



Dave Yost • Auditor of State

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements.....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	21

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lancaster Digital Academy
Fairfield County
111 South Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the accompanying financial statements of Lancaster Digital Academy, Fairfield County, Ohio (the Academy), a component unit of Lancaster City School District as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lancaster Digital Academy, Fairfield County, Ohio as of June 30, 2011, and the respective changes in 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 October 20, 2011, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 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.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Dave Yost
Auditor of State

October 20, 2011

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The discussion and analysis of the Lancaster Digital Academy's (LDA) financial performance provides an overall review of the LDA's financial activities for the fiscal year ended June 30, 2011. Readers should also review the basic financial statements and notes to enhance their understanding of the LDA's financial performance.

Highlights

LDA completed its seventh year of operation during fiscal year 2011 as a kindergarten through twelfth grade online internet school. Each student is provided a computer, scanner, and printer which are used to access a curriculum based on the state model and which uses certified/licensed instructors. Enrollment varied during the year but averaged 93 students.

Key highlights for fiscal year 2011 are as follows:

- Net assets increased \$71,131.
- LDA had an operating loss in the amount of \$70,865 compared to an operating loss in the amount of \$93,786 in fiscal year 2010. The fiscal year 2009 Ohio Department of Education (ODE) audit revealed that LDA had been overfunded by \$43,686 and the amount was repaid to ODE during fiscal years 2010 and 2011. The fiscal year 2010 ODE audit revealed a \$461 overpayment to LDA which was repaid during fiscal year 2011. The fiscal year 2011 ODE audit has not been completed at this time.
- Total assets increased \$61,269 or 9 percent due to increases in cash and cash equivalents.
- Total liabilities decreased \$9,862 due mainly to the decrease in the intergovernmental payable owed to the ODE for the overpayment of fiscal year 2009 foundation revenues.

Using this Annual Financial Report

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

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how LDA did financially during fiscal year 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

LDA uses enterprise presentation for all of its activities.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

Table 1 provides a summary of LDA's net assets for 2011 compared to 2010:

Table 1
Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>
<u>Assets:</u>			
Current Assets	\$722,898	\$642,976	\$79,922
Capital Assets	<u>19,878</u>	<u>38,531</u>	<u>(18,653)</u>
Total Assets	<u>742,776</u>	<u>681,507</u>	<u>61,269</u>
<u>Liabilities:</u>			
Current Liabilities	43,124	51,833	(8,709)
Long-Term Liabilities	<u>4,841</u>	<u>5,994</u>	<u>(1,153)</u>
Total Expenses	<u>47,965</u>	<u>57,827</u>	<u>(9,862)</u>
<u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	15,037	32,537	(17,500)
Unrestricted	<u>679,774</u>	<u>591,143</u>	<u>88,631</u>
Total Net Assets	<u><u>\$694,811</u></u>	<u><u>\$623,680</u></u>	<u><u>\$71,131</u></u>

The \$61,269 increase in total assets was mainly due to an increase in cash and cash equivalents in the amount of \$97,004. The increase in cash and cash equivalents was offset by a decrease in intergovernmental receivables in the amount of \$17,002 and a decrease in capital assets in the amount of \$18,653. The decrease in intergovernmental receivables was due mainly to a \$27,219 Idea B grant receivable at the end of fiscal year 2010 which did not occur at the end of fiscal year 2011. The decrease in capital assets was the result of current year depreciation expense.

Liabilities decreased \$9,862. During December, 2009, ODE released the fiscal year 2009 audit of student enrollment and it was determined that LDA owed \$43,686 to the Ohio Department of Education due to the overpayment of prior year funding; as of June 30, 2010 the outstanding balance was \$26,087 which was fully repaid during fiscal year 2011. This repayment was the primary reason for the decrease in liabilities. The ODE funding review for fiscal year 2010 revealed an overpayment to LDA in the amount of \$461 which was repaid in fiscal year 2011. ODE's funding review for fiscal year 2011 has not yet been completed. Long-term liabilities decreased in fiscal year 2011 due to principal payments in the amount of \$1,153 on the copier capital lease.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

Table 2 reflects the changes in net assets for fiscal years 2011 and 2010.

