



**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008



Mary Taylor, CPA
Auditor of State

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTS' REPORT

Lancaster-Fairfield Digital Academy
Fairfield County
345 East Mulberry Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the accompanying basic financial statements of the Lancaster-Fairfield Digital Academy, Fairfield County, Ohio (the LFDA), a component unit of the Lancaster City School District, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the LFDA'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 reasonably assure 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 Lancaster-Fairfield Digital Academy, Fairfield County, Ohio, as of June 30, 2008, 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 December 5, 2008, on our consideration of the LCFS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

December 5, 2008

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

The discussion and analysis of the Lancaster-Fairfield Digital Academy's (LFDA) financial performance provides an overall review of the LFDA's financial activities for the fiscal year ended June 30, 2008. Readers should also review the basic financial statements and notes to enhance their understanding of the LFDA's financial performance.

Highlights

LFDA finished its fifth year of operation during fiscal year 2008 as a kindergarten through twelfth grade online internet school. Each student is provided a computer, scanner, and printer which are used to access a curriculum based on the state model and which uses certified/licensed instructors. Enrollment varied during the year but averaged 84 students.

Key highlights for fiscal year 2008 are as follows:

- Net assets increased \$119,033.
- LFDA had an operating income of \$53,546 compared to an operating income of \$54,807 in fiscal year 2007.
- Total assets increased \$106,951 or 22 percent, due to a \$71,600 increase in cash and cash equivalents and a \$57,369 increase in intergovernmental receivables. Increases were offset by decreases in prepaids in the amount of \$262 and a \$21,756 decrease in capital assets.
- Total liabilities decreased \$12,082 due mainly to LFDA being overpaid during fiscal year 2007 \$6,951 through State foundation. This overpayment was recorded as deferred revenue as of June 30, 2007. The Ohio Department of Education deducted the \$6,951 from their foundation payments during fiscal year 2008. The Ohio Department of Education review for fiscal year 2008 resulted in an underpayment of \$7,067. This amount was shown as an intergovernmental receivable as of June 30, 2008.

Using this Annual Financial Report

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

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how LFDA did financially during fiscal year 2008. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

LFDA uses enterprise presentation for all of its activities.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Table 1 provides a summary of LFDA's net assets for 2008 compared to 2007:

**Table 1
Net Assets**

	<u>2008</u>	<u>2007</u>	<u>Change</u>
<u>Assets:</u>			
Current Assets	\$500,188	\$371,481	\$128,707
Capital Assets	88,786	110,542	(21,756)
Total Assets	<u>588,974</u>	<u>482,023</u>	<u>106,951</u>
<u>Liabilities:</u>			
Current Liabilities	<u>4,725</u>	<u>16,807</u>	<u>(12,082)</u>
<u>Net Assets:</u>			
Invested in Capital Assets	88,786	110,542	(21,756)
Unrestricted	<u>495,463</u>	<u>354,674</u>	<u>140,789</u>
Total Net Assets	<u><u>\$584,249</u></u>	<u><u>\$465,216</u></u>	<u><u>\$119,033</u></u>

Total assets increased \$106,951. The increase was due to an increase in cash and cash equivalents in the amount of \$71,600 and a \$57,369 increase in intergovernmental receivable. Increases were offset by decreases in prepaids in the amount of \$262 and a \$21,756 decrease in capital assets. Liabilities decreased \$12,082 due mainly to LFDA being overpaid \$6,951 through their State foundation for fiscal year 2007. This overpayment was posted as deferred revenue as of June 30, 2007. The Ohio Department of Education deducted the \$6,951 from their foundation payments during fiscal year 2008. The Ohio Department of Education review resulted in an underpayment in the amount of \$7,067. This amount was shown as an intergovernmental receivable as of June 30, 2008.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2008.

