



Dave Yost • Auditor of State



**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Lancaster Digital Academy  
Fairfield County  
345 East Mulberry Street  
Lancaster, Ohio 43130

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Lancaster Digital Academy, Fairfield County, Ohio (the Academy), a component unit of Lancaster City School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lancaster Digital Academy, Fairfield County, Ohio, as of June 30, 2013, and the changes in financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 16 of the financial statements, the Academy formally ceased operations on June 30, 2013. Our opinion is not modified with respect to this matter.

As described in Note 14 of the financial statements, in fiscal year ending June 30, 2013, the Lancaster Digital Academy adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operation*. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 4, 2013

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED**

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The discussion and analysis of the Lancaster Digital Academy's (LDA) financial performance provides an overall review of the LDA's financial activities for the fiscal year ended June 30, 2013. Readers should also review the basic financial statements and notes to enhance their understanding of the LDA's financial performance.

**Highlights**

LDA completed its eighth and final year of operation during fiscal year 2013 as a kindergarten through twelfth grade online internet school. Each student is provided a computer, scanner, printer, and internet access which are used to access a curriculum based on the State model and which uses certified/licensed instructors. Students may sign a waiver from using LDA's equipment if they have their own equipment available for use. Enrollment varied during the year but averaged 102 students.

Key highlights for fiscal year 2013 are as follows:

- On January 22, 2013, the Sponsor's Board of Education voted to non-renew the contract with LDA and close LDA as of June 30, 2013.
- LDA presented special items of (\$743,634) representing costs directly related to the closing of LDA. Any cash balances remaining after the collection of all receivables and the payment of all liabilities will be returned to the Ohio Department of Education (ODE). ODE will then distribute this balance among the public school districts that had students enrolled in LDA. This payment to ODE is included in the special item. This special item amount also includes State and federal grants returned to the grantor and capital assets sold or disposed of through the community school closure process as set by ODE.

**Using this Annual Financial Report**

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

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how LDA did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

LDA uses enterprise presentation for all of its activities.

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED**

Table 1 provides a summary of LDA's net position for 2013 compared to 2012:

Table 1  
Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
<u>Assets:</u>			
Current Assets	\$672,043	\$864,180	(\$192,137)
Capital Assets	0	12,947	(12,947)
Total Assets	<u>672,043</u>	<u>877,127</u>	<u>(205,084)</u>
<u>Liabilities:</u>			
Current Liabilities	672,043	18,897	653,146
Long-Term Liabilities	0	7,570	(7,570)
Total Liabilities	<u>672,043</u>	<u>26,467</u>	<u>645,576</u>
<u>Net Position:</u>			
Net Investment in Capital Assets	0	9,354	(9,354)
Unrestricted	0	841,306	(841,306)
Total Net Position	<u>\$0</u>	<u>\$850,660</u>	<u>(\$850,660)</u>

Total assets decreased in the amount of \$205,084. The decrease was mainly due to a decrease in cash and cash equivalents in the amount of \$48,468, a decrease in intergovernmental receivables in the amount of \$138,013, and a decrease in capital assets in the amount of \$12,947. Cash and cash equivalents decreased due to the decrease in State foundation revenues and State and federal grants due to the closing of LDA. When the announcement was made in January, 2013, by the Sponsor, that LDA was going to close, student enrollment began to decrease which decreased the amount of State foundation revenues that LDA received each month. The decrease in intergovernmental receivables was also due to the closing of LDA. Capital assets decreased to zero due to the community school closure process as set by ODE. Due to the closure, LDA sold several capital assets prior to the closure date of June 30, 2013. The remaining balance of capital assets not sold will be disposed of through the community school closure process; therefore, the book value of all remaining capital assets in the amount of \$7,536 were written off and included in the special item.

