

**Lorain K-8  
Digital Academy**

*Financial Statements*

***Years Ended June 30, 2009 and 2008***





Mary Taylor, CPA  
Auditor of State

Board of Directors  
Lorain K-8 Digital Academy  
2350 Pole Ave  
Lorain, Ohio 44052

We have reviewed the *Independent Auditor's Report* of the Lorain K-8 Digital Academy, Lorain County, prepared by Rea & Associates, Inc., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lorain K-8 Digital Academy is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 19, 2010

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**LORAIN K-8 DIGITAL ACADEMY**

For the Years Ended June 30, 2009 and 2008  
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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 23, 2009

The Board of Directors  
Lorain K-8 Digital Academy  
Lorain, County  
2350 Pole Ave  
Lorain, Ohio 44052

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Lorain K-8 Digital Academy, Lorain County, Ohio (the Academy), a component unit of the Lorain City School District, as of and for the years ending June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lorain K-8 Digital Academy, Lorain County, Ohio, as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Lorain K-8 Digital Academy, Lorain County  
Independent Auditor's Report  
November 23, 2009  
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The Management's Discussion and Analysis on pages 3 through 5 are not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Rea & Associates, Inc.*



**Lorain K-8 Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

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The discussion and analysis of the Lorain K-8 Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999.

Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. Due to the comparative presentation within the basic financial statements, a comparison analysis between fiscal year 2008 and fiscal year 2007 is also required.

### **Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2009 are as follows:

- Since the operations of the Academy were suspended in July, 2008, the Academy has received no operating revenues and has been paying final expenses.

### **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 year 2009?" 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-8 Digital Academy**  
*Management's Discussion and Analysis*  
For the Fiscal Years Ended June 30, 2009 and 2008

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Table 1 provides a summary of the Academy's net assets for fiscal year 2009, 2008 and 2007 as follows:

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Assets</b>			
Current and Other Assets	\$ 22,365	\$ 39,691	\$ 133,641
Capital Assets	<u>0</u>	<u>43,460</u>	<u>60,969</u>
Total Assets	<u>22,365</u>	<u>83,151</u>	<u>194,610</u>
<b>Liabilities</b>			
Accounts Payable	<u>0</u>	<u>11,474</u>	<u>21,156</u>
<b>Net Assets</b>			
Invested in Capital Assets	0	43,460	60,969
Restricted for Other Purposes	1,733	1,174	0
Unrestricted	<u>20,632</u>	<u>27,043</u>	<u>112,485</u>
Total Net Assets	<u>\$ 22,365</u>	<u>\$ 71,677</u>	<u>\$ 173,454</u>

Total net assets in fiscal year 2009 decreased \$49,312 from fiscal year 2008. The Academy ceased operations in fiscal year 2009 and transferred all capital assets to the sponsor.

Total assets in fiscal year 2008 decreased \$111,459 from fiscal year 2007. This includes a decrease in cash of \$93,867 and a decrease in intergovernmental receivables of \$83. Capital assets decreased \$17,509 from fiscal year 2007. There was a decrease in accounts payable of \$9,682 and a decrease in net assets of \$101,777. Enrollment had decreased and the Academy was preparing to suspend operations which accounts for these decreases.

**Lorain K-8 Digital Academy**  
*Management's Discussion and Analysis*  
For the Fiscal Years Ended June 30, 2009 and 2008

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2009, 2008 and 2007, as well as a listing of revenues and expenses.

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Revenues</b>			
Operating Revenues	\$ 0	\$ 145,406	\$ 178,284
Non-Operating Revenues	608	15,289	20,359
<b>Total Revenues</b>	608	160,695	198,643
<b>Expenses</b>			
Operating Expenses	6,460	262,472	250,019
Non-Operating Expenses	43,460	0	250,019
<b>Total Expenses</b>	49,920	262,472	500,038
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (49,312)</b>	<b>\$ (101,777)</b>	<b>\$ (51,376)</b>

The Academy's activities consist of enterprise activity. Community schools receive no support from taxes. The State Foundation Program and the Ohio Charter Schools Federal Sub-grant Program was, by far, the primary support for the Academy's students.

In fiscal year 2009, the Academy suspended operations. The Academy received no operating revenue and paid final expenses.