**Table 2
Change in Net Assets**

	<u>2008</u>	<u>2007</u>	<u>Change</u>
<u>Operating Revenues:</u>			
Foundation	\$488,627	\$436,023	\$52,604
<u>Non-Operating Revenues:</u>			
Operating Grants	53,302	3,000	50,302
Interest Revenue	13,350	14,343	(993)
Total Revenues	<u>555,279</u>	<u>453,366</u>	<u>101,913</u>
<u>Operating and Non-Operating Expenses:</u>			
Purchased Services	396,688	345,527	51,161
Materials and Supplies	2,637	568	2,069
Depreciation	35,756	35,121	635
Loss on Disposal of Capital Assets	1,165	0	1,165
Total Expenses	<u>436,246</u>	<u>381,216</u>	<u>55,030</u>
Total Increase in Net Assets	<u>\$119,033</u>	<u>\$72,150</u>	<u>\$46,883</u>

Fiscal year 2008 reflects an increase in foundation revenues and expenses due to the increase in the number of students served by the LFDA. The purchased services expenses were mainly for computer services with the Metropolitan Educational Council, for guidance and computer services with Tri-Rivers Educational Association, and computer imaging, technical and administrative services with the Sponsor. The increase in materials and supplies was due to LFDA purchasing a large amount of computer supplies during fiscal year 2008.

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, LFDA had \$88,786 invested in computer equipment. Table 3 shows fiscal year 2008 balances compared to 2007.

LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED
(Continued)**

**Table 3
Capital Assets (Net of Depreciation)**

	<u>2008</u>	<u>2007</u>
Computer Equipment	\$88,786	\$110,542

Debt

LFDA has not incurred any debt.

Current Issues

The nature of instruction over the internet has improved over the course of the schools existence. Delivery of education materials has shifted to a web based system that will standardize delivery in the long run. The change to web based delivery has caused a shift from legacy methods to the "Angel" web based delivery. The LFDA remains an alternative to traditional schooling.

Contacting the LFDA's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the LFDA's finances and to show the LFDA's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Paul Shaw, Interim-Treasurer, Lancaster-Fairfield Digital Academy, 345 East Mulberry Street, Lancaster, Ohio 43130. Or E-Mail at pshaw@loganhocking.k12.oh.us.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 441,789
Intergovernmental Receivable	57,369
Prepaid Items	1,030
Total Current Assets	<u>500,188</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>88,786</u>
Total Assets	<u>588,974</u>
 <u>Liabilities:</u>	
Accounts Payable	729
Intergovernmental Payable	3,996
Total Liabilities	<u>4,725</u>
 <u>Net Assets:</u>	
Invested in Capital Assets	88,786
Unrestricted	495,463
Total Net Assets	<u>\$ 584,249</u>

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<u>Operating Revenues:</u>	
Foundation	\$ 488,627
	<hr/>
<u>Operating Expenses:</u>	
Purchased Services	396,688
Materials and Supplies	2,637
Depreciation	35,756
Total Operating Expenses	<hr/> 435,081 <hr/>
Operating Income	<hr/> 53,546 <hr/>
<u>Non-Operating Revenues and Expenses:</u>	
Operating Grants	53,302
Interest Revenue	13,350
Loss on Disposal of Capital Assets	(1,165)
Total Non-Operating Revenues and Expenses	<hr/> 65,487 <hr/>
Change in Net Assets	119,033
Net Assets at Beginning of Year	465,216
Net Assets at End of Year	<hr/> \$ 584,249 <hr/> <hr/>

See accompanying notes to the basic financial statements

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$ 474,609
Cash Payments to Suppliers for Goods and Services	(404,194)
Net Cash Provided by Operating Activities	<u>70,415</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received	3,000
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Cash Flows for Capital and Related Financing Activities:

Acquisition of Capital Assets	(15,165)
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Cash Flows from Investing Activities:

Interest on Investments	<u>13,350</u>
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Net Increase in Cash and Cash Equivalents	71,600
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Cash and Cash Equivalents Beginning of Year	<u>370,189</u>
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Cash and Cash Equivalents End of Year	<u><u>441,789</u></u>
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Reconciliation of Operating Income to

Net Cash Provided by Operating Activities:

Operating Income	53,546
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Adjustments to Reconcile Operating Income

to Net Cash Provided by Operating Activities:

Depreciation	35,756
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Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable	(7,067)
Decrease in Prepaid Items	262
Increase in Accounts Payable	729
Decrease in Intergovernmental Payable	(5,860)
Decrease in Deferred Revenue	<u>(6,951)</u>

Net Cash Provided by Operating Activities	<u><u>\$ 70,415</u></u>
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See accompanying notes to the basic financial statements

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**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Note 1 - Description of the School

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

LFDA was created on August 27, 2002 by entering into a contract with the Lancaster City School District (the Sponsor). The Sponsor is responsible for evaluating the performance of LFDA and has the authority to deny renewal of the contract at its expiration. The Treasurer of the Sponsor completes the role of Treasurer for the LFDA.

LFDA was created to operate under the direction of a five-member Board of Directors made up of individuals from the community and parents of the students served by the LFDA. Five board members were approved in the bylaws to serve on the Board but currently LFDA only has three members. The Sponsor has attempted to recruit new board members but has been unsuccessful. LFDA is a component unit of the Sponsor. The Sponsor appoints the board and is able to impose its will on the LFDA. The Sponsor can suspend the LFDA's operations for any of the following reasons: 1) The LFDA's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The LFDA's failure to meet generally accepted standards of fiscal management, 3) The LFDA's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of LFDA and the children it serves. During fiscal year 2008, LFDA paid purchased services to TRECA for providing the planning, design, implementation, and instructional services. Thus, LFDA did not have any employees. LFDA rented facilities from the Sponsor.

LFDA participates in the Ohio School Plan which is considered an insurance purchasing pool. This organization is presented in Note 11 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the LFDA have been prepared in conformity with generally accepted accounting principals (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. LFDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the LFDA's accounting policies are described below.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation

The LFDA'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.

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

B. Measurement Focus

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

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by LFDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. LFDA had no investments during the fiscal year ended June 30, 2008.

F. Prepaid Items

LFDA records payments made to vendors for services that will benefit periods beyond June 30, 2008, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets

LFDA's capital assets during fiscal year 2008 consisted of computer equipment. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. LFDA maintains a capitalization threshold of five hundred dollars. All of LFDA's reported capital assets are depreciated using the straight-line method over six years of useful life.

H. 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 LFDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. LFDA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The statement of net assets reports no restricted net assets and has no monies restricted by enabling legislation.

I. Operating Revenues and Expenses

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

J. 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 – Changes in Accounting Principles

For 2008, LFDA has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. LFDA had no changes.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Note 3 – Changes in Accounting Principles (Continued)

GASB Statement No. 50 requires employers contributing to defined pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, LFDA's deposits may not be returned. LFDA does not have a deposit policy for custodial credit risk. At June 30, 2008, the bank balance of LFDA's deposits was \$442,697. \$100,000 of the bank balance was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$342,697 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 - Receivables

Receivables at June 30, 2008, consisted of intergovernmental grants. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Title II-D Grant	\$314
Title V Grant	384
Drug Free School Grant	464
Improving Teacher Quality Grant	1,938
State Foundation Adjustment for Underpayment	7,067
IDEA Part B Grant	16,669
Title I Grant	<u>30,533</u>
Total	<u><u>\$57,369</u></u>

Note 6 – Contract with TRECA

LFDA contracted with TRECA for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide LFDA with instructional, supervisory/administrative, and technical services sufficient to effectively implement LFDA's educational plan and LFDA's assessment and accountability plan.
- All personnel providing services to LFDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to LFDA 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.
- LFDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of LFDA.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Note 6 – Contract with TRECA (Continued)

- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- LFDA shall pay TRECA up to \$3,750 per full-time student K-12 student enrollment in LFDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2008 \$289,084 was paid to TRECA under this contract and \$3,996 was a payable to TRECA at June 30, 2008.