Liabilities increased \$645,576. Current liabilities increased by \$653,146 due primarily to the closure of LDA as of June 30, 2013. An intergovernmental payable was recorded in the amount of \$671,866 for fiscal year 2013 compared to \$14,834 in fiscal year 2012. The ODE community school closure process requires all remaining funds be returned to ODE; therefore, an intergovernmental payable was recorded. Once all steps of the community school closure process have been completed, ODE will divide all remaining monies between the public school districts that had students enrolled at LDA. Since this intergovernmental payable was directly related to the closure of LDA, it is included in the special item. Long-term liabilities decreased in fiscal year 2013 due to the payout of compensated absences in the amount of \$3,977 and the payoff of the copier capital lease in the amount of \$3,593.

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED**

Table 2 reflects the changes in net position for fiscal years 2013 and 2012.

Table 2  
Change in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
<u>Operating Revenues:</u>			
Foundation	\$557,309	\$648,412	(\$91,103)
<u>Non-Operating Revenues:</u>			
State and Federal Grants	29,546	158,326	(128,780)
Interest Revenue	4,136	5,874	(1,738)
Other	2,892	700	2,192
Total Revenues	<u>593,883</u>	<u>813,312</u>	<u>(219,429)</u>
<u>Operating Expenses:</u>			
Salaries	186,821	150,549	36,272
Fringe Benefits	55,820	60,681	(4,861)
Purchased Services	428,915	433,545	(4,630)
Materials and Supplies	6,635	5,415	1,220
Depreciation	5,707	4,897	810
Other Operating Expenses	16,603	0	16,603
Loss on Disposal of Capital Assets	0	2,034	(2,034)
Interest and Fiscal Charges	408	342	66
Total Expenses	<u>700,909</u>	<u>657,463</u>	<u>43,446</u>
Special Items	<u>(743,634)</u>	<u>0</u>	<u>(743,634)</u>
Change in Net Position	(850,660)	155,849	(1,006,509)
Net Position at Beginning of Year	<u>850,660</u>	<u>694,811</u>	<u>155,849</u>
Net Position at End of Year	<u><u>\$0</u></u>	<u><u>\$850,660</u></u>	<u><u>(\$850,660)</u></u>

During fiscal year 2013, foundation revenues and State and federal grants decreased due to the closure of LDA as of June 30, 2013. When the announcement was made by the Sponsor that LDA will close as of June 30, 2013, student enrollment decreased each month which decreased the amount of State foundation revenues that LDA received each month. Salaries and fringe benefits reflected an increase during fiscal year 2013 due to the LDA adding two teaching positions. LDA contracted for computer services with the Metropolitan Educational Council and guidance and computer services with Tri-Rivers Educational Association, and space rental and oversight services with the Sponsor. The increase in other operating expenses in the amount of \$16,603 was due to the return of State and federal grant funding that LDA was not able to spend prior to the end of the grant period.

The special item in the amount of (\$743,634) includes costs directly related to the closure of LDA. Any cash balances remaining after the collection of all receivables and the payment of all liabilities was estimated and is reflected as an intergovernmental payable in accordance with ODE's community school closeout process. This remaining balance will be divided by ODE between the public schools that had students enrolled in LDA.

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED**

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Due to the closure, unspent State and federal grant money was returned to the grantors in the amount of \$92,723 that normally would have been carried forward to the next fiscal year. Also, due to the closure, several capital assets were sold during the fiscal year which is part of the community school closure process set by ODE. The sale of these capital assets resulted in a loss in the amount of \$5,684. The remaining book value of capital assets were written off to a special item due to ODE's community school closure process which requires all capital assets to be transferred to another school district, community school or disposed. The intergovernmental payable to ODE in the amount of \$637,691, unspent State and federal grant money returned due to the closure in the amount of \$92,723, the loss on the sale of capital assets sold during the fiscal year due to the closure in the amount of \$5,684, and the remaining book value of capital assets in the amount of \$7,536 totaled \$743,634.

**Budgeting**

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

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2013, LDA showed no capital assets due to the June 30, 2013 closing of LDA. All remaining capital assets as of June 30, 2013 must be transferred to another school district or community school or disposed. Table 3 shows fiscal year 2013 balances compared to 2012. See Note 6 for additional information.

