



**Auditor of State
Betty Montgomery**

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lancaster Digital Academy
Fairfield County
211 Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the accompanying basic financial statements of the Lancaster Digital Academy, Fairfield County, Ohio, (LDA), a component unit of the Lancaster City School District, as of June 30, 2003, and for the period from inception (August 27, 2002) through June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the LDA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lancaster Digital Academy, Fairfield County, Ohio, as of June 30, 2003, and the changes in its financial position and its cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2004, on our consideration of LDA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 14, 2004

**Lancaster Digital Academy
Fairfield County**

***Management's Discussion and Analysis
For the Initial Period August 27, 2002 through June 30, 2003
Unaudited***

The discussion and analysis of the Lancaster Digital Academy's (LDA) financial performance provides an overall review of the LDA's financial activities for the initial period ended June 30, 2003. Readers should also review the basic financial statements and notes to enhance their understanding of the LDA's financial performance.

Highlights

LDA opened for its first year of operation in October 2003 as a kindergarten through twelfth grade online internet school. Each student was provided a computer and scanner which were used to access a curriculum based on the state model and which used certified/licensed instructors. Enrollment varied during the year but averaged 30 students.

Using this Annual Financial Report

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

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how LDA did financially during the initial period ended June 30, 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies.

This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

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

LDA uses enterprise presentation for all of its activities.

**Lancaster Digital Academy
Fairfield County**

***Management's Discussion and Analysis
For the Initial Period August 27, 2002 through June 30, 2003
Unaudited***

Table 1 provides a summary of LDA's net assets as of June 30, 2003:

Table 1
Net Assets

<u>Assets:</u>	
Current and Other Assets	<u>\$177,193</u>
<u>Liabilities:</u>	
Current and Other Liabilities	<u>7,749</u>
<u>Net Assets:</u>	
Restricted for Other Purposes	115,700
Unrestricted	<u>53,744</u>
Total Net Assets	<u><u>\$169,444</u></u>

LDA had net assets of \$169,444 after its initial period of operation. LDA receives Foundation payments from the State based on the number of full-time equivalency students.

Table 2 reflects the changes in net assets for the initial period ended June 30, 2003.

<u>Operating Revenues:</u>	
Foundation	\$88,685
<u>Non-Operating Revenues</u>	
Grants	<u>180,436</u>
Total Revenues	<u>269,121</u>
<u>Operating Expenses:</u>	
Purchased Services	99,223
Materials and Supplies	300
Other Operating Expenses	<u>154</u>
Total Expenses	<u>99,677</u>
Total Increase in Net Assets	<u>\$169,444</u>

**Lancaster Digital Academy
Fairfield County**

***Management's Discussion and Analysis
For the Initial Period August 27, 2002 through June 30, 2003
Unaudited***

Budgeting

LDA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets and Debt Administration

Capital Assets

LDA did not have any capital assets during the initial period ended June 30, 2003. All computer equipment used by the students was provided through LDA's contract agreement with TRECA.

Debt

LDA did not incur any debt during the initial period ended June 30, 2003.

Current Issues

The cutting edge nature of this kind of instructional delivery makes for constant change during the first couple of years of operation. The upgrade and maintenance of equipment and technical support are some of the other challenges facing LDA.

Contacting the LDA's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the LDA's finances and to show the LDA's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Scott Osborne, Treasurer, Lancaster Digital Academy, 111 South Broad Street, Lancaster, Ohio 43130. Or E-Mail at S_OSBORNE@LANCASTER.K12.OH.US.

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Lancaster Digital Academy
Fairfield County

Statement of Net Assets
June 30, 2003

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$41,757
Intergovernmental Receivable	15,000
Restricted Assets:	
Cash and Cash Equivalents	15,436
Intergovernmental Receivable	105,000
Total Assets	<u>177,193</u>
 <u>Liabilities:</u>	
Current Liabilities:	
Intergovernmental Payable	1,219
Deferred Revenue	1,794
Payable from Restricted Assets:	
Intergovernmental Payable	4,736
Total Liabilities	<u>7,749</u>
 <u>Net Assets:</u>	
Restricted for Other Purposes	115,700
Unrestricted	53,744
Total Net Assets	<u>\$169,444</u>

