



**Auditor of State  
Betty Montgomery**



**LONDON DIGITAL ACADEMY  
MADISON COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

London Digital Academy  
Madison County  
60 South Walnut Street  
London, Ohio 43140

To the Board of Directors:

We have audited the accompanying basic financial statements of the London Digital Academy, Madison County, Ohio, (the Academy), a component unit of the London City School District, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Academy'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 London Digital Academy, Madison County, Ohio, as of June 30, 2003, and the changes in financial position and 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 March 5, 2004, 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 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.

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 cursive script that reads "Betty Montgomery".

**Betty Montgomery  
Auditor of State**

March 5, 2004

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**London Digital Academy  
Madison County**  
*Management's Discussion and Analysis  
For the Year Ended June 30, 2003  
Unaudited*

The discussion and analysis of the financial performance of the London Digital Academy, provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the London Digital Academy. 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. The statement of net assets represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

**FINANCIAL ANALYSIS**

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

Table 1 provides a summary of the Academy's net assets for fiscal year 2003:

**Table 1  
Net Assets**

	<u><b>2003</b></u>
Assets:	
Current Assets	\$ 219,912
Liabilities:	
Current Liabilities	<u>163,452</u>
Net Assets:	
Unrestricted	<u><u>\$ 56,460</u></u>

**London Digital Academy  
Madison County**  
*Management's Discussion and Analysis  
For the Year Ended June 30, 2003  
Unaudited*

Table 2 shows the changes in net assets for fiscal year 2003:

**Table 2  
Change in Net Assets**

	<b>2003</b>
Operating Revenues:	
Foundation Payments	\$ 134,215
Operating Expenses:	
Purchased Services	254,336
Supplies and Materials	1,536
Miscellaneous	2,896
Total Operating Expenses	258,768
Operating Loss	(124,553)
Non-Operating Revenues:	
State and Federal Grants	180,436
Interest Earnings	577
Total Non-Operating Revenues	181,013
Increase in Net Assets	\$ 56,460

This is the initial year of operation for the Academy; therefore, fiscal year 2002 financial information is not available for inclusion in the discussion and analysis and no comparison between current and prior year can be analyzed. Additionally, the Academy operates as one business-type enterprise fund; therefore, analysis of balances and transactions of individual funds is not included in the discussion and analysis. Results of fiscal year 2003 operations indicate an increase in net assets of \$56,460 and corresponding ending net assets of \$56,460.

#### BUDGET

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors. Fiscal year 2003 revenues and expenses varied significantly from corresponding projections included on the five-year projection. The main cause of these variations was that the community school did not begin operations until July 15, 2002, and State and Federal Startup Grants were estimated above what was actually awarded for fiscal year 2003.

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

The Academy has no capital assets and has not issued any debt.

#### OTHER INFORMATION

Management is currently unaware of any known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.



LONDON DIGITAL ACADEMY  
MADISON COUNTY

STATEMENT OF NET ASSETS  
JUNE 30, 2003

**Assets**

Cash and Cash Equivalents	\$ 114,912
Intergovernmental Receivable	<u>105,000</u>

<i>Total Assets</i>	<u>219,912</u>
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**Liabilities**

Accounts Payable	560
Deferred Revenue	5,372
Due to Other Governments	<u>157,520</u>

<i>Total Liabilities</i>	<u>163,452</u>
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**Net Assets**

Unrestricted	<u>\$ 56,460</u>
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*See accompanying notes to the basic financial statements*

LONDON DIGITAL ACADEMY  
MADISON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2003

<b>Operating Revenues</b>	
Foundation Payments	<u>\$ 134,215</u>
<b>Operating Expenses</b>	
Purchased Services	254,336
Supplies and Materials	1,536
Miscellaneous	<u>2,896</u>
<i>Total Operating Expenses</i>	<u>258,768</u>
<i>Operating Loss</i>	<u>(124,553)</u>
<b>Non-Operating Revenues</b>	
Federal Grants	151,736
State Grants	28,700
Interest Earnings	<u>577</u>
<i>Total Non-Operating Revenues</i>	<u>181,013</u>
<i>Increase in Net Assets</i>	56,460
<i>Net Assets Beginning of Year</i>	<u>0</u>
<i>Net Assets End of Year</i>	<u>\$ 56,460</u>