Table 3  
Capital Assets (Net of Depreciation)

	<u>2013</u>	<u>2012</u>
Computer/Copier Equipment	\$0	\$12,947
<b><u>Debt</u></b>		

LDA has no bonded or note debt. In fiscal year 2010, LDA entered into a capital lease for a copier. The lease was paid off in fiscal year 2013. See Note 12 for additional information.

**Current Issues**

On January 22, 2013, the Sponsor's Board of Education decided to close LDA as of June 30, 2013. Students were allowed to continue to be enrolled in LDA through June 30, 2013. The Sponsor decided to close LDA because the school did not meet the academic goals as a whole set by the Sponsor.

**Contacting the LDA's Financial Management**

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the LDA's finances and to show the LDA's accountability for the money it receives.

If you have any questions about this report or need additional financial information contact Julie Taylor, Treasurer, Lancaster Digital Academy, 345 East Mulberry Street, Lancaster, Ohio 43130, or E-Mail at [J\\_TAYLOR@LANCASTER.K12.OH.US](mailto:J_TAYLOR@LANCASTER.K12.OH.US).

LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY

STATEMENT OF NET POSITION  
JUNE 30, 2013

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<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 656,582
Cash and Cash Equivalents in Segregated Accounts	3,537
Accrued Interest Receivable	139
Intergovernmental Receivable	10,819
Accounts Receivable	966
Total Assets	<u>672,043</u>
<u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	177
Intergovernmental Payable	<u>671,866</u>
Total Liabilities	<u>672,043</u>
<u>Net Position:</u>	
Total Net Position	<u>\$ -</u>

See accompanying notes to the basic financial statements

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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<u>Operating Revenues:</u>	
Foundation	\$ 557,309
	<hr/>
<u>Operating Expenses:</u>	
Salaries	186,821
Fringe Benefits	55,820
Purchased Services	428,915
Materials and Supplies	6,635
Other Operating Expenses	16,603
Depreciation	5,707
Total Operating Expenses	<hr/> 700,501
Operating Loss	<hr/> (143,192)
<u>Non-Operating Revenues and Expenses:</u>	
State and Federal Grants	29,546
Interest Revenue	4,136
Other Non-Operating Revenue	2,892
Interest and Fiscal Charges	(408)
Total Non-Operating Revenues and Expenses	<hr/> 36,166
Special Items	<hr/> (743,634)
Change in Net Position	(850,660)
Net Position at Beginning of Year	850,660
Net Position at End of Year	<hr/> <hr/> \$ -

See accompanying notes to the basic financial statements

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation	\$ 563,634
Cash Payments for Employee Services and Benefits	(254,238)
Cash Payments to Suppliers for Goods and Services	(434,160)
Other Non-Operating Revenues	3,482
Other Operating Expenses	(503)
Net Cash Used for Operating Activities	<u>(121,785)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
State and Federal Grants Received	167,396
Return of State and Federal Grants	(92,723)
Net Cash Provided by Noncapital Financing Activities	<u>74,673</u>
<u>Cash Flows for Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(5,980)
Principal Paid on Capital Leases	(3,914)
Interest Paid on Capital Leases	(484)
Net Cash Used for Capital and Related Financing Activities	<u>(10,378)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	<u>4,220</u>
Net Decrease in Cash and Cash Equivalents	(53,270)
Cash and Cash Equivalents Beginning of Year	<u>713,389</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 660,119</u></u>
<u>Reconciliation of Operating Loss to</u>	
<u>Net Cash Used for Operating Activities:</u>	
Operating Loss	\$ (143,192)
<u>Adjustments to Reconcile Operating Loss</u>	
<u>to Net Cash Used for Operating Activities:</u>	
Depreciation	5,707
Other Non-Operating Revenues	3,482
<u>Changes in Assets and Liabilities:</u>	
Decrease in Intergovernmental Receivable	163
Increase in Accounts Receivable	(966)
Decrease in Prepaid Items	1,146
Decrease in Accounts Payable	(3,489)
Increase in Intergovernmental Payable	19,341
Decrease in Compensated Absences Payable	(3,977)
Net Cash Used for Operating Activities	<u><u>\$ (121,785)</u></u>

See accompanying notes to the basic financial statements

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**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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**Note 1 - Description of the School**

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

LDA was created on August 27, 2002 by entering into a contract with the Lancaster City School District (the Sponsor) which was renewed May 17, 2007 for an additional five years and then it was renewed again on June 19, 2012 for one year. The Sponsor is responsible for evaluating the performance of LDA and has the authority to deny renewal of the contract at its expiration. On January 22, 2013, the Sponsor's Board of Education voted to non-renew the contract with LDA and close LDA at the end of the contract which expired June 30, 2013.