To obtain TRECA's audited June 30, 2008, financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

Note 7 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Computer Equipment	\$210,725	15,165	(1,165)	\$ 224,725
Less Accumulated Depreciation	(100,183)	(35,756)		(135,939)
Capital Assets, Net	<u>\$110,542</u>	<u>(\$20,591)</u>	<u>(1,165)</u>	<u>\$88,786</u>

Note 8 - Risk Management

LFDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2008, LFDA joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool, for insurance coverage. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The types and amounts of coverage provided are as follows:

Educational General Liability:	
General Aggregate Limit	\$4,000,000
Sexual Abuse Injury	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Personal and Advertising Injury	2,000,000
Employee Benefits Injury:	
Each Occurrence	2,000,000
Aggregate	4,000,000
Employer's Liability for Each Accident	2,000,000
Errors and Omissions:	
Each Occurrence (deductible \$2,500)	2,000,000
Aggregate Limit (deductible \$2,500)	4,000,000
Employment Practices Injury:	
Each Occurrence (deductible \$2,500)	2,000,000
Aggregate (deductible \$2,500)	4,000,000

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Note 8 - Risk Management (Continued)

Settled claims have not exceeded this commercial coverage in any prior years and there have been no significant reductions in insurance coverage from the prior year.

Note 9 – Purchased Services

For the period July 1, 2007 through June 30, 2008, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Professional and Technical Services	\$374,577
Rent	17,920
Audit Services	<u>4,191</u>
Total	<u><u>\$396,688</u></u>

Note 10 – Related Party Transactions

Lancaster City School District, Sponsor, appoints all of the three board members of the LFDA. LFDA is presented as a component unit of the Sponsor. During fiscal year 2008, LFDA paid \$96,388 to their Sponsor for administrative services, the development of web delivered services, technology relating to those services and curricular design, rent, and for reimbursements of miscellaneous services. As of June 30, 2008, there were no payables due from the LFDA to their Sponsor.

Note 11 – Pool

LFDA participates in the Ohio School Plan (OSP), and insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a twelve member Board of Directors consisting of school district superintendents and treasurers. Hylant Administrative Services, LLC is the Administrator of the OSP and is responsible for providing underwriting, claims management, risk management, accounting, system support services, sales, and marketing.

Note 12 - Contingencies

A. Grants

LFDA 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 LFDA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the LFDA at June 30, 2008.

LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

Note 12 – Contingencies (Continued)

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LFDA. These reviews are conducted to ensure LFDA is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. During fiscal year 2008, LFDA repaid \$6,951 to the State through foundation revenue reductions due to receiving an overpayment during fiscal year 2007. The fiscal year 2008 review resulted in the discovery of an underpayment to LFDA in the amount of \$7,067. This amount has been reflected as an intergovernmental receivable as of June 30, 2008.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lancaster-Fairfield Digital Academy
Fairfield County
345 East Mulberry Street
Lancaster, Ohio 43130

To the Board of Directors:

We have audited the basic financial statements of the Lancaster-Fairfield Digital Academy, Fairfield County, Ohio, (the LFDA), a component unit of Lancaster City School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. 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 LFDA's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the LFDA's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the LFDA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the LFDA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the LFDA's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the LFDA's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the LFDA'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*.

We did note certain noncompliance or other matters that we reported to the LFDA's management in a separate letter dated December 5, 2008.

We intend this report solely for the information and use of the management, Board of Directors, and the Lancaster City School District. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

December 5, 2008



Mary Taylor, CPA
Auditor of State

LANCASTER-FAIRFIELD DIGITAL ACADEMY

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 6, 2009**