See accompanying notes to the basic financial statements

**LONDON DIGITAL ACADEMY  
MADISON COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received for School Foundation	\$ 139,587
Cash Payments to Suppliers for Goods and Services	<u>(100,688)</u>

<i>Net Cash Provided by Operating Activities</i>	<u>38,899</u>
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**Cash Flows from Noncapital Financing Activities**

Non-Operating Grants Received	<u>75,436</u>
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<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>75,436</u>
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**Cash Flows from Investing Activities**

Interest on Investments	<u>577</u>
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<i>Net Cash Provided by Investing Activities</i>	<u>577</u>
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<i>Net Increase in Cash and Cash Equivalents</i>	114,912
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<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
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<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$114,912</u></u>
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**Reconciliation of Operating Loss to Net Cash  
Provided by Operating Activities**

Operating Loss	(124,553)
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Adjustments to Reconcile Operating Loss to Net  
Cash Provided by Operating Activities:

Increase in Liabilities:

Accounts Payable	560
Deferred Revenue	5,372
Due to Other Governments	<u>157,520</u>

<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 38,899</u></u>
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*See accompanying notes to the basic financial statements*

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**London Digital Academy  
Madison County**  
*Notes to the Basic Financial Statements  
For the Year Ended June 30, 2003*

**NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

London 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 the Academy's 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 in cooperation with the public schools 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 others, 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 approved for operation under a contract with the London City School District (the Sponsor). 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 operates under the direction of a six-member (five voting members) Board of Directors made up of:

- (a) Three persons employed and serving in administrator positions within the London City School District, which positions have been identified by the London City School District Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the London City School District Board of Education and its interests.
- (b) One person who is neither an officer nor employee of the London City School District who shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. Such person has been elected by the London City School District Board of Education.
- (c) One person who is neither an officer nor employee of the London City School District who is a representative initially appointed by the Tri-Rivers Educational Computer Association (TRECA), and who serves on the Board in his official capacity as a representative of TRECA and TRECA's interests. However, the TRECA representative shall within one year following the incorporation of the Academy, be replaced by a person appointed to represent the interests of parents and students served by the conversion school to be operated by the Academy. Such person shall be elected by the London City School District Board of Education.
- (d) The Academy's Treasurer as a non-voting ex officio member who is also the London City School District Treasurer and serves the Board of Directors in his official capacity as a representative of the London City School District Board of Education and its interests.

Therefore, the Academy is a component unit of the London City School District. Additionally, the Academy entered into a two-year contract on September 3, 2002, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services (See Note 8).

**London Digital Academy  
Madison County**  
*Notes to the Basic Financial Statements  
For the Year Ended June 30, 2003*

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the London Digital Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. 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 on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

**A. Enterprise Accounting**

The Academy'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.

The Academy uses enterprise accounting to track and report on its financial activities. 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 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 changes in net assets is appropriate for public policy, management control, accountability or other purposes.

**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. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are 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. Expenses are recognized at the time 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 Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

**London Digital Academy  
Madison County**  
*Notes to the Basic Financial Statements  
For the Year Ended June 30, 2003*

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

**D. Cash and Cash Equivalents**

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. 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. During fiscal year 2003, the Academy had no investments.

**E. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Foundation payments are recognized as operating revenues in the accounting period in which they are earned and become measurable. The Academy also participates in the State of Ohio Community School Grant Program and the Federal Charter School Grant Program through the Ohio Department of Education. Under these programs, the Academy was awarded \$150,000 in federal monies and \$25,700 in state monies to offset start-up costs of the Academy. Revenue received from these programs is recognized as non-operating revenue on the accompanying financial statements.

