



Dave Yost • Auditor of State



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

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statements of Net Position – June 30, 2016 and June 30, 2015 .....	7
Statements of Revenues, Expenses and Changes in Net Position For the Fiscal Years Ended June 30, 2016 and June 30, 2015 .....	8
Statements of Cash Flows – For the Fiscal Years Ended June 30, 2016 and June 30, 2015 .....	9
Notes to the Basic Financial Statements .....	11
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing</i> <i>Standards</i> .....	21
Schedule of Findings.....	23

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Lorain K-12 Digital Academy  
Lorain County  
2700 Washington 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 (the Academy), a component unit of the Lorain City School District, as of and for the years ended June 30, 2016 and 2015, 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 such 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, Ohio as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matters**

The accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. As discussed in Note 13 to the financial statements, the sponsorship authority of the Academy's sponsor has been revoked effective December 6, 2016. The sponsor intends to no longer sponsor the Academy after the end of fiscal year 2017 raising substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. We did not modify our opinion regarding this matter.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017, 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 28, 2017

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2016 and 2015*

---

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, 2016 and June 30, 2015. 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 2015 and fiscal year 2014 is also required.

**Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2016 are as follows:

- Net position totaled \$448,018, which is an increase of \$63,584 from fiscal year 2015.
- Operating revenues equaled \$757,360, down 17 percent from fiscal year 2015. Operating expenses of \$957,002 showed a decrease of 24 percent from fiscal year 2015.

**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 2016 and 2015?" 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, 2016 and 2015*

---

Table 1 provides a summary of the Academy's net position for fiscal years 2016, 2015 and 2014 as follows:

**Table 1**  
**Net Position at June 30**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
Current Assets	\$ 549,128	\$ 460,343	\$ 490,309
<b>Liabilities</b>			
Current Liabilities	101,110	75,909	31,904
<b>Net Position</b>			
Restricted for Other Purposes	254,433	49,131	67,173
Unrestricted	193,585	335,303	391,232
Total Net Position	\$ 448,018	\$ 384,434	\$ 458,405

Total assets increased \$88,785 from fiscal year 2015 to fiscal year 2016. Cash decreased 19,775 from fiscal year 2015, while intergovernmental receivable increased \$108,560. Liabilities, consisting of accounts and intergovernmental payables, increased \$25,201 mainly due to full-time equivalent adjustment payable and net position increased \$63,584 from fiscal year 2015.

Total assets decreased \$29,966 from fiscal year 2014 to fiscal year 2015. Cash decreased \$83,029 from fiscal year 2014, while intergovernmental receivable increased \$53,063. Liabilities, consisting of accounts and intergovernmental payables, increased \$44,005 and net position decreased \$73,971 from fiscal year 2014.

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, 2016 and 2015

Table 2 shows the changes in net position for the fiscal year ended June 30, 2016, 2015 and 2014, as well as a listing of revenues and expenses.

**Table 2**  
**Changes in Net Position**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Revenues</b>			
Operating Revenues	\$ 757,360	\$ 916,645	\$ 1,120,039
Non-Operating Revenues	263,226	269,414	145,870
<b>Total Revenues</b>	<b>1,020,586</b>	<b>1,186,059</b>	<b>1,265,909</b>
<b>Expenses</b>			
Operating Expenses	957,002	1,260,030	1,121,533
Non-Operating Expenses	0	0	500,000
<b>Total Expenses</b>	<b>957,002</b>	<b>1,260,030</b>	<b>1,621,533</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$ 63,584</b>	<b>\$ (73,971)</b>	<b>\$ (355,624)</b>

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 in fiscal year 2016 decreased \$160,772 due to a decrease in enrollment by 18 students. Decreased enrollment also contributed to the decrease in operating expenses of \$303,028 with purchased services accounting for most of that decrease.