Table 2
Change in Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>
<u>Operating Revenues:</u>			
Foundation	\$563,165	\$495,663	\$67,502
<u>Non-Operating Revenues:</u>			
State and Federal Grants	137,109	115,415	21,694
Interest Revenue	5,325	2,100	3,225
Other	0	1,855	(1,855)
Total Revenues	<u>705,599</u>	<u>615,033</u>	<u>90,566</u>
<u>Operating Expenses:</u>			
Salaries	12,000	4,000	8,000
Fringe Benefits	2,880	1,339	1,541
Purchased Services	587,518	493,945	93,573
Materials and Supplies	11,636	8,683	2,953
Depreciation	19,535	21,813	(2,278)
Other Operating Expenses	461	59,669	(59,208)
Interest and Fiscal Charges	438	253	185
Total Expenses	<u>634,468</u>	<u>589,702</u>	<u>44,766</u>
Total Increase in Net Assets	<u>\$71,131</u>	<u>\$25,331</u>	<u>\$45,800</u>

During fiscal year 2011, foundation revenues and expenses reflect increases due to additional students being served by the LDA. The state and federal grant monies received in fiscal year 2011 represented amounts received for the Educational Management Information Services (EMIS), Title I, Title I ARRA, Title II-A, Title II-D, Title IV-A, Special Education IDEA B ARRA, Special Education IDEA B, Education Jobs, and Educational Stabilization. The Educational Stabilization revenue was new in fiscal year 2010 and was part of the American Recovery and Reinvestment Act (ARRA) which was enacted by Congress in February 2009. This provision provided two years of additional aid to local school districts to prevent layoffs and cutbacks, with flexibility to use the funds for school modernization and repair. LDA received the second year of federal funds in fiscal year 2011. All ARRA funds were required to be spent by September 30, 2011. The purchased services expenses were comprised of costs related to computer services with the Metropolitan Educational Council, guidance and computer services with Tri-Rivers Educational Association, and computer imaging, technical, fiscal and administrative services with the Sponsor. LDA hired a Treasurer on March 1, 2010. Prior to March 1, 2010, the Sponsor was performing the duties under contract services with LDA; therefore, fiscal year 2011 reflected salaries and fringe benefits for a full year of service.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, LDA had \$19,878 invested in computer and copier equipment. Table 3 shows fiscal year 2011 balances compared to 2010.

Table 3
Capital Assets (Net of Depreciation)

	<u>2011</u>	<u>2010</u>
Computer Equipment	\$19,878	\$38,531
<u>Debt</u>		

LDA has no bonded or note debt. In fiscal year 2010, LDA entered into a capital lease for a copier. The outstanding balance as of June 30, 2011 was \$4,841. See Note 12 for additional information.

Current Issues

The nature of instruction over the internet has improved over the course of the LDA existence. Delivery of education materials has shifted to a web based system that will standardize delivery in the future. Due to the change to web based delivery, the LDA has shifted from legacy methods to the "Angel" web based delivery. The LDA remains an alternative to traditional schooling.

Contacting the LDA's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the LDA's finances and to show the LDA's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Paul F. Shaw, CPA, RSBFO, Treasurer, Lancaster Digital Academy, 111 South Broad Street, Lancaster, Ohio 43130, or E-Mail at SHAWSPRINGS@AOL.COM.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 643,292
Accrued Interest Receivable	320
Intergovernmental Receivable	78,546
Accounts Receivable	740
Total Current Assets	<u>722,898</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net of Accumulated Depreciation	19,878
Total Assets	<u><u>742,776</u></u>
 <u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	5,955
Intergovernmental Payable	36,903
Matured Capital Leases Payable	199
Matured Interest Payable	67
Total Current Liabilities	<u>43,124</u>
Long-Term Liabilities:	
Due Within One Year	1,248
Due In More Than One Year	3,593
Total Long-Term Liabilities	<u>4,841</u>
Total Liabilities	<u>47,965</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	15,037
Unrestricted	679,774
Total Net Assets	<u><u>\$ 694,811</u></u>

See accompanying notes to the basic financial statements

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Operating Revenues:</u>	
Foundation	\$ 563,165
<u>Operating Expenses:</u>	
Salaries	12,000
Fringe Benefits	2,880
Purchased Services	587,518
Materials and Supplies	11,636
Depreciation	19,535
Other Operating Expenses	461
Total Operating Expenses	<u>634,030</u>
Operating Loss	<u>(70,865)</u>
<u>Non-Operating Revenues and Expenses:</u>	
State and Federal Grants	137,109
Interest Revenue	5,325
Interest and Fiscal Charges	(438)
Total Non-Operating Revenues and Expenses	<u>141,996</u>
Change in Net Assets	71,131
Net Assets at Beginning of Year	623,680
Net Assets at End of Year	<u>\$ 694,811</u>