**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 the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy did not have any restricted net assets at fiscal year end.

**G. Operating Revenues and Expenses**

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.

**H. Estimates**

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

**NOTE 3 - DEPOSITS**

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

At fiscal year end, the carrying amount and bank balance of the Academy's deposits was \$114,912. Of the bank balance \$100,000 was covered by federal depository insurance and \$14,912 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

**London Digital Academy  
Madison County**  
*Notes to the Basic Financial Statements  
For the Year Ended June 30, 2003*

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2003, consisted of intergovernmental (federal grant) receivables in the amount of \$105,000. All intergovernmental receivables are considered collectible in full.

**NOTE 5 – FISCAL AGENT AND PAYMENTS TO SPONSOR**

The sponsorship agreement states that the Treasurer of the London City School District shall serve as the Chief Financial Officer (Treasurer) of the Academy.

The Treasurer of London City School District shall perform the following functions while serving as the Treasurer of the Academy:

- A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of the Academy;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

The Academy shall pay to the Sponsor such other amounts as are mutually agreed, including fees for any services provided to the Academy by the Sponsor.

**NOTE 6 - STATE 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 Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**NOTE 7 - RELATED PARTY TRANSACTION**

The Academy is a component unit of the London City School District. In fiscal year 2003, the Academy incurred \$155,710 in expenses payable to London City School District. This represents purchases of legal and other services provided by London City Schools to the Academy.

**NOTE 8 - MANAGEMENT CONSULTING CONTRACT**

The Academy entered into a two-year contract on September 3, 2002, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- 1. TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
- 2. All personnel providing services to the Academy 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.



**London Digital Academy  
Madison County**  
*Notes to the Basic Financial Statements  
For the Year Ended June 30, 2003*

**NOTE 8 - MANAGEMENT CONSULTING CONTRACT (Continued)**

3. The technical services provided by TRECA to the Academy 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.
4. In exchange for the services and support (including equipment) provided by TRECA, the Academy paid TRECA a fee of \$60,000 for the fiscal year 2003 school year and shall pay \$25,000 for the fiscal year 2004 school year.
5. The Academy shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K – 8 students enrolled in the Academy per school year. Part-time students may be enrolled on such terms as are agreed to by the parties. TRECA was paid \$31,890 in fiscal 2003 for student enrollment.

**NOTE 9 - CONTINGENCIES**

**A. Grants**

The School 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 Academy. 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, 2003.

**B. Litigation**

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging 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 for oral arguments was heard. The effect, if any, on the Academy is not presently determinable.

**NOTE 10 – PURCHASED SERVICES**

For the period July 1, 2002 through June 30, 2003, purchased services expenses were payments for professional and technical services in the amount of \$98,626. Of this amount, \$95,976 was paid during fiscal year 2003; the remaining \$2,650 represents an intergovernmental payable at June 30, 2003. Purchased services also included payments for legal and personnel services provided by London City Schools to the Academy in the amount of \$155,710. Of this amount, \$154,870 represents an intergovernmental payable at June 30, 2003. The total payments for professional, technical and personnel services totaled \$254,336, while intergovernmental payables totaled \$157,520.

**NOTE 11 – OHIO DEPARTMENT OF EDUCATION ENROLLMENT REVIEW**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy 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 the Academy in the amount of \$5,372. This amount has been reflected as deferred revenue and will be deducted from foundation funding in fiscal year 2004.

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## **Auditor of State Betty Montgomery**

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

London Digital Academy  
Madison County  
60 South Walnut Street  
London, Ohio 43140

To the Board of Directors:

We have audited the basic financial statements of London Digital Academy, Madison County, Ohio, (the Academy), a component unit of the London City School District, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 5, 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 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### **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 certain matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Academy in a separate letter dated March 5, 2004.

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London Digital Academy  
Madison County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
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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**

March 5, 2004



**Auditor of State  
Betty Montgomery**

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**LONDON DIGITAL ACADEMY**

**MADISON 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  
JUNE 8, 2004**