Fiscal year 2015 revenue from foundation payments decreased \$199,828 due to a decrease in enrollment of over 40 students while federal grant revenue showed an increase of \$123,544, mainly from the Title I grant. Operating expenses increased \$138,497, or 12 percent over fiscal year 2014. Purchased services increased \$222,258 due to increases in professional and administrative support services while materials and supplies decreased \$104,283, partially due to a decrease in technology purchases.

**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, 2700 Washington Avenue, Lorain, OH 44052.

This page intentionally left blank

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Statements of Net Position*  
*June 30, 2016 and June 30, 2015*

	2016	2015
<b>Assets</b>		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$ 357,604	\$ 377,379
Intergovernmental receivables	191,524	82,964
<i>Total assets</i>	549,128	460,343
<b>Liabilities</b>		
<i>Current liabilities:</i>		
Accounts payable	12,529	15,972
Intergovernmental payable	88,581	59,937
<i>Total current liabilities</i>	101,110	75,909
<b>Net Position</b>		
Restricted for other purposes	254,433	49,131
Unrestricted	193,585	335,303
<i>Total net position</i>	\$ 448,018	\$ 384,434

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, 2016 and June 30, 2015*

	2016	2015
<b>Operating revenues</b>		
Foundation payments	\$ 747,673	\$ 908,445
State Distributed casino revenue	9,574	8,132
Other	113	68
<i>Total operating revenues</i>	<u>757,360</u>	<u>916,645</u>
<b>Operating expenses</b>		
Purchased services	896,400	1,173,332
Materials and supplies	12,312	17,697
Other	48,290	69,001
<i>Total operating expenses</i>	<u>957,002</u>	<u>1,260,030</u>
<i>Operating income (loss)</i>	(199,642)	(343,385)
<b>Non-operating revenues (expenses)</b>		
Grants	263,226	269,414
<i>Change in net position</i>	63,584	(73,971)
<i>Net position at beginning of year</i>	<u>384,434</u>	<u>458,405</u>
<i>Net position at the end of the year</i>	<u>\$ 448,018</u>	<u>\$ 384,434</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, 2016 and June 30, 2015

	2016	2015
<b>Increase (decrease) in cash and cash equivalents</b>		
<b>Cash flows from operating activities:</b>		
Cash received from foundation payments	\$ 747,673	\$ 908,445
State distributed casino revenue	9,574	8,132
Other revenues	113	68
Cash payments for goods and services	(931,801)	(1,216,025)
<i>Net cash provided by (used for) operating activities</i>	(174,441)	(299,380)
<b>Cash flows from non-capital financing activities:</b>		
Grants received	154,666	216,351
<i>Net cash provided by (used for) non-capital activities</i>	154,666	216,351
<i>Net increase (decrease) in cash and cash equivalents</i>	(19,775)	(83,029)
<i>Cash and cash equivalents at beginning of year</i>	377,379	460,408
<i>Cash and cash equivalents at end of year</i>	\$ 357,604	\$ 377,379
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>		
Operating income (loss)	\$ (199,642)	\$ (343,385)
Adjustments:		
Increase (decrease) in liabilities:		
Accounts payable	(3,443)	(15,932)
Intergovernmental payable	28,644	59,937
<i>Total adjustments</i>	25,201	44,005
<i>Net cash provided by (used for) operating activities</i>	\$ (174,441)	\$ (299,380)

See accompanying notes to the basic financial statements.

This page intentionally left blank

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2016 and 2015*

---

**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 META Solutions 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. 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 12).

The Sponsor has designated five 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. 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." The Lorain K-12 Digital Academy houses no direct employees on the Academy's payroll. Rather, all personnel

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2016 and 2015*

---

supporting the Academy are employees of other entities and are billed to the Academy via contractual arrangements. The three main entities hosting direct employees supporting the Academy for fiscal year 2016 are META, the Educational Service Center of Lorain County and the Educational Service Center of Cuyahoga County.

**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 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, 2016 and 2015*

---

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.

***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, 2015 and June 30, 2016, 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, 2016 and 2015*

---

***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 2016, the Academy also received revenues from the IDEA-B, Title I, Title I-A and Title II-A federal grant programs and casino revenues distributed from the State.

