



OHIO AUDITOR OF STATE
KEITH FABER



LORAIN K-12 DIGITAL ACADEMY
LORAIN COUNTY

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INDEPENDENT AUDITOR'S REPORT

Lorain K-12 Digital Academy
Lorain County
6393 Oak Tree Boulevard South
c/o Education Service Center of Northeast Ohio
Independence, Ohio 44131

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), as of and for the period July 1, 2017 through September 30, 2018, 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, as of September 30, 2018, and the changes in its financial position and its cash flows for the period July 1, 2017 through September 30, 2018 in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 13 to the financial statements, effective September 30, 2018, the Board requested and was granted approval by the Ohio Department of Education (ODE) to close. The Academy has followed the closing procedures prescribed by ODE. Our opinion is unmodified 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 August 12, 2019, 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.



Keith Faber
Auditor of State

Columbus, Ohio

August 12, 2019

Lorain K-12 Digital Academy
Lorain County, Ohio
Management's Discussion and Analysis
For the Period July 1, 2017 Through September 30, 2018

The discussion and analysis of the Lorain K-12 Digital Academy Lorain County, Ohio's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period July 1, 2017 through September 30, 2018. 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.

Financial Highlights

Key financial highlights for the 15-month period are as follows:

- Due to declining enrollment and decreased funding, the Academy ceased operations on September 30, 2018.
- Net position was a deficit of \$339,605, which is a decrease of \$681,821 from fiscal year 2017, mainly due to final expenses in closing the Academy.
- Operating revenues equaled \$354,169, down 37 percent from fiscal year 2017. Operating expenses of \$982,762 showed an increase of 11 percent over fiscal year 2017.

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 the period of July 1, 2017 through September 30, 2018?" The statement of net position includes all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current period's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net position for the period July 1, 2017 through September 30, 2018 and fiscal year 2017 as follows:

Lorain K-12 Digital Academy
Lorain County, Ohio
Management's Discussion and Analysis
For the Period July 1, 2017 Through September 30, 2018

Table 1
Net Position at September 30

	September 30, 2018	June 30, 2017
Assets		
Current Assets	\$ 58,795	\$ 381,677
Liabilities		
Current Liabilities	398,400	39,461
Net Position		
Restricted for Other Purposes	4,567	263,581
Unrestricted	(344,172)	78,635
Total Net Position	\$ (339,605)	\$ 342,216

Total assets decreased \$322,882 from fiscal year 2017 due to decreases in cash and intergovernmental receivables. These decreases are attributable to decreases in enrollment which led to the decision to close the Academy. Liabilities, consisting of accounts and intergovernmental payables, increased \$358,939 mainly due to an FTE adjustment of \$246,800 payable to the Ohio Department of Education. Net position decreased \$681,821 from fiscal year 2017.

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

Table 2 shows the changes in net position for the period July 1, 2017 through September 30, 2018 and fiscal year 2017, as well as a listing of revenues and expenses.

Table 2
Changes in Net Position

	2018	2017
Revenues		
Operating Revenues	\$ 354,169	\$ 563,254
Non-Operating Revenues	31,796	217,292
Total Revenues	385,965	780,546
Expenses		
Operating Expenses	982,762	886,348
Non-Operating Expenses	85,024	0
Total Expenses	1,067,786	886,348
Change in Net Position	\$ (681,821)	\$ (105,802)

Lorain K-12 Digital Academy
Lorain County, Ohio
Management's Discussion and Analysis
For the Period July 1, 2017 Through September 30, 2018

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 the period of July 1, 2017 through September 30, 2018 decreased \$207,692 due to decreased enrollment. Operating expenses increased \$96,414 mainly in purchased services, most of which were residual payables after the Academy closed. Non-operating revenues decreased \$185,496 from fiscal year 2017. The federal grant funding was not fully expended and was forfeited after the decision to close the Academy.

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, 6393 Oak Tree Blvd South c/o Educational Service Center of Northeast Ohio, Independence Ohio 44131.

Lorain K-12 Digital Academy
Lorain County, Ohio
Statement of Net Position
September 30, 2018

Assets

Current assets:

Equity in pooled cash and cash equivalents	\$ 26,823
Receivables:	
Accounts	23,229
Intergovernmental	8,743
	<hr/>

Total assets

58,795

Liabilities

Current liabilities:

Accounts payable	12,591
Intergovernmental payable	385,809
	<hr/>

Total current liabilities

398,400

Net Position

Restricted for other purposes	4,567
Unrestricted	(344,172)
	<hr/>

Total net position

\$ (339,605)

See accompanying notes to the basic financial statements.

