



Dave Yost • Auditor of State

**LORAIN K-12 DIGITAL ACADEMY
LORAIN COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Lorain K-12 Digital Academy, Lorain County (the Academy), a component unit of the Lorain City School District as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the Academy as of and for the year ended June 30, 2011 were audited by other auditors whose report dated December 28, 2011, expressed an unqualified opinion on the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Lorain K-12 Digital Academy, as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost
Auditor of State

February 12, 2013

Lorain K-12 Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

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 years ended June 30, 2012 and June 30, 2011. 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 2011 and fiscal year 2010 is also required.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2012 are as follows:

- Net assets totaled \$688,033, which is an increase of \$80,715 from fiscal year 2011.
- Operating revenues equaled \$461,544, down 25% from fiscal year 2011. Operating expenses of \$417,755 showed a decrease of 26% from fiscal year 2011.

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 2012 and 2011?" 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, 2012 and 2011

Table 1 provides a summary of the Academy's net assets for fiscal years 2012, 2011 and 2010 as follows:

Table 1
Net Assets at June 30

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current and Other Assets	\$ 696,728	\$ 572,289	\$ 484,370
Capital Assets	<u>35,710</u>	<u>38,966</u>	<u>53,202</u>
Total Assets	<u>732,438</u>	<u>611,255</u>	<u>537,572</u>
Liabilities			
Current Liabilities	<u>44,405</u>	<u>3,937</u>	<u>39,980</u>
Net Assets			
Invested in Capital Assets	35,710	38,966	53,202
Restricted for Other Purposes	86,506	29,279	17,296
Unrestricted	<u>565,817</u>	<u>539,073</u>	<u>427,094</u>
Total Net Assets	<u>\$ 688,033</u>	<u>\$ 607,318</u>	<u>\$ 497,592</u>

Total assets increased \$121,183 from fiscal year 2011 to fiscal year 2012. This increase is made up of an increase in cash of \$92,264, which is partially due to the timing of payments made. Intergovernmental receivable increased \$32,175 mostly due to an increase in federal grants receivable. Capital assets decreased \$3,256 through depreciation expense. Liabilities consisting of accounts payable increased \$40,468 due to the timing of payments and net assets increased \$80,715 over fiscal year 2011.

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.

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, 2012 and 2011

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012, 2011 and 2010, as well as a listing of revenues and expenses.

Table 2
Changes in Net Assets

	2012	2011	2010
Revenues			
Operating Revenues	\$ 461,544	\$ 611,645	\$ 589,715
Non-Operating Revenues	36,926	64,424	51,197
Total Revenues	498,470	676,069	640,912
Operating Expenses	417,755	566,343	581,876
Increase (Decrease) in Net Assets	\$ 80,715	\$ 109,726	\$ 59,036

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 decreased over \$153,000 from fiscal year 2011 contributing to the decrease in operating revenues. The expiration of the SFSF grant contributed to a decrease in grant revenue of nearly \$27,500.

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.

Capital Assets

At the end of fiscal year 2012, the Academy had invested \$35,710 in improvements and furniture and equipment. Table 3 shows the net capital assets for fiscal years 2012, 2011 and 2010.

Table 3
Capital Assets (Net)

	2012	2011	2010
Improvements	\$ 8,737	\$ 9,670	\$ 10,603
Furniture and Equipment	26,973	29,296	42,599
Totals	\$ 35,710	\$ 38,966	\$ 53,202

Lorain K-12 Digital Academy
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

The \$3,256 decrease in capital assets in fiscal year 2012 from fiscal year 2011 is due to recognizing depreciation expense for the fiscal year.

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.

See Note 6 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, 2012 and June 30, 2011

	<u>2012</u>	<u>2011</u>
Assets		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$ 664,553	\$ 572,289
Intergovernmental receivables	<u>32,175</u>	<u>0</u>
<i>Total current assets</i>	<u>696,728</u>	<u>572,289</u>
<i>Noncurrent assets:</i>		
Capital assets (Net of accumulated depreciation)	<u>35,710</u>	<u>38,966</u>
<i>Total assets</i>	<u>732,438</u>	<u>611,255</u>
Liabilities		
<i>Current liabilities:</i>		
Accounts Payable	<u>44,405</u>	<u>3,937</u>
<i>Total current liabilities</i>	<u>44,405</u>	<u>3,937</u>
Net Assets		
Invested in capital assets	35,710	38,966
Restricted for other purposes	86,506	29,279
Unrestricted	<u>565,817</u>	<u>539,073</u>
<i>Total net assets</i>	<u>\$ 688,033</u>	<u>\$ 607,318</u>