For fiscal year 2015, the Academy also received revenues from the IDEA-B, 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 2016 or 2015.

***L. Changes in Accounting Principles***

For the fiscal year ended June 30, 2016, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the Academy.

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2016 and 2015*

---

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Academy.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Academy.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Academy.

**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.

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2016 and 2015*

---

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in these divisions are made only through eligible institutions;
6. The State Treasurer's investment pool (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 forty 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.

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2016 and 2015*

---

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.

***Deposits***

At fiscal year end June 30, 2016, the carrying value of the Academy's deposits and the bank balances of the deposits totaled \$357,604.

\$250,000 of the bank balance was covered by depository insurance and \$107,604 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, 2015, the carrying value of the Academy's deposits and the bank balances of the deposits totaled \$377,379.

\$250,000 of the bank balance was covered by depository insurance and \$127,379 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, 2016 and 2015 consisted of \$191,524 and \$82,964, 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, 2016 and 2015*

---

**Note 6 – Purchased Services**

For the fiscal year ended June 30, 2016, purchased services were as follows:

Instructional Services	\$ 316,940
Management Services	425
Other Professional and Technical Services	140,900
Other Travel and Meeting Expenses	203
Other Communications Service	394,552
Pupil Transportation	3,380
Property Services	40,000
	<hr/>
	\$ 896,400

For the fiscal year ended June 30, 2015, purchased services were as follows:

Instructional Services	\$ 465,701
Management Services	425
Other Professional and Technical Services	212,543
Other Travel and Meeting Expenses	1,206
Other Communications Service	453,457
Property Services	40,000
	<hr/>
	\$ 1,173,332

**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 2016 and 2015, 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 - META Solutions**

The Academy is a participant in META (Metropolitan Educational Technology Association) Solutions. META Solutions is an association of public school districts throughout Ohio. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of META Solutions consists of the superintendent from 11 member districts. During fiscal year 2016, the Academy paid \$192,257 to META Solutions for various services. Financial information can be obtained from the Metropolitan Educational Technology Association, 100 Executive Drive, Marion, Ohio 43302.

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2016 and 2015*

---

**Note 9 – 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, 2016, if applicable, cannot be determined at this time.

**Note 10 - School District Funding**

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Academy.

**Note 11 - 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. No fees for services were paid in fiscal year 2015 or 2016.

**Note 12 – 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.

In addition, the Academy shall pay the Sponsor 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

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2016 and 2015*

---

to the Sponsor or retained by the Academy pursuant to this paragraph may be varied in any given year by agreement of the parties. The Sponsor and the Academy agree that no money is owed to the Sponsor for fiscal year 2016 as it relates to this agreement. The Academy paid a 3 percent sponsor oversight/monitoring fee to Lorain City School District which amounted to \$32,456 for fiscal year 2016.

**Note 13 – Subsequent Events**

On September 1, 2016, the Academy attempted to enhance support and reduce the cost structure by outsourcing the Treasurer function outside the state of Ohio. However, after 60 days, it was determined that this "remote support model" did not work as effectively as planned, and effective November 1, 2016, the Sponsor Treasurer re-assumed responsibility as Treasurer of the Academy (as had been the case previous to September 1, 2016).

The Academy's sponsor, Lorain City School District, received a poor rating on their 2015-2016 sponsor evaluation. The sponsorship authority of Lorain City School District had been revoked by law pursuant to Ohio Revised Code section 3314.016(B)(7)(c) effective December 6, 2016. Lorain City School District's intention is to no longer sponsor the Academy after the end of fiscal year 2017.





# 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  
2700 Washington 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, Ohio (the Academy), a component unit of the Lorain City School District, as of and for the years ended June 30, 2016 and 2015, 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 28, 2017, wherein we noted the accompanying financial statements have been prepared assuming that the Academy will continue as a going concern. The sponsorship authority of the Academy's sponsor has been revoked effective December 6, 2016. The sponsor intends to no longer sponsor the Academy after the end of fiscal year 2017 raising substantial doubt about its ability to continue as a going concern.