See accompanying notes to the basic financial statements

Lancaster Digital Academy
Fairfield County

*Statement of Revenues, Expenses, and Changes in Net Assets
For the Initial Period August 27, 2002 through June 30, 2003*

<u>Operating Revenues:</u>	
Foundation	\$88,685
	<hr/>
Total Operating Revenues	88,685
	<hr/>
<u>Operating Expenses:</u>	
Purchased Services	99,223
Materials and Supplies	300
Other Operating Expenses	154
Total Operating Expenses	99,677
	<hr/>
Operating Loss	(10,992)
<u>Non-Operating Revenues:</u>	
Grants	180,436
Total Non-Operating Revenues	180,436
	<hr/>
Change in Net Assets	169,444
Net Assets, August 27, 2002	0
Net Assets, June 30, 2003	\$169,444
	<hr/> <hr/>

See accompanying notes to the basic financial statements

**Lancaster Digital Academy
Fairfield County**

**Statement of Cash Flows
For the Initial Period August 27, 2002 through June 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$75,479
Cash Payments to Suppliers for Goods and Services	(93,568)
Other Operating Expenses	(154)
	<hr/>

Net Cash Used for Operating Activities	(18,243)
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Cash Flows from Noncapital Financing Activities:

Grants Received	75,436
	<hr/>

Net Increase in Cash and Cash Equivalents	57,193
Cash and Cash Equivalents, August 27, 2002	0
	<hr/>

Cash and Cash Equivalents, June 30, 2003	<u><u>\$57,193</u></u>
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Reconciliation of Operating Loss to

Net Cash Used for Operating Activities:

Operating Loss	(\$10,992)
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Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable	(15,000)
Increase in Intergovernmental Payable	5,955
Increase in Deferred Revenue	1,794
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Net Cash Used for Operating Activities	<u><u>(\$18,243)</u></u>
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See accompanying notes to the basic financial statements

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**Lancaster Digital Academy
Fairfield County**

**Notes to the Basic Financial Statements
For the Initial Period August 27, 2002 through June 30, 2003**

Note 1 - Description of the School

The Lancaster Digital Academy (LDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. LDA is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect LDA's tax exempt status. LDA's mission is to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students with the Lancaster City School District, sponsor school district, that desire a specific course not currently offered but is available through online instruction.

LDA was created on August 27, 2002 by entering a five year contract with the Lancaster City School District (the Sponsor). The Sponsor is responsible for evaluating the performance of LDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the LDA with the Treasurer of the Sponsor completing the role of Treasurer for the LDA.

LDA operates under the direction of a seven-member Board of Directors made up of five-members from the Lancaster City School District and two-members from the public. The first public member shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of LDA. The second public member shall be a representative appointed by the Tri-Rivers Educational Computer Association (TRECA). After the first year of operation, the member appointed by TRECA will be replaced by a person who represents the interests of parents and students served by the conversion school. LDA is a component unit of the Sponsor. The sponsor appoints a majority of the board and is able to impose it's will on the LDA. The Sponsor can suspend the LDA's operations for any of the following reasons: 1) The LDA's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The LDA's failure to meet generally accepted standards of fiscal management, 3) The LDA's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of LDA and the children it serves. During the initial period ended June 30 2003, LDA paid purchased services to TRECA for providing the planning, design, implementation, instructional, administrative, and technical services. Thus, LDA did not have any employees or capital assets. LDA used the facilities of the Sponsor.

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

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

Lancaster Digital Academy
Fairfield County

*Notes to the Basic Financial Statements
For the Initial Period August 27, 2002 through June 30, 2003
(Continued)*

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus

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

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by LDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. LDA had no investments during the initial period ended June 30, 2003.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by LDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. LDA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Restricted Assets

There are certain resources set aside due to restricted state and federal grant funding.

H. Operating Revenues and Expenses

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

I. Estimates

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

**Lancaster Digital Academy
Fairfield County**

**Notes to the Basic Financial Statements
For the Initial Period August 27, 2002 through June 30, 2003
(Continued)**

Note 3 - Deposits

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At June 30, 2003, the carrying amount of LDA's deposits was \$57,193 and the bank balance was \$59,648. All of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 4 - Receivables

At June 30, 2003, receivables consisted of intergovernmental receivables of \$105,000 from the Ohio Public Charter Schools Program Implementation Grant and a refund of \$15,000 from the State Teacher Retirement System (STRS). The STRS receivable was due to payments being processed to STRS in error through the State Foundation payments. The receivables are expected to be collected in full within one year.