See accompanying notes to the basic financial statements

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$ 563,165
Cash Payments for Employee Services and Benefits	(14,640)
Cash Payments to Suppliers for Goods and Services	(582,149)
Other Operating Expenses	(26,548)
Net Cash Used for Operating Activities	<u>(60,172)</u>

Cash Flows from Noncapital Financing Activities:

State and Federal Grants Received	154,111
Other Non-Operating Revenues	400
Net Cash Provided by Noncapital Financing Activities	<u>154,511</u>

Cash Flows for Capital and Related Financing Activities:

Acquisition of Capital Assets	(882)
Principal Paid on Capital Leases	(1,046)
Interest Paid on Capital Leases	(412)
Net Cash Used for Capital and Related Financing Activities	<u>(2,340)</u>

Cash Flows from Investing Activities:

Interest on Investments	<u>5,005</u>
-------------------------	--------------

Net Increase in Cash and Cash Equivalents	97,004
Cash and Cash Equivalents Beginning of Year	<u>546,288</u>
Cash and Cash Equivalents End of Year	<u>\$ 643,292</u>

Reconciliation of Operating Loss to

Net Cash Used for Operating Activities:

Operating Loss	\$ (70,865)
----------------	-------------

Adjustments to Reconcile Operating Loss
to Net Cash Used for Operating Activities:

Depreciation	19,535
--------------	--------

Changes in Assets and Liabilities:

Increase in Accounts Payable	2,492
Increase in Intergovernmental Payable	(11,334)

Net Cash Used for Operating Activities	<u>\$ (60,172)</u>
--	--------------------

See accompanying notes to the basic financial statements

THIS PAGE INTENTIONALLY LEFT BLANK

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note 1 - Description of the School

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

LDA was created on August 27, 2002 by entering into a contract with the Lancaster City School District (the Sponsor) which was renewed May 17, 2007 for an additional five years. The Sponsor is responsible for evaluating the performance of LDA and has the authority to deny renewal of the contract at its expiration. The Treasurer of the Sponsor completed the role of Treasurer for the LDA until March 1, 2010 when a new treasurer was hired.

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

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

Note 2 - Summary of Significant Accounting Policies

The financial statements of the LDA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. LDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the LDA's accounting policies are described below.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

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

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

B. Measurement Focus

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

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by LDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. During fiscal year 2011, investments were limited to nonparticipating certificates of deposit. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit are reported at cost.

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

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

F. Prepaid Items

LDA records payments made to vendors for services that will benefit periods beyond June 30, 2011, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed. There were no prepaids for fiscal year 2011.

G. Capital Assets

LDA's capital assets during fiscal year 2011 consisted of computer equipment. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. LDA maintains a capitalization threshold of five hundred dollars. All of LDA's reported capital assets are depreciated using the straight-line method over six years of useful life.

H. Net Assets

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

The statement of net assets reports no restricted net assets and has no monies restricted by enabling legislation.

I. Operating Revenues and Expenses

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

J. Estimates

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

Note 3 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, LDA's deposits may not be returned. LDA does not have a deposit policy for custodial credit risk. At June 30, 2011, the bank balance of LDA's deposits was \$646,958. Of the bank balance, \$600,000 was covered by federal depository insurance and \$46,958 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject LDA to a successful claim by the FDIC.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 4 - Receivables

Receivables at June 30, 2011, consisted of intergovernmental grants. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Drug Free School Grant	\$168
Title II-D Grant	419
Title II-A Grant	3,736
Title I ARRA	6,697
IDEA Part B ARRA	12,138
Education Jobs	17,859
Title I Grant	<u>37,529</u>
Total	<u>\$78,546</u>

Note 5 – Contract with TRECA

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

- TRECA shall provide LDA with instructional, supervisory/administrative, and technical services sufficient to effectively implement LDA's educational plan and LDA's assessment and accountability plan.
- All personnel providing services to LDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to LDA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- LDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of LDA.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- LDA shall pay TRECA up to \$3,900 per full-time student K-12 student enrollment in LDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.
- LDA shall pay TRECA a total of \$52,903 (pro-rated) for 204 days of work service by the LDA Director. This amount includes the base salary and all benefits.

For fiscal year 2011, \$492,768 was paid to TRECA under this contract and \$33,718 was a payable to TRECA at June 30, 2011.

