



**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, 2004, 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 the Comptroller General of the United States' *Government Auditing Standards*. 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, 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 May 12, 2005, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing 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, consisting principally of inquiries of management regarding the methods of measuring and presenting 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

May 12, 2005

**LONDON DIGITAL ACADEMY
MADISON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
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, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole.

- Net assets decreased \$14,417.
- Operating revenues accounted for \$225,196 in revenue or 97.6% of all revenues.
- Capital asset additions of \$6,427 consisted of furniture and equipment.

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.

REPORTING THE ACADEMY AS A WHOLE

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2004?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers 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 change 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 may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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.

**LONDON DIGITAL ACADEMY
MADISON COUNTY**

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

Table 1 provides a summary of the Academy's net assets for fiscal year 2004 compared to 2003:

**Table 1
Net Assets**

	2004	2003
Assets:		
Current Assets	\$ 210,651	\$ 219,912
Capital Assets	5,142	-
Total Assets	215,793	219,912
Liabilities:		
Current Liabilities	173,750	163,452
Net Assets		
Invested in Capital Assets	5,142	-
Restricted for Other Purposes	4,421	-
Unrestricted	32,480	56,460
Total Net Assets	\$ 42,043	\$ 56,460

Current liabilities increased due to an increase in Intergovernmental payables. The Academy had no capital assets in 2003.

An analysis of cash flows for operating activities in 2004 demonstrates cash payments for activities exceeding unrestricted cash receipts by \$17,267. The net cash provided by noncapital financing activities covers the net cash decrease in operating activities.

Operating Activities

Purchased services, made up of mainly professional and technical services, comprise 94.7 percent of operating expenses. The dependence upon state foundation revenues for operating activities is apparent. Foundation payments represented all of the operating revenue of the Academy.

**LONDON DIGITAL ACADEMY
MADISON COUNTY**

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

**Table 2
Change in Net Assets**

	2004	2003
Operating Revenues:		
Foundation Payments	\$ 225,196	\$ 134,215
Operating Expenses:		
Purchased Services	232,280	254,336
Supplies and Materials	8,640	1,536
Depreciation	1,285	-
Miscellaneous	2,908	2,896
Total Operating Expenses	245,113	258,768
Operating Loss	(19,917)	(124,553)
Non-Operating Revenues:		
State and Federal Grants	3,533	180,436
Interest Earnings	1,967	577
Total Non-Operating Revenues	5,500	181,013
Change in Net Assets	\$ (14,417)	\$ 56,460

This is the second year of operation for the Academy. Results of fiscal year 2004 operations indicate a decrease in net assets of (\$14,417) and corresponding ending net assets of \$42,043. The decrease in net assets was partially due to the delay and approval of the Phase 2 Federal Start Up grant until August 2004 by the Ohio Department of Education. In 2003, the Academy had Phase 1 of Start Up grant monies.

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 2004 revenues and expenses varied significantly from corresponding projections included on the five-year projection. The main cause of the revenue increase variation was due to increased enrollment. The main cause of the expense decrease variation was due to decreased actual purchases of supplies, materials, and capital outlay.

**LONDON DIGITAL ACADEMY
MADISON COUNTY**

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Academy invested in furniture and equipment in fiscal year 2004 costing \$6,427 and reported a balance of \$5,142 (net of \$1,285 in accumulated depreciation). There were no capital asset purchases in fiscal year 2003. Table 3 shows 2004 Capital Asset balances compared to 2003.

**Table 3
Capital Assets at June 30
(Net of Depreciation)**

	<u>2004</u>	<u>2003</u>
Furniture and Equipment	\$ 5,142	\$ -
Totals	<u>5,142</u>	<u>\$ -</u>

Debt

At June 30, 2004, the Academy had no 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.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, 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 information, contact Mr. Kevin Moxley, Treasurer of London City Schools, 60 South Walnut Street, London, Ohio 43140.

LONDON DIGITAL ACADEMY
MADISON COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets

Current Assets:

Cash and Cash Equivalents	\$ 201,718
Intergovernmental Receivable	8,933

<i>Total Current Assets</i>	<u>210,651</u>
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Noncurrent Assets:

Capital assets:

Depreciable capital assets, net	5,142
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<i>Total Noncurrent Assets</i>	<u>5,142</u>
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<i>Total Assets</i>	<u>215,793</u>
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Liabilities

Accounts Payable	203
Intergovernmental Payable	173,547

<i>Total Liabilities</i>	<u>173,750</u>
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Net Assets

Invested in Capital Assets	5,142
Restricted	4,421
Unrestricted	32,480

<i>Total Net Assets</i>	<u>\$ 42,043</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, 2004

Operating Revenues	
Foundation Payments	\$ 225,196
Operating Expenses	
Purchased Services	232,280
Supplies and Materials	8,640
Depreciation	1,285
Miscellaneous	2,908
	<hr/>
<i>Total Operating Expenses</i>	245,113
	<hr/>
<i>Operating Loss</i>	(19,917)
	<hr/>
Non-Operating Revenues	
Federal Grants	533
State Grants	3,000
Interest Earnings	1,967
	<hr/>
<i>Total Non-Operating Revenues</i>	5,500
	<hr/>
<i>Change in Net Assets</i>	(14,417)
	<hr/>
<i>Net Assets Beginning of Year</i>	56,460
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<i>Net Assets End of Year</i>	\$ 42,043
	<hr/> <hr/>