LDA was created to operate under the direction of a five-member Board of Directors made up of individuals from the community and parents of the students served by the LDA. LDA is a component unit of the Sponsor. The Sponsor appoints the board and is able to impose its will on the LDA. The Sponsor can suspend the LDA's operations for any of the following reasons: 1) The LDA's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The LDA's failure to meet generally accepted standards of fiscal management, 3) The LDA's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of LDA and the children it serves. During fiscal year 2013, LDA paid purchased services to Tri-Rivers Educational Computer Association (TRECA) for providing planning, design, implementation, and some instructional services. July 1, 2011 LDA hired some of its own employees and had less dependence on TRECA since they began. LDA rented facilities from the Sponsor.

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

**Note 2 - Summary of Significant Accounting Policies**

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

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**A. Basis of Presentation**

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

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

**B. Measurement Focus**

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

**C. Basis of Accounting**

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

**D. Budgetary Process**

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

**E. Cash and Cash Equivalents**

Cash received by LDA is reflected as "Cash and Cash Equivalents" on the statement of net position. During fiscal year 2013, investments were limited to nonparticipating certificates of deposit. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit are reported at cost.

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

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

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets**

LDA's capital assets during fiscal year 2013 consisted of computer/copier equipment. All capital assets were capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets were recorded at their fair market values as of the date received. LDA maintained a capitalization threshold of five hundred dollars. LDA's reported capital assets were depreciated using the straight-line method over six years of useful life.

**G. Compensated Absences**

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

Sick leave benefits were accrued as a liability using the vesting method. The liability includes the employees who were currently eligible to receive termination benefits and those LDA had identified as probable of receiving payment in the future. The amount was based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in LDA's termination policy.

**H. Net Position**

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

The statement of net position reported no restricted net position and had no monies restricted by enabling legislation. Due to the closure of LDA, net position had a zero balance at fiscal year-end.

**I. Operating Revenues and Expenses**

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

**J. Estimates**

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

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**K. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of LDA or the Sponsor and that are either unusual in nature or infrequent in occurrence. For fiscal year 2013, LDA is reporting a special item representing costs directly related to the closing of LDA. See Note 16 for further details.

**Note 3 - Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, LDA's deposits may not be returned. LDA does not have a deposit policy for custodial credit risk. At June 30, 2013, the bank balance of LDA's deposits was \$672,456. Of the bank balance, \$317,169 was covered by federal depository insurance and \$355,287 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject LDA to a successful claim by the FDIC.

**Note 4 - Receivables**

Receivables at June 30, 2013, consisted of intergovernmental grants. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

<b>Governmental Activities</b>	<u>Amounts</u>
Title I Grant	\$10,635
Bureau of Workers' Compensation	<u>184</u>
Total	<u><u>\$10,819</u></u>

**Note 5 – Contract with TRECA**

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

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

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**Note 5 – Contract with TRECA (Continued)**

- TRECA shall promptly notify LDA if, at any time, TRECA has reason to believe it (or any contractor) is not fulfilling its obligations hereunder to disabled or suspected disabled students.
- All personnel providing services on behalf of TRECA shall possess any certification, licensure, training and experience that may be required by law.

For fiscal year 2013, \$214,788 was paid to TRECA under this contract which ended June 30, 2013. No amounts were payable to TRECA at June 30, 2013.

To obtain TRECA's audited June 30, 2013 financial statements please contact Scott Armstrong, Treasurer, at [scott@treca.org](mailto:scott@treca.org).