Lorain K-12 Digital Academy
Lorain County, Ohio
Statement of Revenues, Expenses, and Changes in Net Position
For the Period July 1, 2017 Through September 30, 2018

Operating revenues	
Foundation payments	\$ 349,227
State distributed casino revenue	2,270
Other	2,672
<i>Total operating revenues</i>	354,169
Operating expenses	
Purchased services	941,388
Materials and supplies	7,117
Other	34,257
<i>Total operating expenses</i>	982,762
<i>Operating income (loss)</i>	(628,593)
Non-operating revenues (expenses)	
Grants	10,897
Unused grant awards	(85,024)
Other non-operating revenues	20,899
<i>Total non-operating revenues (expenses)</i>	(53,228)
<i>Change in net position</i>	(681,821)
<i>Net position at beginning of period</i>	342,216
<i>Net position at the end of the period</i>	\$ (339,605)

See accompanying notes to the basic financial statements.

Lorain K-12 Digital Academy
Lorain County, Ohio
Statement of Cash Flows
For the Period July 1, 2017 Through September 30, 2018

Increase (decrease) in cash and cash equivalents

Cash flows from operating activities:	
Cash received from foundation payments	\$ 572,567
State distributed casino revenue	2,270
Other revenues	342
Cash payments for goods and services	<u>(868,062)</u>
<i>Net cash provided by (used for) operating activities</i>	<u>(292,883)</u>
Cash flows from non-capital financing activities:	
Grants received	127,797
Other non-operating revenues	<u>20,899</u>
<i>Net cash provided by (used for) non-capital activities</i>	<u>148,696</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(144,187)
<i>Cash and cash equivalents at beginning of period</i>	<u>171,010</u>
<i>Cash and cash equivalents at end of period</i>	<u><u>\$ 26,823</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (628,593)
Adjustments:	
(Increase) decrease in assets	
Accounts receivable	(23,229)
Increase (decrease) in liabilities	
Accounts payable	9,045
Intergovernmental payable	<u>349,894</u>
<i>Total adjustments</i>	<u>335,710</u>
<i>Net cash provided by (used for) operating activities</i>	<u><u>\$ (292,883)</u></u>

See accompanying notes to the basic financial statements.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Period July 1, 2017 Through September 30, 2018

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 an innovative initiative that is a conversion community school sponsored by The Ohio Department of Education (ODE). Furthermore, the Academy uses the services of CONNECT 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 has been opened to a 50 mile radius of the Academy with the Assumption Agreement of the Ohio Department of Education and a Board of Directors approved Resolution on September 21, 2017, (retroactive to July 1, 2017).

The Academy was approved for sponsorship for the 2008-2009 academic year though an amendment to the original agreement after the merging of the Lorain Elementary Digital Academy, the Lorain Middle School Academy, the Lorain High School 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; however, the Academy entered into a Sponsorship Contract with ODE effective July 1, 2017 (Refer to Note 12).

The Academy has designated five members of the community to represent official capacities as members of the Academy's Board of Directors.

Pursuant to the Academy's Sponsorship Contract with the Ohio Department of Education, (the Sponsor), the Academy entered into a fiscal agreement with Bruce Basalla to act as its Chief Financial Officer. The Sponsor shall evaluate the performance of the Academy according to the standards set forth in the Assessment and Accountability Plan. The Sponsor is not legally responsible for the final outcome of the community school.

The Lorain K-12 Digital Academy houses no direct employees on the Academy's payroll. Rather, all personnel supporting the Academy are employees of other entities and are billed to the Academy via contractual arrangements. The main entities hosting direct employees supporting the Academy for the period July 1, 2017 through September 30, 2018 are META and the Educational Service Center of Northeast Ohio.

The Lorain K-12 Digital Academy closed as of September 30, 2018, due to decreased enrollment and the lack of funding. Due to this, the Academy has elected to do a 15-month reporting period for July 1, 2017 through September 30, 2018.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Period July 1, 2017 Through September 30, 2018

Note 2 – Summary of Significant Accounting Policies

The more significant of the Academy's accounting policies are described below.

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.

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.

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.

Expenses are recognized at the time they are incurred.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Period July 1, 2017 Through September 30, 2018

Budgetary Process

Digital academies are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, digital academies are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not require the Academy to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

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.

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 acquisition 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.

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 September 30, 2018, 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.