To obtain TRECA's audited June 30, 2011, financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 6 - Capital Assets

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

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Computer Equipment	\$180,267	\$882	\$0	\$181,149
Less Accumulated Depreciation	(141,736)	(19,535)	0	(161,271)
Capital Assets, Net	<u>\$38,531</u>	<u>(\$18,653)</u>	<u>\$0</u>	<u>\$19,878</u>

Note 7 - Risk Management

LDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2011, LDA joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool, for insurance coverage. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The types and amounts of coverage provided are as follows:

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

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

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 8 – Purchased Services

For the period July 1, 2010 through June 30, 2011, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Professional and Technical Services	\$562,405
Rent	17,319
Audit and Legal Services	<u>7,794</u>
Total	<u>\$587,518</u>

Note 9 – School Employees Retirement System Defined Benefit Pension Plans

Plan Description - LDA contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan, for the treasurer beginning March 1, 2010. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and LDA is required to contribute at an actuarially determined rate. The current LDA rate is 14 percent of annual covered payroll. A portion of the LDA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2011, 11.81 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The LDA's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011 and 2010 were \$1,417 and \$511, respectively; 100 percent has been contributed for fiscal year 2011 and 2010.

Note 10 – School Employees Retirement System Post-Employment Benefits

Plan Description – The LDA participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 10 – School Employees Retirement System Post-Employment Benefits (Continued)

The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2011, this amount was \$35,800.

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

LDA's contributions for health care for fiscal years ended June 30, 2011 and 2010 were \$172 and \$18, respectively; 100 percent has been contributed for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2011, this actuarially required allocation was 0.76 percent of covered payroll. LDA's contributions for Medicare Part B for fiscal years ended June 30, 2011 and 2010 was \$91 and \$30, respectively; 100 percent has been contributed for fiscal years 2011 and 2010.

Note 11 – Related Party Transactions

Lancaster City School District, Sponsor, appoints all of the five board members of the LDA. LDA is presented as a component unit of the Sponsor. During fiscal year 2011, LDA paid \$45,677 to their Sponsor for administrative services, the development of web delivered services, technology relating to those services and curricular design, rent, and for reimbursements of miscellaneous services. As of June 30, 2011, LDA owed \$2,945 to their Sponsor for quarterly fees.

Note 12 – Capital Leases Payable and Long Term Obligations

During fiscal year 2010, LDA entered into a copier capital lease. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee, LDA.

The agreement provides for minimum annual lease payments as follows:

Fiscal Year Ending June 30,	Total
2012	\$1,590
2013	1,591
2014	1,590
2015	795
Total minimum lease payments	5,566
Less: Amount representing interest	(725)
Present value of minimum lease	<u>\$4,841</u>

Principal payments in fiscal year 2011 totaled \$1,153 in the governmental funds.

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

Property under Capital Lease	\$6,537
Less: Accumulated Depreciation	<u>(1,696)</u>
Total June 30, 2011	<u><u>\$4,841</u></u>

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

	Principal Outstanding 6/30/2010	Additions	Deductions	Principal Outstanding 6/30/2011	Due in One Year
Capital Leases Payable	<u>\$5,994</u>	<u>\$0</u>	<u>\$1,153</u>	<u>\$4,841</u>	<u>\$1,248</u>

Note 13 – Pool

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

Note 14 - Contingencies

A. Grants

LDA received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires 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 LDA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the LDA at June 30, 2011.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LDA. These reviews are conducted to ensure LDA is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. In December, 2009, it was determined by the ODE fiscal year 2009 audit of student enrollment that LDA was overpaid by \$43,686 through their State foundation revenues. During fiscal year 2010, \$17,599 was returned to ODE and the remaining balance of \$26,087 was repaid during fiscal year 2011. The ODE fiscal year 2010 audit of student enrollment revealed that LDA was overpaid by \$461 which LDA repaid to ODE within fiscal year 2011. The fiscal year 2011 review has not been completed at this time.



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*

Lancaster Digital Academy
Fairfield County
111 South Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the financial statements of Lancaster Digital Academy, Fairfield County, Ohio, (the Academy) a component unit of Lancaster City School District, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 20, 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 intend this report solely for the information and use of management, the Board of Directors, and the Lancaster City School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

October 20, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Lancaster Digital Academy
Fairfield County
111 South Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

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

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Lancaster Digital Academy (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 amended its anti-harassment policy at its meeting on July 19, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

October 20, 2011

This Page is Intentionally Left Blank.



Dave Yost • Auditor of State

LANCASTER DIGITAL ACADEMY

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 10, 2011