**Note 6 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Items Sold	Closure Deletions	Balance June 30, 2013
Computer/Copier Equipment	\$64,000	\$5,980	(\$10,888)	(\$59,092)	\$0
Less: Accumulated Depreciation	(51,053)	(5,707)	5,204	51,556	0
Capital Assets, Net	<u>\$12,947</u>	<u>\$273</u>	<u>(\$5,684)</u>	<u>(\$7,536)</u>	<u>\$0</u>

Due to the closure of LDA, several capital assets were sold during the fiscal year and the loss on the sales was included in the special item on the statement of revenues, expenses, and changes in net position. The remaining balance of capital assets, net, in the amount of \$7,536 was removed from the statement of net position and is also included in the special item on the statement of revenues, expenses, and changes in net position.

**Note 7 - Risk Management**

LDA was exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2013, LDA joined together with other school districts in Ohio and participated in the Ohio School Plan (OSP), a public entity insurance purchasing pool, for insurance coverage. Each individual school district enters into an agreement with the OSP and premiums are based on types of coverage, limits of coverage, and deductibles that is selected. The type and amount of coverage provided during fiscal year 2013 was as follows:

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**Note 7 - Risk Management (Continued)**

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

Settled claims did not exceed their commercial coverage in any prior years and there were no significant reductions in insurance coverage from the prior year.

**Note 8 – Purchased Services**

For the period July 1, 2012 through June 30, 2013, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Professional and Technical Services	\$387,655
Sponsor Fees and Rent Paid to Sponsor	28,280
Audit and Legal Services	12,980
Total	<u>\$428,915</u>

**Note 9 – Defined Benefit Pension Plans**

**A. School Employees Retirement System**

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

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 9 – Defined Benefit Pension Plans (Continued)**

**A. School Employees Retirement System (Continued)**

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and LDA is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. LDA's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$5,928, \$5,812 and \$1,417, respectively. For fiscal year 2013, 95.82 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

**B. State Teachers Retirement System**

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

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

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

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 9 – Defined Benefit Pension Plans (Continued)**

**B. State Teachers Retirement System (Continued)**

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. LDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

LDA's required contributions for pension obligations to STRS Ohio for the DB Plan were \$8,489 for fiscal year 2013 and \$10,512 for fiscal year 2012. For fiscal years 2013 and 2012, 100 percent has been contributed. No contributions were made to the DC and Combined Plans for fiscal year 2013.

**Note 10 – Post-Employment Benefits**

**A. School Employees Retirement System**

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$20,525.

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

LDA's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1, \$252, and \$172, respectively. For fiscal year 2013, 100 percent has been contributed. The full amount has been contributed for fiscal years 2012 and 2011.

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 10 – Post-Employment Benefits (Continued)**

**A. School Employees Retirement System (Continued)**

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. LDA's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011, were \$329, \$343, and \$91 respectively. For fiscal year 2013, 95.74 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2012 and 2011.

**B. State Teachers Retirement System**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. LDA's contributions for health care for the fiscal years ended June 30, 2013 was \$653 and June 30, 2012 was \$886. For fiscal years 2013 and 2012, 100 percent has been contributed.

**Note 11 – Related Party Transactions**

Lancaster City School District, Sponsor, appointed all five board members of the LDA. LDA was presented as a component unit of the Sponsor. During fiscal year 2013, LDA paid \$28,280 to their Sponsor for rent, oversight services, and miscellaneous reimbursements. As of June 30, 2013, nothing was owed to the Sponsor.

**Note 12 – Capital Leases Payable and Long Term Obligations**

During fiscal year 2011, LDA entered into a copier capital lease. A capital lease is defined as a lease that generally transfers benefits and risks of ownership to the lessee, LDA. During fiscal year 2013, this lease was paid in full. Principal payments in fiscal year 2013 totaled \$3,593 in the governmental funds.