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 Period July 1, 2017 Through September 30, 2018

Non-Operating Revenues

Non-operating revenues are revenues generated from federal grant awards. Transactions relating to non-operating grant awards are recorded in accordance with accounting standards. At June 30, 2017, receivables in the amount of \$210,667 were recorded, in accordance with accounting standards, for grant funds awarded and expected to be expended by the Academy. It was determined in fiscal year 2018 the Academy would close effective September 30, 2018 (refer to Note 13). Due to this, federal grant funding was not expended in full and was forfeited. Accordingly, unused grant awards are reflected in the basic financial statements.

Intergovernmental Revenues

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

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

The Academy also 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.

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.

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 the period July 1, 2017 through September 30, 2018.

Changes in Accounting Principles

For the period July 1, 2017 through September 30, 2018, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Period July 1, 2017 Through September 30, 2018

implementation of GASB Statement No. 75 did not have an effect on the financial statements of the Academy.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the Academy's period July 1, 2017 through September 30, 2018 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

Note 3 - Deposits

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet the current demands on the treasury. Such monies must be maintained either as cash in the School District 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 School District 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 including passbook accounts.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Period July 1, 2017 Through September 30, 2018

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);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed two hundred seventy days and one hundred eighty days, respectively, from the purchase date in an amount not to exceed twenty 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 School District, 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 qualified trustee 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 Period July 1, 2017 Through September 30, 2018

At September 30, 2018, the carrying amount of the Academy's deposits totaled \$26,823 and its bank balance was \$28,960. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2018, none of the bank balance was exposed to custodial risk as discussed below, while \$28,960 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are covered by the FDIC.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred and two percent or a rate set by the Treasurer of State. Financial institutions opting not to participate in OPC will collateralize utilizing the specific pledge method at one hundred and five percent.

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 September 30, 2018 consisted of \$8,743 in federal grants.

Note 6 – Purchased Services

For the period July 1, 2017 through September 30, 2018, purchased services were as follows:

Instructional Services	\$ 347,632
Other Professional and Technical Services	206,894
Other Travel and Meeting Expenses	500
Other Communications Service	352,962
Property Services	33,400
	<hr/>
	\$ 941,388

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 the period July 1, 2017 through September 30, 2018, the Academy was covered under commercial insurance for property, and liability coverage.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Period July 1, 2017 Through September 30, 2018

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 the period July 1, 2017 through September 30, 2018, the Academy paid \$189,298 to META Solutions for various services. Financial information can be obtained from the Metropolitan Educational Technology Association, 100 Executive Drive, Marion, Ohio 43302.

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 September 30, 2018, if applicable, cannot be determined at this time.

Note 10 - School Foundation

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the period.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for the period July 1, 2017 through September 30, 2018.

As of the date of this report, all ODE adjustments for the fiscal year 2018 have been made.

In addition, the Academy's contracts with their Sponsor require payment based on revenues received from the State. As discussed above, all FTE adjustments have taken place with these contracts.

Lorain K-12 Digital Academy
Lorain County, Ohio
Notes to the Basic Financial Statements
For the Period July 1, 2017 Through September 30, 2018

Note 11 - Fiscal Agent

The Academy utilizes the services of the Educational Service Center of Northeast Ohio (Educational Service Center) as their fiscal officer. The Academy does not directly pay for the Treasurer; however, it does reimburse the Educational Service Center for the services. No fees for services were paid for the period July 1, 2017 through September 30, 2018.

Note 12 – Sponsorship Fees

The Academy and Sponsor entered into a Sponsorship Contract effective July 1, 2017 through June 30, 2018. 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 3 percent of all funds received by the School from the State of Ohio, excluding restricted revenues. This payment was required to be paid made on the first day of each month for the term of the agreement.

Note 13 – Subsequent Event/Academy Closure

Effective September 30, 2018, the Board requested and was granted approval by the Ohio Department of Education (“ODE”) to close. The Academy has followed the closing procedures prescribed by ODE. Those procedures included official notification to ODE, the students and the community of the Academy’s decision to close. As of September 30, 2018, the Academy has a cash balance of \$26,823, known current receivables of \$31,972 and current liabilities of \$398,400. In September 2018, an FTE adjustment of \$246,800 was assessed by the ODE and is included in the known liabilities. The Academy auctioned off computers in September 2018 and received the sale proceeds in October 2018 in the amount of \$20,899. This amount is included as non-operating revenue. Once all costs and liabilities are known, the Academy will pay its final costs and any residual cash balances remaining will be remitted to ODE per Ohio Revised Costs 3314.074.

