



Dave Yost • Auditor of State

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

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Lorain K-12 Digital Academy, Lorain County, Ohio a component unit of the Lorain City School District, (the Academy), as of and for the year ended June 30, 2014 and 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 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 the Lorain K-12 Digital Academy, Lorain County as of June 30, 2014 and 2013, and the changes in its 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.

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 March 19, 2015, 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

March 19, 2015

Lorain K-12 Digital Academy
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

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, 2014 and June 30, 2013. 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 2013 and fiscal year 2012 is also required.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2014 are as follows:

- Net position totaled \$458,405, which is a decrease of \$355,624 from fiscal year 2013.
- Operating revenues equaled \$1,120,039, up 25 percent from fiscal year 2013. Operating expenses of \$1,121,533 showed an increase of 37 percent from fiscal year 2013. Increased enrollment accounts for the increased activity in the Academy.
- The Academy restated capital assets to eliminate any assets below the threshold of \$5,000. Due to the restatement, the capital asset balance has been reduced to \$0.

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 position, statements of revenues, expenses and changes in net position, and statements of cash flows.

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during fiscal years 2014 and 2013?" The statement of net position includes all assets and deferred outflows of resources and liabilities and deferred inflows of resources 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
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Table 1 provides a summary of the Academy's net position for fiscal years 2014, 2013 and 2012 as follows:

Table 1			
Net Position at June 30			
	2014	Restated 2013	Restated 2012
Assets			
Current and Other Assets	\$ 490,309	\$ 859,958	\$ 696,728
Liabilities			
Current Liabilities	31,904	45,929	44,405
Net Position			
Restricted for Other Purposes	67,173	37,021	86,506
Unrestricted	391,232	777,008	565,817
Total Net Position	\$ 458,405	\$ 814,029	\$ 652,323

Total assets decreased \$369,649 from fiscal year 2013 to fiscal year 2014. Cash decreased \$377,262 from fiscal year 2013, mainly due to the payment of the \$500,000 sponsorship fee to Lorain City School District. Liabilities, consisting of accounts payable, decreased \$14,025 and net position decreased \$355,624 from fiscal year 2013.

Total assets increased \$163,230 from fiscal year 2012 to fiscal year 2013. Cash increased \$173,117 from fiscal year 2012, mainly due to an increase in enrollment. Capital assets were restated in fiscal year 2012, eliminating all assets reported in error, whether below the threshold or no longer owned, leaving a balance of \$0. Liabilities, consisting of accounts payable, increased \$1,524 and net position increased \$161,706 over fiscal year 2012.

The Academy is dependent on grants and foundation money to fund operations.

Lorain K-12 Digital Academy
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Table 2 shows the changes in net position for the fiscal year ended June 30, 2014, 2013 and 2012, as well as a listing of revenues and expenses.

Table 2
Changes in Net Position

	2014	Restated 2013	2012
Revenues			
Operating Revenues	\$ 1,120,039	\$ 895,975	\$ 461,544
Non-Operating Revenues	145,870	83,853	36,926
Total Revenues	1,265,909	979,828	498,470
Expenses			
Operating Expenses	1,121,533	818,122	417,755
Non-Operating Expenses	500,000	0	0
Total Expenses	1,621,533	818,122	417,755
Increase (Decrease) in Net Position	\$ (355,624)	\$ 161,706	\$ 80,715

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

Revenue from foundation payments increased \$221,585 from fiscal year 2013 in addition to an increase federal grant revenue for an increase in total revenues of \$286,261. Operating expenses increased \$303,411 over fiscal year 2013. These increases in activity are due to an increase in enrollment which went from 152.10 full time equivalents (FTEs) in fiscal year 2013 to 181.87 in fiscal year 2014. Non-operating expenses include a sponsorship fee in fiscal year 2014. See Note 13 for further information.

Revenue from foundation payments increased more than \$434,000 from fiscal year 2012 in addition to an increase federal grant revenue for an increase in total revenues of just over \$481,000. Expenses increased \$400,367 over fiscal year 2012. These increases in activity are due to a substantial increase in enrollment which went from 70.34 FTEs in fiscal year 2012 to 152.10 in fiscal year 2013.

Lorain K-12 Digital Academy
Lorain County, Ohio
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Capital Assets

A restatement of capital assets in fiscal year 2012 removed all assets either below the \$5,000 threshold or no longer owned, which left no capital assets for fiscal years 2012 - 2014. See restatement in Note 2. M. See Note 2. F. for further information regarding the Academy's capital assets.