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**Note 12 – Capital Leases Payable and Long Term Obligations (Continued)**

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

	Principal Outstanding			Principal Outstanding	
	6/30/2012	Additions	Deductions	6/30/2013	Due in One Year
Capital Leases Payable	\$3,593	\$0	\$3,593	\$0	\$0
Compensated Absences Payable	3,977	4,442	8,419	0	0
<b>Total Long-Term Obligations</b>	<b>\$7,570</b>	<b>\$4,442</b>	<b>\$12,012</b>	<b>\$0</b>	<b>\$0</b>

All compensated absences payable were paid during fiscal year 2013 due to the resignation of employees.

**Note 13 – Pool**

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

**Note 14 – Changes in Accounting Principle**

For fiscal year 2013, LDA has implemented Governmental Accounting Standards Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,” Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,” Statement No. 65, “Items Previously Reported as Assets and Liabilities,” Statement No. 66, “Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62,” and Statement No. 69, “Government Combinations and Disposals of Government Operation.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in LDA’s financial statements.

GASB Statement No. 62 incorporates into GASB’s authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the LDA’s financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in LDA’s fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 14 – Changes in Accounting Principle (Continued)**

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows or resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in LDA's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in LDA's financial statements.

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in the statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The implementation of this statement did not result in any change to net position as previously stated but is incorporated in the accompanying financial statements as it relates to the closing of LDA.

**Note 15 - Contingencies**

**A. Grants**

LDA received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability for LDA. However, the effect of any such disallowed claims on the overall financial position of LDA at June 30, 2013, if applicable, cannot be determined at this time.

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LDA. These reviews are conducted to ensure LDA is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. The ODE fiscal year 2012 audit of student enrollment revealed that LDA was underpaid by \$163 which LDA received from ODE within fiscal year 2013. The fiscal year 2013 review revealed that LDA was overpaid by \$66 which was shown as an intergovernmental payable as of June 30, 2013.

**Note 16 – Special Item – Closure of Lancaster Digital Academy**

On January 22, 2013, the Sponsor's Board of Education approved the closure and discontinuation of the contract between the Sponsor and LDA effective at the end of the current contract period which ended June 30, 2013. This closure was deemed necessary by the Sponsor due to LDA's failure to meet its academic goals. Parents of students were informed of the closure of LDA on January 23, 2013. Students were allowed to remain part of LDA through June 30, 2013.

**LANCASTER DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

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**Note 16 – Special Item – Closure of Lancaster Digital Academy (Continued)**

LDA is reporting a special item representing costs directly related to the closure. This amount includes the remaining cash balances which will be returned to the Ohio Department of Education (ODE) after the collection of all receivables and the payment of all liabilities according to ODE closing procedures. ODE will allocate the remaining balance among all public schools with students enrolled in LDA. This amount is included in intergovernmental payable on the statement of net position. Also due to the closure, unspent State and federal grant money was returned to the grantor. Capital assets no longer being used were either sold or disposed of in accordance with the community school closure process set by ODE. A summary of principal items included as a special item on the statement of revenues, expenses, and changes in net position follows:

	<u>Amounts</u>
Money Returned to ODE	\$637,691
State and Federal Grant Money	92,723
Capital Assets:	
Sold	5,684
Disposals	<u>7,536</u>
Total Special Item	<u><u>\$743,634</u></u>



# Dave Yost • Auditor of State

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

Lancaster Digital Academy  
Fairfield County  
345 East Mulberry Street  
Lancaster, Ohio 43130

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Lancaster Digital Academy, Fairfield County, Ohio, (the Academy), a component unit of Lancaster City School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 4, 2013, wherein we noted the Academy formally ceased operations on June 30, 2013. We also noted the Academy adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operation*.

### ***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 4, 2013



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Lancaster Digital Academy  
Fairfield County  
345 East Mulberry Street  
Lancaster, Ohio 43130

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 procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Lancaster Digital Academy, Fairfield County, Ohio, (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.

1. We noted the Academy amended its anti-harassment policy at its meeting on November 19, 2012 to include prohibiting harassment, intimidation, or bullying of any student by an "electronic act".

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 4, 2013

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# Dave Yost • Auditor of State

**LANCASTER DIGITAL ACADEMY**

**FAIRFIELD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 31, 2013**