The Academy proportionately distributed remaining funds to the Academy's private creditors based on each creditor's share of the Academy's total debt. The Academy disbursed \$58,776 to various creditors and all debts were settled on May 24, 2019.

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OHIO AUDITOR OF STATE KEITH FABER



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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
6393 Oak Tree Boulevard South
c/o Education Service Center of Northeast Ohio
Independence, Ohio 44131

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), as of and for the period July 1, 2017 through September 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated August 12, 2019, wherein we noted effective September 30, 2018, the Board requested and was granted approval by the Ohio Department of Education (ODE) to close. The Academy has followed the closing procedures prescribed by ODE.

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 2018-001 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 2018-001.

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 subject the Academy's response to the auditing procedures applied in the audit of the financial statements 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.



Keith Faber
Auditor of State

Columbus, Ohio

August 12, 2019

LORAIN K-12 DIGITAL ACADEMY
LORAIN COUNTY

SCHEDULE OF FINDINGS
SEPTEMBER 30, 2018

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

1. Full Time Equivalent (FTE) Reporting

<i>Finding Number</i>	2018-001
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Rev. Code § 3314.08 permits Full Time Equivalency (FTE) reviews, which the Ohio Department of Education (ODE) performs to verify the accuracy of enrollment and attendance data reported by community schools into the Education Management Information System (EMIS), which sometimes result in FTE adjustments (errors identified by ODE and the community school adjusts their EMIS records), or can result in “clawbacks” (errors identified by ODE FTE Reviews but the community school does not adjust their EMIS records); both of which can be money due back to ODE. These FTE reviews occur at a minimum once every 5 years, but may occur more often. Schools should therefore continue to evaluate whether ODE’s Final FTE Foundation adjustments, and FTE reviews, could result in a material receivable, payable, or potential contingency footnote disclosure in their GAAP-basis annual financial statements.

Also, under **Ohio Rev. Code § 3314.08** ODE has authority to base funding of an e-school on the duration of student participation. ODE has established student participation criteria and documentation requirements for electronic community schools in their FY18 FTE Review Manual.

Pursuant to **Ohio Rev. Code § 3314.27**, each internet or computer-based community school (i.e., e-school) is also required to keep accurate records of each student’s participation in daily learning opportunities. Pursuant to the ODE’s FY18 FTE Review Manual, e-schools are required to maintain durational evidence of online participation. The records should be easily submitted to the Department of Education upon request by the Department or the Auditor of State.

Ohio Rev. Code § 3314.08(H), in relevant part, provides 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.

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

**SCHEDULE OF FINDINGS
SEPTEMBER 30, 2018
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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During the FTE review on June 15, 2018, ODE noted the following items which needed a corrective action plan:

- The Academy needed to upload a document explaining how the Total Learning Opportunities are calculated according to Page 15, section 4 of the FTE Review Manual into the Compliance System;
- The Academy staff had not updated the “Percent of Time” during the school year nor at the time of the review. The percent of time based on the reported documented learning opportunities for some students do not match the percent of time reported in the Electronic Management Information System (EMIS);
- The Academy did not add all of the time across all different learning opportunities (online, non-classroom and non-computer based) daily to ensure that none of the time overlapped each other and 10 hour a day cap was not exceeded.

The following was the Academy’s response and result of the items needing a corrective action plan, respectively:

- The Academy uploaded the document into the compliance system for FTE reporting;
- The Academy submitted the requisite records for Total Learning Opportunity Records for all students; and
- Adjustments were made to the percent of time and the FTE reported to ODE was corrected.

The Academy did not have policies and procedures in place during the audit period reconciling students learning opportunity (online, non-classroom and non-computer based). Due to the lack of adequate internal controls over tracking student learning opportunities, the Academy had a significant adjustment in the reported final FTE. The Academy reported and was funded for 85.79 FTE’s. However, after ODE completed their FTE Review, the Academy’s final adjusted FTE was 47.75, resulting in intergovernmental payable of \$246,800.

Due to the lack of a reconciliation process and not having policies and procedures in place, the Academy was put into a position of being overfunded which ultimately resulted in a significant liability to the Academy.

We recommend the Academy review current statutory requirements and guidance issued by ODE to determine the documentation needed to support the FTE data reported is accurately 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. The Academy should review, reconcile and 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:

We agree with this comment. Bruce Basalla, Treasurer
Karen Mahan, Superintendent

OHIO AUDITOR OF STATE KEITH FABER



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
AUGUST 29, 2019**