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
Lorain County, Ohio
Statements of Net Position
June 30, 2014 and June 30, 2013

	2014	Restated 2013
Assets		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$ 460,408	\$ 837,670
Intergovernmental receivables	29,901	22,288
<i>Total assets</i>	<u>490,309</u>	<u>859,958</u>
Liabilities		
<i>Current liabilities:</i>		
Accounts Payable	31,904	45,929
Net Position		
Restricted for other purposes	67,173	37,021
Unrestricted	391,232	777,008
<i>Total net position</i>	<u>\$ 458,405</u>	<u>\$ 814,029</u>

See accompanying notes to the basic financial statements.

Lorain K-12 Digital Academy
Lorain County, Ohio
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and June 30, 2013

	2014	Restated 2013
Operating revenues		
Foundation payments	\$ 1,117,171	\$ 895,586
Other	2,868	389
<i>Total operating revenues</i>	<u>1,120,039</u>	<u>895,975</u>
Operating expenses		
Purchased services	951,074	716,931
Materials and supplies	121,980	67,907
Other	48,479	33,284
<i>Total operating expenses</i>	<u>1,121,533</u>	<u>818,122</u>
<i>Operating income (loss)</i>	(1,494)	77,853
Non-operating revenues (expenses)		
Grants	145,870	83,853
Sponsorship Fee	(500,000)	0
<i>Change in net position</i>	(355,624)	161,706
<i>Net position at beginning of year</i>		
<i>Restated (See Note 2 M)</i>	<u>814,029</u>	<u>652,323</u>
<i>Net position at the end of the year</i>	<u>\$ 458,405</u>	<u>\$ 814,029</u>

See accompanying notes to the basic financial statements.

Lorain K-12 Digital Academy
Lorain County, Ohio
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2014 and June 30, 2013

	2014	Restated 2013
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities:		
Cash received from foundation payments	\$ 1,117,171	\$ 895,966
Other revenues	2,868	389
Cash payments for goods and services	<u>(1,135,558)</u>	<u>(816,598)</u>
<i>Net cash provided by (used for) operating activities</i>	<u>(15,519)</u>	<u>79,757</u>
Cash flows from non-capital financing activities:		
Grants received	138,257	93,360
Sponser Fee	<u>(500,000)</u>	<u>0</u>
<i>Net cash provided by (used for) non-capital activities</i>	<u>(361,743)</u>	<u>93,360</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(377,262)	173,117
<i>Cash and cash equivalents at beginning of year</i>	<u>837,670</u>	<u>664,553</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 460,408</u></u>	<u><u>\$ 837,670</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (1,494)	\$ 77,853
Adjustments:		
(Increase) decrease in assets:		
Intergovernmental receivable	0	380
Increase (decrease) in liabilities:		
Accounts payable	<u>(14,025)</u>	<u>1,524</u>
<i>Total adjustments</i>	<u>(14,025)</u>	<u>1,904</u>
<i>Net cash provided by (used for) operating activities</i>	<u><u>\$ (15,519)</u></u>	<u><u>\$ 79,757</u></u>

See accompanying notes to the basic financial statements.

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Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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. 61.

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 TRECA, providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions. The Lorain County Educational Service Center (ESC) also provides employees to the Academy.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Near the end of fiscal year 2014, the Academy and the Sponsor entered in a Successor Community School Sponsorship Contract. This contract was to extend the original contract through June 30, 2019. One primary modification to the original contract is related to sponsorship fees (See Note 13). The Lorain K-12 Digital Board of Directors now consists of five members.

Note 2 – Summary of Significant Accounting Policies

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 position, statements of revenues, expenses and changes in net position, and statements of cash flows.

Enterprise reporting focuses on the determination of the change in net position, 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 deferred outflows of resources and liabilities and deferred inflows of resources are included on the statements of net position. The statements of revenues, expenses and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statements of cash flows provide information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows of resources.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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 position. 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. The Academy has no investments.

F. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$5,000. 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.

The Academy currently has no capital assets.

G. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2014, there was no net position restricted by enabling legislation. Net position restricted for other purposes are primarily for student instruction.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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 and State distributed casino revenue. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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.

For fiscal year 2014, the Academy also receives revenues from the IDEA-B and Title I federal grant programs and casino revenues distributed from the State.