See accompanying notes to the basic financial statements

**LONDON DIGITAL ACADEMY
MADISON COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received for School Foundation	\$210,891
Cash Payments to Suppliers for Goods and Services	<u>(228,158)</u>
<i>Net Cash Used by Operating Activities</i>	<u>(17,267)</u>

Cash Flows from Noncapital Financing Activities

Non-Operating Grants Received	<u>108,533</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>108,533</u>

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(6,427)</u>
<i>Net Cash (Used in) Capital and Related Financing Activities</i>	<u>(6,427)</u>

Cash Flows from Investing Activities

Interest on Investments	<u>1,967</u>
<i>Net Cash Provided by Investing Activities</i>	<u>1,967</u>

Net Increase in Cash and Cash Equivalents 86,806

Cash and Cash Equivalents Beginning of Year 114,912

Cash and Cash Equivalents End of Year \$201,718

**Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities**

Operating Loss (19,917)

Adjustments to Reconcile Operating Loss to Net
Cash Provided by Operating Activities:

Adjustments:	
Depreciation	1,285
(Increase) decrease in assets:	
Intergovernmental Receivable	(8,933)
Increase (decrease) in Liabilities:	
Accounts Payable	(357)
Deferred Revenue	(5,372)
Intergovernmental Payable	<u>16,027</u>

Total Adjustments 2,650

Net Cash Used by Operating Activities (\$17,267)

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, 2004**

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 10).

**LONDON DIGITAL ACADEMY
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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 uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

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. Operating statements present increases and decreases in net total 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 used for reporting purposes. Revenues are recognized when 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 Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe an annual budget requirement in addition to preparing a five year, which is to be updated annually.

**LONDON DIGITAL ACADEMY
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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 2004, the Academy had no investments.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Foundation payments are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants 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 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.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. 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 reported restricted net assets at fiscal year end for state and federal grant cash balances. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

**LONDON DIGITAL ACADEMY
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 3 - DEPOSITS

The carrying amount of the Academy's deposits was \$201,718 and the bank balance was \$202,135. Of the bank balance \$100,000 was covered by federal depository insurance and \$102,135 was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental (State Foundation Program) receivables in the amount of \$8,933. This was due to an underpayment of foundation monies by the Ohio Department of Education. All intergovernmental receivables are considered collectible in full.

NOTE 5 – CAPITAL ASSETS

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess 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.

The Academy's only capital asset class is furniture and equipment and is depreciated using the straight-line method over a useful life of 5 years. This was the first year that the Academy purchased capital assets.

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

Furniture and Equipment	\$ 6,427
Less: accumulated depreciation	<u>1,285</u>
Net capital assets	<u><u>\$ 5,142</u></u>

NOTE 6 – RISK MANAGEMENT

PROPERTY AND LIABILITY

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters. For fiscal year 2004, the Academy contracted with an insurance provider to provide insurance in the following coverage:

Commercial general liability: \$2,000,000 general aggregate limit with a \$1,000,000 single occurrence limit. The Academy maintains replacement cost insurance on business personal property in the amount of \$5,000. Settled claims have not exceeded this commercial coverage since the Academy's inception.

NOTE 7 – 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:

**LONDON DIGITAL ACADEMY
MADISON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR (Continued)

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

NOTE 8 - 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 9 - RELATED PARTY TRANSACTION

The Academy is a component unit of the London City School District. The Academy and the Sponsor entered into a 5-year sponsorship agreement on July 15, 2002 whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's treasurer serves as the Academy's fiscal officer. Also, the Academy is required annually to pay to the Sponsor, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.03(C) of the Ohio Revised Code, such amounts as are mutually agreed, including fees for any services to the Academy by the Sponsor.

In fiscal year 2004, the Academy paid \$159,516 to London City School District. This represents payment for personnel services provided by London City Schools to the Academy.

In fiscal year 2004, one representative from TRECA serves as a member of the Academy's Board of Directors. Payments made by the Academy to TRECA in fiscal year 2004 totaled \$52,652.

NOTE 10 - 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, 2004
(Continued)**

NOTE 10 - 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 2002-2003 school year shall pay \$25,000 for the 2003-2004 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.

NOTE 11 - CONTINGENCIES

A. Grants

The Academy 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, 2004.

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 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 education 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.

NOTE 12 – PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased services expenses were payments for professional and technical services in the amount of \$72,764. Of this amount, \$62,250 was paid during fiscal year 2004; the remaining \$10,514 represents an intergovernmental payable at June 30, 2004. Purchased services also included payments for personnel services provided by London City Schools to the Academy in the amount of \$159,516. This entire amount was shown as an intergovernmental payable at June 30, 2004.

NOTE 13 – 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 conclusions of this review could result in state funding being adjusted. The fiscal year 2004 review resulted in the discovery of an underpayment to the Academy in the amount of \$8,933. This amount has been reflected as a receivable and was repaid to Academy in February 2005.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2004, and have issued our report thereon dated May 12, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated May 12, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated May 12, 2005, we reported a matter related to noncompliance we deemed immaterial.

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Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
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This report is intended for the information and use of the management and the Board of Directors. It is not intended for 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

May 12, 2005



**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
JULY 5, 2005**