The revenues in fiscal year 2008 decreased from fiscal year 2007 with the dependency on foundation funds to cover most of the operating expenses. Expenses in fiscal year 2008 increased slightly over fiscal year 2007.

**Capital Assets**

In July, 2008, the Academy suspended operations and all remaining capital assets, net of accumulated depreciation, of \$43,460 became property of the Sponsor, Lorain City School District. See Note 5 to the basic financial statements for more detail on 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-8 Digital Academy, 2350 Pole Avenue, Lorain, OH 44052.

**Lorain K-8 Digital Academy**  
*Statements of Net Assets*  
*June 30, 2009 and June 30, 2008*

	2009	2008
<b>Assets</b>		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$ 22,365	\$ 39,691
<i>Total current assets</i>	22,365	39,691
<i>Noncurrent assets:</i>		
Capital assets (net of accumulated depreciation)	0	43,460
<i>Total assets</i>	22,365	83,151
<b>Liabilities</b>		
<i>Current liabilities:</i>		
Accounts payable	0	11,474
<i>Total current liabilities</i>	0	11,474
<b>Net assets</b>		
Invested in capital assets	0	43,460
Restricted for other purposes	1,733	1,174
Unrestricted	20,632	27,043
<i>Total net assets</i>	\$ 22,365	\$ 71,677

See accompanying notes to the basic financial statements.

**Lorain K-8 Digital Academy**  
*Statements of Revenues, Expenses, and Changes in Net Assets*  
*For the Fiscal Years Ended June 30, 2009 and June 30, 2008*

	2009	2008
<b>Operating revenues</b>		
Foundation payments	\$ 0	\$ 145,376
Other	0	30
<i>Total operating revenues</i>	<u>0</u>	<u>145,406</u>
<b>Operating expenses</b>		
Purchased services	6,279	241,612
Materials and supplies	181	831
Depreciation	0	20,029
<i>Total operating expenses</i>	<u>6,460</u>	<u>262,472</u>
<i>Operating income (loss)</i>	(6,460)	(117,066)
<b>Non operating revenues (expenses)</b>		
Grants	600	12,742
Interest Income	8	2,547
Capital Assets to Sponsor	(43,460)	0
<i>Total non-operating revenues (expenses)</i>	<u>(42,852)</u>	<u>15,289</u>
<i>Change in net assets</i>	(49,312)	(101,777)
<i>Net assets at beginning of year</i>	<u>71,677</u>	<u>173,454</u>
<i>Net assets at the end of the year</i>	<u>\$ 22,365</u>	<u>\$ 71,677</u>

See accompanying notes to the basic financial statements.

**Lorain K-8 Digital Academy**  
*Statements of Cash Flows*  
For the Fiscal Years Ended June 30, 2009 and June 30, 2008

	2009	2008
<b>Increase (decrease) in cash</b>		
<b>Cash flows from operating activities:</b>		
Cash received from foundation payments	\$ 0	\$ 145,489
Cash payments for goods and services	(17,934)	(252,125)
<i>Net cash provided by (used for) operating activities</i>	(17,934)	(106,636)
<b>Cash flows from non-capital financing activities:</b>		
Grants received	600	12,742
<i>Net cash provided by (used for) non-capital activities</i>	600	12,742
<b>Cash flows from investing activities:</b>		
Interest on Investments	8	2,547
<i>Net cash provided by (used for) investing activities</i>	8	2,547
<b>Cash flows from capital and related financing activities:</b>		
Purchase of property	0	(2,520)
<i>Net cash provided by (used for) capital and related financing activities</i>	0	(2,520)
<i>Net increase (decrease) in cash and cash equivalents</i>	(17,326)	(93,867)
<i>Cash and cash equivalents at beginning of year</i>	39,691	133,558
<i>Cash and cash equivalents at end of year</i>	\$ 22,365	\$ 39,691
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>		
Operating income (loss)	\$ (6,460)	\$ (117,066)
Depreciation	0	20,029
Adjustments:		
(Increase) decrease in assets:		
Intergovernmental receivable	0	83
Increase (decrease) in liabilities:		
Accounts payable	(11,474)	(9,682)
<i>Total adjustments</i>	(11,474)	10,430
<i>Net cash provided by (used for) operating activities</i>	\$ (17,934)	\$ (106,636)

See accompanying notes to the basic financial statements.