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, 2012 and June 30, 2011

	2012	2011
Operating revenues		
Foundation payments	\$ 458,124	\$ 611,454
Tuition	3,314	0
Other	106	191
<i>Total operating revenues</i>	<u>461,544</u>	<u>611,645</u>
Operating expenses		
Purchased services	328,460	518,434
Materials and supplies	67,812	2,897
Depreciation	3,256	14,236
Other	18,227	30,776
<i>Total operating expenses</i>	<u>417,755</u>	<u>566,343</u>
<i>Operating income (loss)</i>	43,789	45,302
Non operating revenues (expenses)		
Grants	36,926	64,424
<i>Change in net assets</i>	80,715	109,726
<i>Net assets at beginning of year</i>	<u>607,318</u>	<u>497,592</u>
<i>Net assets at the end of the year</i>	<u>\$ 688,033</u>	<u>\$ 607,318</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, 2012 and June 30, 2011

	2012	2011
Cash flows from operating activities:		
Cash received from foundation payments	\$ 457,744	\$ 611,454
Other revenues	3,420	191
Cash payments for goods and services	(374,031)	(588,150)
<i>Net cash provided by (used for) operating activities</i>	<u>87,133</u>	<u>23,495</u>
Cash flows from non-capital financing activities:		
Grants received	5,131	64,424
<i>Net cash provided by (used for) non-capital activities</i>	<u>5,131</u>	<u>64,424</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	92,264	87,919
<i>Cash and cash equivalents at beginning of year</i>	<u>572,289</u>	<u>484,370</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 664,553</u>	<u>\$ 572,289</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 43,789	\$ 45,302
Depreciation	3,256	14,236
Adjustments:		
(Increase) decrease in assets:		
Intergovernmental receivable	(380)	0
Increase (decrease) in liabilities:		
Accounts payable	40,468	(36,043)
<i>Total adjustments</i>	<u>43,344</u>	<u>(21,807)</u>
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 87,133</u>	<u>\$ 23,495</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, 2012 and 2011

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, excluding the Tri-Rivers Educational Computer Association (TRECA), providing services to the Academy on behalf of the Sponsor under the

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.

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, 2012 and 2011

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 five 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, 2012 and 2011

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.

In addition, the Academy participates in the State Education Management Information System (“EMIS”) through the Ohio Department of Education. The Academy also receives revenues from the Education Jobs, IDEA-B, Title II-D, Title I and Title II-A federal grant programs.

J. Estimates

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

K. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction. The Academy did not receive any contributions during fiscal year 2012.

Note 3 - Deposits

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

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

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;
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

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

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.

Deposits

At fiscal year end June 30, 2012, the carrying value of the Academy's deposits totaled \$664,553 and the bank balances of the deposits totaled \$664,759. All of the bank balance was covered by federal depository insurance.

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.

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.

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

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 - Receivables

Receivables at June 30, 2012, consisted of \$31,795 in intergovernmental grants and \$380 in foundation revenue.

Note 6 – Capital Assets

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

	Balance 6/30/11	Additions	Disposals	Balance 6/30/2012
<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	(4,330)	(933)	0	(5,263)
Furniture and Equipment	(400,693)	(2,323)	0	(403,016)
	<u>(405,023)</u>	<u>(3,256)</u>	<u>0</u>	<u>(408,279)</u>
Capital Assets, Net	<u>\$ 38,966</u>	<u>\$ (3,256)</u>	<u>\$ 0</u>	<u>\$ 35,710</u>

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, 2012 and 2011

Note 7 – Purchased Services

For the fiscal year ended June 30, 2012, purchased services were as follows:

Instructional Services	\$ 126,837
Other Professional and Technical Services	19,743
Other Communications Service	<u>181,880</u>
	<u>\$ 328,460</u>

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>

Note 8 - 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 2012 and 2011, the Academy was covered under commercial insurance for property, and liability coverage.

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

Note 9 – 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 2012 and 2011 school years. TRECA began services during April 2012. Prior to this date, the Lake Erie Educational Computer Association (LEECA) provided service to the School District.

Lorain K-12 Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

Note 10 – Contingencies

A. Review of Statewide Attendance Data

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

B. Grants

The Academy 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 of the general fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

Note 11 - 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 FTE adjustment amounted to a \$380 underpayment in fiscal year 2012. The Academy was reviewed and no significant errors were found in enrollment, withdrawals, and attendance.

Note 12 - 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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Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of the Lorain K-12 Digital Academy, Lorain County, (the Academy) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 12, 2013, wherein we noted that other auditors audited the basic financial statements of the Academy as of and for the year ended June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 12, 2013.

We intend this report solely for the information and use of management, the audit committee, Board of Directors, the Community School's sponsor, and others within the Academy. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

February 12, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Education:

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.

1. We noted the Board 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 Board 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 School'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". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail on the "y".

Dave Yost
Auditor of State

February 12, 2013



Dave Yost • Auditor of State

LORAIN K-12 DIGITAL ACADEMY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 26, 2013**