For fiscal year 2013, the Academy also receives revenues from the Education Jobs, IDEA-B, Title II-D, Title I and Title II-A federal grant programs and casino revenues distributed from the State.

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 2014 or 2013.

L. Changes in Accounting Principles

For the fiscal year ended June 30, 2014, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of 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 the School District’s fiscal year 2014 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 GASB Statement No. 66 did not have an effect on the financial statements of the School District.

Lorain K-12 Digital Academy
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Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

GASB Statement No. 70 improves comparability of financial statements by requiring consistent reporting and specifying information required to be disclosed for extending and receiving nonexchange financial guarantees. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the School District.

M. Restatement of Net Position

During the year, the Academy reviewed the capital assets reported and determined the assets that have been reported were reported in error (ie. no longer owned or below the capitalization threshold). As a result, the following is the change to net position:

Net Position, June 30, 2012	\$ 710,652
Change in Capital Assets	<u>(58,329)</u>
Restated Net Position, July 1, 2012	<u>\$ 652,323</u>

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 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;

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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 (STAR Ohio and STAR Plus);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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 percent. 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, 2014, the carrying value of the Academy's deposits and the bank balances of the deposits totaled \$460,408.

\$250,000 of the bank balance was covered by depository insurance and \$210,408 was uninsured and uncollateralized. 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.

At fiscal year end June 30, 2013, the carrying value of the Academy's deposits and the bank balances of the deposits totaled \$837,670.

\$250,000 of the bank balance was covered by depository insurance and \$587,670 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

Note 4 – Charter School Funding

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

Note 5 - Receivables

Intergovernmental receivables at June 30, 2014 and 2013 consisted of \$29,901 and \$22,288, respectively in federal grants.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 6 – Purchased Services

For the fiscal year ended June 30, 2014, purchased services were as follows:

Instructional Services	\$ 407,784
Management Services	3,610
Other Professional and Technical Services	102,373
Other Travel and Meeting Expenses	187
Other Communications Service	397,120
Property Services	<u>40,000</u>
	<u>\$ 951,074</u>

For the fiscal year ended June 30, 2013, purchased services were as follows:

Instructional Services	\$ 295,130
Other Professional and Technical Services	86,697
Other Travel and Meeting Expenses	315
Other Communications Service	294,789
Property Services	<u>40,000</u>
	<u>\$ 716,931</u>

Note 7 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2014 and 2013, the Academy was covered under commercial insurance for property, and liability coverage.

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

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

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

The Comprehensive Services Agreement with TRECA will provide instructional/curricular, technical, and support services as well as provide student training and technical support for the fiscal 2014 and 2013 school years.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

Note 10 – Contingencies

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. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2014, 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 \$12,575 underpayment in fiscal year 2014, which is immaterial and is not reflected in the 2014 financial statements but will be included in the financial activity for fiscal year 2015.

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.

Note 13 – Sponsorship Fees

The Academy and Sponsor entered into a Successor Community School Sponsorship Contract in June 2014. As part of this agreement, pursuant to the authority granted by Section 3314.03(C) of the Ohio Revised Code, the Academy was obligated to pay the Sponsor \$500,000. This payment was required to be paid in full by June 30, 2014 or paid in five equal installments, payable by June 30, 2014, 2015, 2016, 2017 and 2018. The Academy made the full payment during June 2014, which is recorded as a non-operating expense in the financial statements.

In addition, the Academy shall pay the Sponsor by June 30, 2015, and by June 30 of every subsequent year of the Successor Contract, from the funding provided to the Academy by the Ohio Department of Education pursuant to Section 3318.08 of the Ohio Revised code, all of the Academy's unencumbered general fund balance, except that if, as of June 30 of such year, the Academy is required by the terms of this Successor Contract (or any sponsorship contract subsequently entered into between the parties) to continue to operate as a community school in the immediately succeeding academic year, the Academy shall retain sufficient funds to cover the Academy's expenditures, as projected by the Sponsor, through September 30 of such year (i.e., the Academy shall retain that amount of funding that will cover the operating costs of the Academy for the months of July, August, and September, as projected by the Sponsor). The amounts paid to the Sponsor or retained by the Academy pursuant to this paragraph may be varied in any given year by agreement of the parties.

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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*

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

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 the Lorain K-12 Digital Academy, Lorain County, (the Academy) as of and for the years ended June 30, 2014 and 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 March 19, 2015.

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

March 19, 2015



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
APRIL 2, 2015**