**Lorain K-8 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

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**Note 1 – Description of the Academy and Reporting Entity**

On December 10, 2007, the Lorain Middle School Digital Academy changed its name to Lorain K-8 Digital Academy and combined its student population with the Lorain Elementary School Digital Academy, which suspended its operations on that same date. The Lorain K-8 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 sixth through the eighth 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 under resolution on May 13, 2002 with the Sponsor for a period of five years commencing on the first day of the 2002-2003 academic year. The Sponsor has designated three of its administrative officers to represent the Sponsor in the occupants' official capacities as members of the Academy's Board of Directors. The individuals who hold such office with the Sponsor shall be formally instructed by the Sponsor that, as directors of the Academy, they are to represent the Sponsor and its interests. From time to time in its discretion, the Sponsor may substitute other administrative positions for those previously designated for this purpose.

Pursuant to the Sponsor's authority under section 3314.08(G) of the Ohio Revised Code to provide the Academy with services, the Sponsor shall be the fiscal agent of the Academy and shall direct the Sponsor's treasurer to serve as the Academy's fiscal officer. The Sponsor shall evaluate the performance of the Academy according to the standards set forth in the Assessment and Accountability Plan. The Sponsor is not legally responsible for the final outcomes of the community school.

A service contract exists between the Academy and the Sponsor in which the Sponsor agrees to provide to the Academy professional, technical support and other services upon the Academy's request, but is subject to the availability of such services. The price for services rendered by the Sponsor to the Academy is established as the Sponsor's "cost of providing such services including, without limitation, employee salaries and fringe benefits, equipment costs if any, and administrative overhead." All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.

**Lorain K-8 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

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

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, to its proprietary activities, subject to the same limitation. The Academy has elected not to apply these FASB Statements and Interpretations.

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 statement 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-8 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

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

Expenses are recognized at the time they are incurred.

***D. Budgetary Process***

The Academy shall operate in compliance with a bi-annual budget which must be reviewed and approved by the Academy's Board of Directors. The Academy must maintain financial records in a similar manner to those records of the Sponsor. The Academy complies with the policies and procedures regarding internal financial controls which are apparent under GASB and FASB. Also, the Auditor of State provides financial policy and procedure guidance to the Academy.

***E. Cash***

Cash held by the Academy is reflected as "Equity in pooled cash and cash equivalents" on the statement 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. During fiscal years 2009 and 2008, the Academy had 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 five hundred 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. Furniture is depreciated over 20 years and computers are depreciated over 5 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-8 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

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***H. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

***I. Intergovernmental Revenues***

The Academy participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The Academy also participated in the Federal Charter School Grant Program through the Ohio Department of Education.

In addition, the Academy participated in the State Education Management Information System (“EMIS”) through the Ohio Department of Education.

***J. Estimates***

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

***K. Change in Accounting Principles***

For the year ended June 30, 2009, the Academy has implemented GASB Statement No. 52, “*Land and Other Real Estate Held as Investments by Endowments*”, GASB Statement No. 55, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*”, and GASB Statement No. 56, “*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*”.

GASB Statement No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature.

**Lorain K-8 Digital Academy**  
*Notes to the Basic Financial Statements*  
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GASB Statement No. 56 incorporates into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards.

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

**Note 3 – Deposits**

At fiscal year end June 30, 2009, the carrying amount and bank balance of the Academy's deposits was \$22,365. Based on the criteria in GASB Statement No. 40, "*Deposit and Investment Risk Disclosure*", as of June 30, 2009, none of the bank balance was exposed to custodial risk as discussed below, while \$22,365 was covered by the Federal Depository Insurance Corporation.

At fiscal year end June 30, 2008, the carrying amount and bank balance of the Academy's deposits was \$39,691. Based on the criteria in GASB Statement No. 40, "*Deposit and Investment Risk Disclosure*", as of June 30, 2008, none of the bank balance was exposed to custodial risk as discussed below, while \$39,691 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in the amount equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Banks or at a member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds for as specific collateral held at the Federal Reserve Bank in the name of the Academy.

Non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

**Note 4 – Charter School Funding**

On October 25, 2006, the Ohio Supreme Court ruled that publicly funded, privately operated community (i.e. charter) schools is constitutional.