### ***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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

***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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

***Academy's Response to Findings***

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

***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.



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

March 28, 2017

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

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016 AND 2015**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2016-001**

**Noncompliance and Material Weakness – Full-Time Equivalent (FTE) Reporting**

**Ohio Rev. Code Section 3314.08(H)**, provides, in relevant part, that the Ohio Department of Education (ODE) adjust the amounts subtracted and paid under division **(C)** of that section to reflect the enrollment in community schools of students for less than the equivalent of a full school year. The state board of education within ninety days after April 8, 2003, was obligated to act under **Chapter 119 of the Revised Code** to adopt rules governing the payments to community schools under the section including initial payments in a school year, adjustments, and reductions made in subsequent periodic payments to community schools, and in corresponding deductions from school district accounts, as provided under division **(C)** of the section.

**Ohio Rev. Code Section 3314.08(H)(2)** provides, in relevant part, that “[A] student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system established under section **3301.0714 of the Revised Code**. For purposes of applying this division and divisions **(H)(3) and (4)** of this section to a community school student, 'learning opportunities' shall be defined in the contract, which shall describe both classroom-based and non-classroom-based learning opportunities and shall be in compliance with criteria and documentation requirements for student participation which shall be established by the department. Any student's instruction time in non-classroom-based learning opportunities shall be certified by an employee of the community school.”

**Ohio Rev. Code Section 3314.08(H)(3)** includes the following: “The department shall determine each community school student's percentage of full-time equivalency based on the percentage of learning opportunities offered by the community school to that student, reported either as number of hours or number of days, is of the total learning opportunities offered by the community school to a student who attends for the school's entire school year. However, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours. Whether it reports hours or days of learning opportunities, each community school shall offer not less than nine hundred twenty hours of learning opportunities during the school year.”

In addition, **Ohio Rev. Code Section 3314.03(A) (11) (a)** states, in relevant part, that “The school will provide learning opportunities to a minimum of twenty-five students for a minimum of nine hundred twenty hours per school year.”

The Academy received a Full-Time Equivalent (FTE) review by ODE for Fiscal Year 2016. However, ODE chose to perform a Desk review after the initial review demonstrated the Academy had no issues. In accordance to the 2015 FTE manual, a Desk review, instead of an on-site review, can be performed if the reviewer noted the following conditions were met:

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

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016 AND 2015**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2016-001 (Continued)**

**Noncompliance and Material Weakness – Full-Time Equivalent (FTE) Reporting (Continued)**

- a) The school must have no fatal errors on its June SOES payment report generated by ODE’s IT unit, and;
- b) The school must have had no conditions found and reported in the first FTE review conducted that have not been corrected, and;
- c) The school is not suspended, closed, or closing

In a letter dated June 15, 2016, ODE stated “the reviewer found that the original source documentation for attendance and its office record folders for each child to be in order”. Therefore, the Academy was determined by ODE to be in compliance for Fiscal Year 2016.

Five of five students we tested supported that FTEs were being reported for each student based on the number of days the student was enrolled. The Academy did not adjust FTE based on durational time documented for computer-based learning opportunities for each student in EMIS, which could result in the Academy over reporting FTE to ODE.

After learning that the Academy was tracking FTE based on the enrollment period, we inquired with the Academy to determine what information was provided to ODE during their review. We learned that the Academy provided the ODE reviewer with reports for which the Academy had access to generate. The Academy contracts with TRECA Digital Academy (TDA) to provide teaching services and deliver instructional material. At this time the Director of the Academy gave us permission to contact TDA to determine what reports TDA generated in assisting ODE’s FTE review. Upon contacting TDA, we learned the Academy has information related to the Learning Management System (LMS) housed at TDA and the student duration of time spent in the LMS was not requested by the Academy to be part of the FTE review. The Academy doesn’t have the ability to access the LMS at TDA to generate reports. Additionally, the Academy had no procedures in place requiring students to track time related to non-computer learning opportunities.

