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.

***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 years 2011 and 2010.

***L. Change in Accounting Principles***

For the years ended June 30, 2011 and 2010, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 59, “*Financial Instruments Omnibus.*”

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

Implementation of this GASB Statement did not affect the presentation of the financial statements of the Academy.

**Lorain K-12 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2011 and 2010*

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**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;
4. Bonds and other obligations of the State of Ohio;

**Lorain K-12 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2011 and 2010*

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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, 2011 and 2010

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***Deposits***

At fiscal year end June 30, 2011, the carrying value of the Academy's deposits totaled \$572,289 and the bank balances of the deposits totaled \$572,289. All of the bank balance was covered by federal depository insurance.

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.

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.

**Note 4 – Charter School Funding**

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

**Note 5 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/10	Additions	Disposals	Balance 6/30/2011
<i>Capital Assets Being Depreciated</i>				
Improvements	\$ 14,000	\$ 0	\$ 0	\$ 14,000
Furniture and Equipment	429,989	0	0	429,989
	<u>443,989</u>	<u>0</u>	<u>0</u>	<u>443,989</u>
<i>Accumulated Depreciation</i>				
Improvements	(3,397)	(933)	0	(4,330)
Furniture and Equipment	(387,390)	(13,303)	0	(400,693)
	<u>(390,787)</u>	<u>(14,236)</u>	<u>0</u>	<u>(405,023)</u>
Capital Assets, Net	<u>\$ 53,202</u>	<u>\$ (14,236)</u>	<u>\$ 0</u>	<u>\$ 38,966</u>

**Lorain K-12 Digital Academy**  
*Notes to the Basic Financial Statements*  
For the Fiscal Years Ended June 30, 2011 and 2010

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>

**Note 6 – Purchased Services**

For the fiscal year ended June 30, 2011, purchased services were as follows:

Instructional Services	\$ 316,524
Other Professional and Technical Services	131
Other Communications Service	<u>201,779</u>
	<u>\$ 518,434</u>

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>

**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 2011 and 2010, the Academy was covered under commercial insurance for property, and liability coverage.



**Lorain K-12 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2011 and 2010*

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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 fiscal 2010 and 2011 school years.

**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, 2011 and 2010.

**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, therefore the FTE adjustment was immaterial to the financial statements.

**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.

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December 28, 2011

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"), a component unit of the Lorain City School District, as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated December 28, 2011. 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.

**Internal Control over Financial Reporting**

Management of the Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered Academy's internal control over financial reporting as a basis for designing our auditing 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  
Compliance and Other Matters Based On an Audit Of  
Financial Statements Performed In Accordance With  
Government Auditing Standards

**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*

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.*

December 28, 2011

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

### **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

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

We noted the Academy did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying. Ohio Rev. Code Section 3313.666 required the Academy to amend its definition by September 28, 2010.

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 and the Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

*Rea & Associates, Inc.*

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# 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  
MARCH 15, 2012