



**Auditor of State
Betty Montgomery**

LAKWOOD DIGITAL ACADEMY
LICKING COUNTY

TABLE OF CONTENTS

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lakewood Digital Academy
Licking County
525 E. Main Street
P.O. Boax 70
Hebron, Ohio 43025

To the Board of Directors:

We have audited the accompanying Statement of Net Assets of Lakewood Digital Academy, Licking County, Ohio, (the School), a component unit of Lakewood Local School District, as of June 30, 2004, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and Statement of Cash Flows for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the School'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 Lakewood Digital Academy, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2004, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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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www.auditor.state.oh.us

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 required 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

November 15, 2004

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Lakewood Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal year of the existence of the Academy and the first fiscal year of adoption of the new reporting model, comparative prior fiscal year information do not exist. Subsequent reports will include the comparative information.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets were \$32,338 at June 30 2004.
- The Academy had operating revenues of \$155,487 and operating expenses of \$281,700 for fiscal year 2004. The Academy also received \$31 in interest revenue and \$158,520 in federal and state grants during fiscal year 2004. Total change in net assets for the fiscal year was \$32,338.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Academy, including all short-term and long-term financial resources and obligations.

Reporting the Academy Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 6 and 7 of this report. The statement of cash flows can be found on page 8.

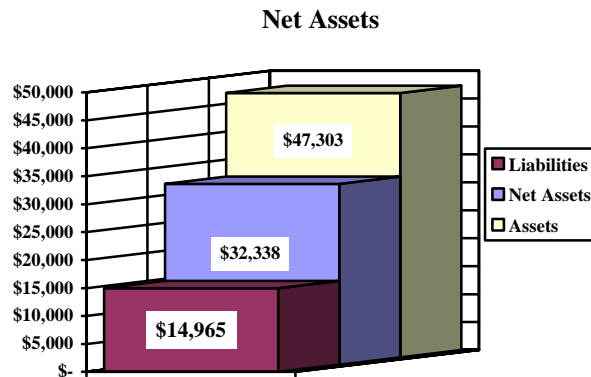
**LAKEWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The table below provides a summary of the Academy's net assets for fiscal year 2004. Since this is the first year that the Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

Net Assets	
	2004
<u>Assets</u>	
Current assets	\$ 41,314
Capital assets	5,989
Total assets	47,303
<u>Liabilities</u>	
Current liabilities	14,965
Total liabilities	14,965
<u>Net Assets</u>	
Invested in capital assets, net of related debt	5,989
Restricted for other purposes	32,478
Unrestricted	(6,129)
Total net assets	\$ 32,338

The chart below illustrates the Academy's assets, liabilities and net assets at fiscal year-end.



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Academy's assets exceeded liabilities by \$32,338.

At year-end, capital assets represented 12.66% of total assets. Capital assets consisted of a computer and printer. There is no debt related to this capital asset. Capital assets are used to provide services to the students and are not available for future spending.

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

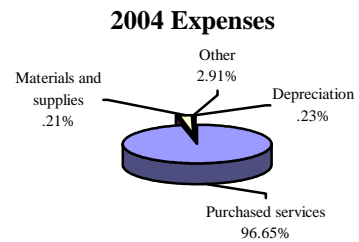
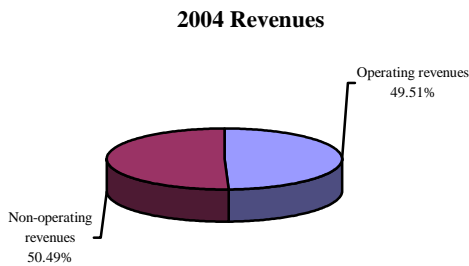
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The table below shows the changes in net assets for fiscal year 2004. Since this is the first year that the Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	2004
<u>Operating Revenues:</u>	
State foundation	\$ 155,487
Total operating revenue	155,487
<u>Operating Expenses:</u>	
Purchased services	272,257
Materials and supplies	603
Other	8,174
Depreciation	666
Total operating expenses	281,700
<u>Non-operating revenues:</u>	
Federal and state grants	158,520
Interest income	31
Total non-operating revenues	158,551
Change in net assets	\$ 32,338

The charts below illustrate the revenues and expenses for the Academy during fiscal 2004.



**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Economic Conditions and Outlook

The Academy is sponsored by the Lakewood Local School District. This is the Academy's initial year of operation. The Academy relies on the State Foundation Funds as well as the Federal Sub-Grants to provide the monies necessary to begin the start-up of an electronic conversion school. The Academy will be eligible to apply for a second round of Federal Sub-Grants after October 1, 2004.

In conclusion, the Lakewood Digital Academy has committed itself to financial excellence for many years.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and 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 questions about this report or need additional financial information contact Ms. Glenna J. Plaisted, Treasurer, Lakewood Digital Academy, 525 E. Main Street, P.O. Box 70, Hebron, Ohio 43025-0070.