**Lorain K-8 Digital Academy**  
*Notes to the Basic Financial Statements*  
For the Fiscal Years Ended June 30, 2009 and 2008

**Note 5 – Capital Assets**

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

	Balance 6/30/08	Additions	Transfer of Assets to Sponsor	Balance 6/30/09
<i>Capital Assets Being Depreciated</i>				
Improvements	\$ 2,520	\$ 0	\$ (2,520)	\$ 0
Equipment	103,276	0	(103,276)	0
	<u>105,796</u>	<u>0</u>	<u>(105,796)</u>	<u>0</u>
<i>Accumulated Depreciation</i>				
Improvements	(252)	0	252	0
Equipment	(62,084)	0	62,084	0
	<u>(62,336)</u>	<u>0</u>	<u>62,336</u>	<u>0</u>
Capital Assets, Net	<u>\$ 43,460</u>	<u>\$ 0</u>	<u>\$ (43,460)</u>	<u>\$ 0</u>

See Note 11 regarding the transfer of capital assets, net to the Sponsor upon suspension.

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance 6/30/07	Additions	Reductions	Balance 6/30/08
<i>Capital Assets Being Depreciated</i>				
Improvements	\$ 0	\$ 2,520	\$ 0	\$ 2,520
Equipment	103,276	0	0	103,276
	<u>103,276</u>	<u>2,520</u>	<u>0</u>	<u>105,796</u>
<i>Accumulated Depreciation</i>				
Improvements	0	(252)	0	(252)
Equipment	(42,307)	(19,777)	0	(62,084)
	<u>(42,307)</u>	<u>(20,029)</u>	<u>0</u>	<u>(62,336)</u>
Capital Assets, Net	<u>\$ 60,969</u>	<u>\$ (17,509)</u>	<u>\$ 0</u>	<u>\$ 43,460</u>

**Note 6 – Purchased Services**

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

Instructional Services	\$ 5,887
Other Communications Service	392
	<u>\$ 6,279</u>

For the fiscal year ended June 30, 2008, purchased services were as follows:

**Lorain K-8 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

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Instructional Services	\$ 33,767
Other Professional and Technical Services	102,359
Other Communications Service	105,486
	<u>\$ 241,612</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 2009 and 2008, 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 – Contingencies**

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2009 and 2008.

**Note 9 – State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted annually to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Academy was reviewed and no significant errors were found in enrollment, withdrawals, and attendance.

**Note 10 - 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 11 – Suspension of Operations**

The Lorain K-8 Digital Academy operations were suspended by a resolution of Lorain City School District (the “Sponsor”) on July 8, 2008. The contract with the Sponsor was amended to include all students, Grade Kindergarten through 12, into a newly created “Lorain K-12 Digital Academy”.

**Lorain K-8 Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

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Ohio Revised Code Section 3314.072 and the Sponsorship agreement provide guidelines for the disposition of property. Capital assets with a net book value of \$43,460 were conveyed to the Sponsor District, Lorain City School District during the fiscal year.

**Note 12 – Subsequent Event**

The Lorain K-8 Digital Academy will be closed on December 31, 2009 by a resolution of Lorain City School District (the “Sponsor”) on October 19, 2009.



## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 23, 2009

To the Board of Directors  
Lorain K-8 Digital Academy  
Lorain County, Ohio  
2350 Pole Avenue  
Lorain, Ohio 44052

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Lorain K-8 Digital Academy, Lorain County, Ohio, (the Academy), a component unit of the Lorain City School District, as of and for the year ended June 30, 2009 which collectively comprise the Academy's basic financial statements and have issued our report thereon dated November 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial noncompliance issue that we reported to the management of Lorain K-8 Digital Academy in a separate letter dated November 23, 2009.

This report is intended solely for the information and use of the Board of Directors, Management and the Academy's Sponsor, and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*





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

November 23, 2009

Lorain K-8 Digital Academy  
2350 Pole Avenue  
Lorain, Ohio 44052

To the Board of Directors:

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

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Lorain K-8 Digital Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board did not adopt an anti-harassment policy according to O.R.C. 3313.666 as of the year ended June 30, 2009.
2. With no policy adopted, we were unable to read the policy to perform the following requirements from Ohio Rev. Code Section 3313.666(B):
  - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;

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

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

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

*Hea & Associates, Inc.*



Mary Taylor, CPA  
Auditor of State

LORAIN K-8 DIGITAL ACADEMY

LORAIN COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 4, 2010