Since it was apparent that ODE did not have all information related to the duration of educational activity of each student, the FTE reported to ODE at the end of fiscal year 2016 was based on enrollment period, and the Academy did not require students to track time spent on non-computer learning opportunities; we can’t determine the completeness and accuracy to the FTEs the Academy reported to ODE for fiscal year 2016.

Further, upon review of the Academy’s contract with the Lorain City School District (the “Sponsor”) we noted the contract and exhibits extensively define the educational curriculum utilized by the Academy. The contract and exhibits, however, do not specify how the Academy should document “student participation” pursuant to requirements established by ODE, and, therefore, how the Sponsor could effectively monitor such compliance. The inclusion of such documentation would facilitate the Academy’s ability to comply with requirements and standards established by ODE and Ohio law.

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

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016 AND 2015**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2016-001 (Continued)**

**Noncompliance and Material Weakness – Full-Time Equivalent (FTE) Reporting (Continued)**

We recommend the Academy review current statutory requirements and guidance issued by ODE to determine the documentation needed to support the FTE data reported for each student. Furthermore, we recommend the Academy consider using ODE's most recent FTE manual as further guidance to determine what information ODE considers to be needed to support FTE. Once the Academy has a clear understanding of what is required to support FTE, the Academy should review and, if applicable, update current policies and procedures to capture all critical elements of time spent by students on computer, as well as, non-computer learning opportunities.

**Official's Response:**

As noted in the Schedule of Findings, Lorain K12 Digital Academy (The Academy) received a Full-time Equivalent (FTE) review by ODE for Fiscal Year 2016. The initial review on March 22, 2016 requested the following items:

A SOES report, copy of the contract with the sponsor, written enrollment and attendance procedures, and files for each student to include birth certificate, proof of residency, enrollment form, withdrawal form (if applicable), proof of attendance and ETR/IEP for any special education child. All items were provided and the FTE review was deemed satisfactory.

During the 2015-16 school year, attendance was provided by The Academy's vendor TDA. The Academy drew all accessible reports from the programs available: Backpack Student Information System and Evolve (student information system put into place by TDA after the school year began). The Academy did not have access to participation data of students once they were withdrawn during the school year or if they were operating within the BrightSpace system. The Academy was not aware of, nor informed that additional reporting was available for our use in calculating student participation hours or use of computer learning opportunities until March 17, 2017.

After review of the FTE Manual provided by the FTE reviewer in March 2016 and concern of discrepancies in the systems' calculations at the beginning of the 2016-17 school year, The Academy created a Participation Log for students to complete.

The Participation Log includes the Date, Log in, Log out, Activities, and Times columns. This information was shared with students and parents during Orientation and via email. Because the Academy contracts with TDA for curriculum AND teachers of record for instruction/assignments/grading responsibilities, the Academy does not verify nor sign the Participation Logs.

It has been a concern that certain activities (Study Island, MyOn, RazzKids) assigned by the Teacher of Record may not be effectively or consistently tracked as part of the system in BrightSpace. There have been several conversations during the 2016-17 school year with TDA to resolve these issues. When students are required to complete assignments (e.g. drop boxes, essays, research papers), there has not been a way to measure time spent unless the student records their time on the Participation Log. The Academy is exploring the use of a system, ActivTrak, to determine student activity outside of the computer systems (BrightSpace, Plato). In addition, The Academy's Student Support Coaches maintain a daily record of students with whom they provide assistance and support either face-to-face or via Jigsaw.

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

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016 AND 2015**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2016-001 (Continued)**

**Noncompliance and Material Weakness – Full-Time Equivalent (FTE) Reporting (Continued)**

Guidance will be sought from ODE – Office of Accountability, to review current steps taken by The Academy to more accurately determine students' participation through the systems and when students are completing tasks off-line. Conversations are currently being held with TDA to determine how the Teacher of Record can verify when a student is working outside of a system that is not recording their participation as The Academy does not have access to this pathway.



# 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 11, 2017**