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets:	
Current Assets:	
Cash and cash equivalents	\$ 21,814
Intergovernmental receivable	19,500
Total current assets	<u>41,314</u>
Non-Current Assets:	
Capital assets, net.	<u>5,989</u>
Total assets	<u>47,303</u>
Liabilities:	
Accounts payable	2,250
Intergovernmental payable	<u>12,715</u>
Total liabilities	<u>14,965</u>
Net Assets:	
Invested in capital assets, net	
of related debt	5,989
Restricted for:	
Other purposes	32,478
Unrestricted (deficit)	<u>(6,129)</u>
Total net assets	<u><u>\$ 32,338</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Operating revenues:	
State foundation	\$ 155,487
Total revenue	<u>155,487</u>
Operating expenses:	
Purchased services	272,257
Materials and supplies	603
Other operating expenses	8,174
Depreciation	666
Total expenses	<u>281,700</u>
Operating loss	<u>(126,213)</u>
Non-operating revenues:	
Federal and state grants	158,520
Interest income	31
Total other financing sources	<u>158,551</u>
Change in net assets	32,338
Net assets at beginning of year	<u>-</u>
Net assets at end of year	<u><u>\$ 32,338</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Cash flows from operating activities:	
Cash received from foundation	\$ 155,487
Cash payments to suppliers for goods and services. . .	(260,038)
Cash payments for other expenses	(8,174)
	<hr/>
Net cash used in operating activities	(112,725)
	<hr/>
Cash flows from noncapital financing activities:	
Federal and state grants.	139,020
	<hr/>
Net cash provided by noncapital financing activities	139,020
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(4,512)
	<hr/>
Net cash used in capital and related financing activities	(4,512)
	<hr/>
Cash flows from investing activities:	
Interest received	31
	<hr/>
Net cash provided by investing activities	31
	<hr/>
Net increase in cash and cash equivalents	21,814
Cash and cash equivalents at beginning of year . . .	-
Cash and cash equivalents at end of year.	\$ 21,814
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (126,213)
Adjustments:	
Depreciation.	666
Changes in assets and liabilities:	
Increase in accounts payable.	107
Increase in intergovernmental payable	12,715
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Net cash used in operating activities.	\$ (112,725)
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At June 30, 2004 the Academy had outstanding liabilities of \$2,143 for the purchase of capital assets.

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**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Lakewood Digital Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy 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 their tax exempt status. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K - 12 population entirely through distance learning technologies. It is to be operated under a contract with the Lakewood Local School District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and other, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was certified by the State of Ohio Secretary of State as a non-profit organization on April 8, 2002. The Academy was approved for operation under a contract between the Lakewood Local School District (the "Sponsor") for five years commencing November 22, 2002. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Academy began accepting students on August 25, 2003.

The Academy operates under the direction of a five-member Board of Directors which consists of the Lakewood Local School District superintendent, High School Academic Dean and Curriculum Coordinator, and two board members who shall not be officers or employees of the Lakewood School District, but shall be a public educator or official, one of which is to be appointed by TRECA. Due to the amount of influence the Lakewood Local School District has over the Academy's Board, the Academy is a component unit of the District. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Treasurer of Lakewood Local School District is the Chief Financial Officer.

The Board of Directors has entered into a two-year contract with Tri-Rivers Educational Computer Association ("TRECA") to provide planning, instructional, administrative, and technical services required for the operation of the Academy (See Note 6).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy does not apply FASB Statements or Interpretations issued after November 30, 1989. The Academy's significant accounting policies are described below.

**LAKESWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash

Cash received by the Academy is maintained in a demand deposit account.

E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$600. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Depreciation is computed using the straight-line method. Equipment is depreciated over five years.

**LAKESWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Net Assets

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

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education, the Title VI-B grant and the EMIS grant. Revenues received from the State Foundation Program are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is 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.

H. Accrued Liabilities

The Academy has recognized certain expenses due but unpaid as of June 30, 2004. These expenses are reported as accrued liabilities in the accompanying financial statements, which includes payments to TRECA, which have been reported as intergovernmental payables.

I. Estimates

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

NOTE 3 - CASH AND CASH EQUIVALENTS

At year-end the carrying amount of the Academy's deposits was \$21,814 and the bank balance was \$21,814. The entire balance was covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2004 follows:

Equipment	\$ 6,655
Less: accumulated depreciation	<u>(666)</u>
Net capital assets	<u>\$ 5,989</u>

**LAKESWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 5 - RECEIVABLES

The Academy participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$150,000 during the year ended June 30, 2004 to offset start-up costs of the Academy. Revenue received from this program is recognized as grants in the accompanying financial statements. \$19,500 of this award was receivable at June 30, 2004. All intergovernmental receivables are considered collectible in full due to the current year guarantee of Federal funds.