Note 5 - Contract with TRECA

LDA entered into a two-year contract on September 25, 2002, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide LDA with instructional, supervisory/administrative, and technical services sufficient to effectively implement LDA's educational plan and LDA's assessment and accountability plan.
- All personnel providing services to LDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to LDA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- LDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of LDA.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- In exchange for the services and support (including equipment) provided by TRECA, LDA shall pay to TRECA a fee of \$60,000 for the 2002-2003 school year and \$25,000 for the 2003-2004 school year.
- LDA shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K – 8 student enrolled in LDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For the initial period \$89,601 was payable under this contract. LDA paid 100% of this amount as of June 30, 2003.

**Lancaster Digital Academy
Fairfield County**

**Notes to the Basic Financial Statements
For the Initial Period August 27, 2002 through June 30, 2003
(Continued)**

Note 6 – Risk Management

LDA is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. During the initial period ended June 30, 2003, LDA had no liability insurance. The Board has not obtained insurance as of the date of this report. Management is unaware of any material pending claims that may effect the initial period ended June 30, 2003.

Note 7 - Related Party Transactions

Of the seven-member board of LDA, Lancaster City School District, Sponsor, appoints five-members. LDA is presented as a component unit of the Sponsor. There was no money paid between the LDA and their Sponsor during the initial period ended June 30, 2003. The financial statements include a \$3,000 accounts payable from the LDS to Lancaster City School District for IT services provided prior to June 30, 2003.

Note 8 - Contingencies

A. Grants

LDA received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the LDA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the LDA at June 30, 2003.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on LDA is not presently determinable.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by LDA. These reviews are conducted to ensure LDA is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The fiscal year 2003 review resulted in the discovery of an overpayment to LDA in the amount of \$1,794. This amount has been reflected as deferred revenue and will be deducted from foundation funding in fiscal year 2004.

Note 9 - State School Funding

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**Lancaster Digital Academy
Fairfield County**

***Notes to the Basic Financial Statements
For the Initial Period August 27, 2002 through June 30, 2003
(Continued)***

Note 10 - Subsequent Event

On July 24, 2003, the LDA name changed to the Lancaster-Fairfield Digital Academy (LFDA). LFDA entered into a new contract with some additional school districts that will be considered Associate Sponsors. Lancaster City School District is now considered the Lead Sponsor. The Associate Sponsors consisted of the following school districts: Amanda-Clearcreek Local, Berne Union Local, Bloom-Carroll Local, Fairfield Union Local, Liberty Union-Thurston Local, and Walnut Township Local. Due to the implementation of the new contract, the Board of Directors changed. The new Board of Directors consists of members as follows: one representative from each Associate Sponsor having one vote each, a number of representatives from the Lead Sponsor that is equal to the number of Associate Sponsors with each representative having two votes, one representative of TRECA (who shall subsequently be replaced by a person who represents the interest of parents and students served by the LFDA after one year) having one vote.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lancaster Digital Academy
Fairfield County
211 Broad Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the basic financial statements of the Lancaster Digital Academy, Fairfield County, Ohio (LDA), a component unit of the Lancaster City School District, as of June 30, 2003, and for the period from inception (August 27, 2002) through June 30, 2003, and have issued our report thereon dated January 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of LDA in a separate letter dated January 14, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of LDA in a separate letter dated January 14, 2004.

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Lancaster Digital Academy
Fairfield County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 14, 2004

**LANCASTER DIGITAL ACADEMY
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2003**

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

Finding Number 2003-001

Liability Insurance

Ohio Rev. Code Section 3314.03 (A) (11) (b) requires the governing board obtain liability insurance, or otherwise provide for the potential liability of the school. Additionally, LDA's contract with its Sponsor requires LDA to obtain liability insurance.

LDA did not obtain a liability insurance policy and did not otherwise provide for the potential liability of the school through a designation of fund balance for contingencies or another method.

We recommend LDA either obtain liability insurance coverage or otherwise provide for its potential liability.



**Auditor of State
Betty Montgomery**

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LANCASTER DIGITAL ACADEMY

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 4, 2004**