NOTE 6 - SERVICE AGREEMENT

A. Tri-Rivers Educational Computer Association

The Academy entered into a two-year agreement on November 22, 2002, with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative and technical services required for the operation of the Academy. Under the contract, TRECA is required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing to services to the Academy on behalf of TRECA. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to TRECA. In cases where equipment is unrecoverable, the Academy shall reimburse TRECA up to \$1,500 per student.
4. Curricular services limited to standardized curriculum developed by TRECA.

For these services, the Academy is required to pay the following fees to TRECA:

1. Annual Fee - The Academy shall pay \$60,000 for fiscal year 2003, except that fee shall be reduced by \$25,000 due and payable to Sponsor for services acquired by TRECA. The remaining fee shall be due in two equal payments. The first installment is due by June 1, 2003, or receipt by Academy of first installment of the Ohio Charter Schools Federal Sub-grant Program, whichever is later. The second installment is due by December 1, 2004 or upon receipt of the aforementioned first installment of such grant, whichever is later.
2. Enrollment - \$3,500 per full-time high school student and \$2,500 per full-time K-8 student enrolled per year. In case of a student enrolled with an IEP, the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, actual costs for that student provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from Department of Education for special education and related services is due to TRECA for that student.

**LAKESWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 6 - SERVICE AGREEMENT – (Continued)

Note: In the event that payments to the Academy from the Department of Education are reduced, the payments due from the Academy to TRECA shall be reduced accordingly. Also, under this agreement, all obligations hereunder are subject to contingent upon the Academy's receipt of the first installment paid to the Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program. For fiscal year 2004, the Academy remitted to TRECA \$25,000 upon receipt of the Sub-grant, a \$50,000 annual fee, and \$91,964 based on enrollment.

B. Lakewood Local School District

The Community School Sponsorship Contract and the annual Purchased Services Contract between the Academy and Lakewood Local School District outlined the specific payments to be made by the Academy to Lakewood Local School District during fiscal year 2004. In addition the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Lakewood LSD. The following payments were made in fiscal year 2004 from the Academy to Lakewood Local School District:

Purchased services for administrative and fiscal services	\$ 41,744
Annual payments of 5% of funding provided by the Ohio Department of Education (management fee)	7,774
Annual payments of \$150 per student per year.	10,200
Other mutually agreed upon payments (reimbursement of purchase of printer, training expenses, etc.)	<u>16,464</u>
Total amount of payments made by the Academy to Lakewood LSD in fiscal year 2004	<u>\$ 76,182</u>

C. Individual Purchase Service Contracts

The Academy entered into individual purchase service contracts with various individuals for the following services related to the start up of the Academy; Student Assistance Specialist, Executive Director, Administrative Director, Fiscal Services, EMIS, and Curriculum/Technology. A total of \$25,500 was paid in fiscal year 2004 for these individual contracts.

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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. On August 1, 2003, the Academy was named as an additional insured party on Lakewood Local School District's, the Sponsor, insurance policy with Selective Insurance for general liability and property insurance. The entire risk of loss; less any deductibles, transfers to the commercial carrier. The following limits and deductibles are in aggregate for both Academy and the Sponsor. Selective Insurance provides general liability coverage. The general liability coverage insures up to \$2,000,000 each occurrence and \$4,000,000 aggregate.

Selective Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverage insures up to a blanket limit of \$50,847,205 with a \$5,000 deductible, commercial inland covers up to \$10,000. The limits and deductibles stated above are in aggregate for both Academy and the Sponsor.

NOTE 8 - CONTINGENCIES

A. 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. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) School's 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 on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School was reviewed two times during this initial year of operations and one error was found in enrollment, withdrawals and attendance. The Academy anticipates insignificant adjustments to state funding for fiscal year 2005. However, as of the date of this report the amount of the adjustment could not be determined. Therefore no liability is reported as of June 30, 2004.

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 9 - CONTRACT SERVICES

For fiscal year ended June 30, 2004, contract services related to the purchase services described in Note 6 expenses were as follows:

Contractual services	\$ 210,647
Professional services	60,475
Travel	<u>1,135</u>
Total	<u><u>\$ 272,257</u></u>

NOTE 10 - SCHOOL FUNDING DECISION

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

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Auditor of State Betty Montgomery

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

Lakewood Digital Academy
Licking County
525 E. Main Street
P.O. Box 70
Hebron, Ohio 43025

To the Board of Directors:

We have audited the basic financial statements of Lakewood Digital Academy, Licking County, Ohio, (the School) a component unit of Lakewood Local School District, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 15, 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 School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the basic 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 basic 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 a certain matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to the School's management in a separate letter dated November 15, 2004.

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This report is intended solely for the information and use of the 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

November 15, 2004



**Auditor of State
Betty Montgomery**

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**LAKESWOOD DIGITAL ACADEMY
LICKING 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
DECEMBER 28, 2004**