



**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lancaster-Fairfield Digital Academy
Fairfield County
111 South Broad 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, 2005. 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lancaster-Fairfield Digital Academy, Fairfield County, Ohio, as of June 30, 2005, 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 27, 2005, on our consideration of the LFDA'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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 27, 2005

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. Readers should also review the basic financial statements and notes to enhance their understanding of the LFDA's financial performance.

Highlights

LFDA finished its third year of operation during fiscal year 2005 as a kindergarten through twelfth grade online internet school. Each student was provided a computer, scanner, and printer which were used to access a curriculum based on the state model and which used certified/licensed instructors. Enrollment varied during the year but averaged 47 students.

Key highlights for fiscal year 2005 are as follows:

- Net assets increased \$162,733.
- LFDA had operating income of \$9,733 compared to an operating loss of \$43,803 in fiscal year 2004 and an operating loss of \$10,991 in fiscal year 2003.
- Total assets increased \$164,505 or 56 percent, due to a \$153,750 increase in cash and cash equivalents, a \$15,000 increase in intergovernmental receivable, and a decrease of \$4,245 in capital assets.
- Total liabilities increased \$1,772 due mainly to an increase in intergovernmental payables.

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 2005. 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, 2005
UNAUDITED
(Continued)**

Table 1 provides a summary of LFDA's net assets for 2004 compared to 2005:

Table 1
Net Assets

	<u>2005</u>	<u>2004</u>
<u>Assets:</u>		
Current Assets	\$367,158	\$198,408
Capital Assets	88,699	92,944
Total Assets	<u>455,857</u>	<u>291,352</u>
 <u>Liabilities:</u>		
Current Liabilities	<u>14,482</u>	<u>12,710</u>
 <u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	88,699	92,944
Restricted for Other Purposes	150,700	125,700
Unrestricted	<u>201,976</u>	<u>59,998</u>
Total Net Assets	<u><u>\$441,375</u></u>	<u><u>\$278,642</u></u>

Total assets increased \$164,505. The increase was due to the increase in ending cash balances of \$153,750, the increase in receivables of \$15,000, and a decrease of \$4,245 in capital assets. Liabilities increased \$1,772 due mainly to LFDA owing EMIS service payments to the Lancaster City School District (the Sponsor).

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2004 compared to 2005.

Table 2
Change in Net Assets

	2005	2004
<u>Operating Revenues:</u>		
Foundation	\$342,310	\$231,112
<u>Non-Operating Revenues:</u>		
Operating Grants	153,000	153,001
Total Revenues	495,310	384,113
 <u>Operating Expenses:</u>		
Purchased Services	297,530	249,681
Materials and Supplies	15,815	12,777
Depreciation	19,232	12,457
Total Expenses	332,577	274,915
 Total Increase in Net Assets	\$162,733	\$109,198

Fiscal year 2005 showed 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.

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, LFDA had \$88,699 invested in computer equipment. Table 3 shows fiscal year 2005 balances compared to 2004.

Table 3
Capital Assets (Net of Depreciation)

	2005	2004
Computer Equipment	\$88,699	\$92,944

LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY

*MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)*

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 Scott Osborne, Treasurer, Lancaster Digital Academy, 111 South Broad Street, Lancaster, Ohio 43130. Or E-Mail at S.OSBORNE@LANCASTER.K12.OH.US.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$207,458
Restricted Assets:	
Cash and Cash Equivalents	34,700
Intergovernmental Receivable	125,000
Total Current Assets	<u>367,158</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>88,699</u>
Total Assets	<u>455,857</u>
 <u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	340
Intergovernmental Payable	5,142
Payable from Restricted Assets:	
Intergovernmental Payable	<u>9,000</u>
Total Liabilities	<u>14,482</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	88,699
Restricted for Other Purposes	150,700
Unrestricted	<u>201,976</u>
Total Net Assets	<u><u>\$441,375</u></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, 2005**

<u>Operating Revenues:</u>	
Foundation	<u>\$342,310</u>
<u>Operating Expenses:</u>	
Purchased Services	297,530
Materials and Supplies	15,815
Depreciation	<u>19,232</u>
Total Operating Expenses	<u>332,577</u>
Operating Income	9,733
<u>Non-Operating Revenues:</u>	
Operating Grants	<u>153,000</u>
Change in Net Assets	162,733
Net Assets at Beginning of Year	<u>278,642</u>
Net Assets at End of Year	<u><u>\$441,375</u></u>

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, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$340,547
Cash Payments to Suppliers for Goods and Services	(309,810)
Net Cash Used for Operating Activities	<u>30,737</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received	138,000
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Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	<u>(14,987)</u>
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Net Increase in Cash and Cash Equivalents	153,750
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Cash and Cash Equivalents Beginning of Year	<u>88,408</u>
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Cash and Cash Equivalents End of Year	<u><u>\$242,158</u></u>
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Reconciliation of Operating Income to

Net Cash Provided by Operating Activities:

Operating Income	\$9,733
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Adjustments to Reconcile Operating Income

to Net Cash Used for Operating Activities:

Depreciation	19,232
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Changes in Assets and Liabilities:

Increase in Accounts Payable	340
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Increase in Intergovernmental Payable	3,195
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Decrease in Deferred Revenue	<u>(1,763)</u>
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Net Cash Provided by Operating Activities	<u><u>\$30,737</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, 2005**

1. DESCRIPTION OF THE SCHOOL

The Lancaster-Fairfield Digital Academy (LFDA), formally known as the Lancaster Digital Academy (LFDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. LFDA 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 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 a five year 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 operates under the direction of a seven-member Board of Directors made up of five-members from the Lancaster City School District and two-members from the public. The first public member shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of LFDA. The second public member shall be a person who represents the interests of parents and students served by the conversion school. LFDA is a component unit of the Sponsor. The Sponsor appoints a majority of the board and is able to impose it's will on the 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 2005, LFDA paid purchased services to TRECA for providing the planning, design, implementation, instructional, administrative, and technical services. Thus, LFDA did not have any employees. LFDA used the facilities of the Sponsor.

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, 2005
(Continued)**

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 records. 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, 2005.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

LFDA's capital assets during fiscal year 2005 consisted of computers and computer equipment. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed 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.

G. 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 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 \$150,700 in restricted net assets, of which none of it is restricted by enabling legislation.

H. Restricted Assets

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

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.

3. CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2005, LFDA has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", and early-implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Statement No. 40 modifies the disclosures for deposits and investments. See Note 4 "Deposits" for the required disclosures.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets, and had no material effect on the financial statements.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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, 2005, the carrying amount and bank balance of LFDA's deposits was \$242,158. \$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", \$142,158 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

5. RECEIVABLES

At June 30, 2005, receivables consisted of intergovernmental receivables of \$125,000 from the Ohio Public Charter Schools Program Grant. The receivable is expected to be collected in full within one year.

6. CONTRACT WITH TRECA

LFDA entered into a contract on August 16, 2004, for fiscal year 2005, with TRECA. 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.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- In exchange for the services and support (including equipment) provided by TRECA, LFDA shall pay to TRECA a fee of \$25,000 for the 2004-2005 school year.
- LFDA shall pay TRECA \$3,550 per full-time high school student and \$2,550 per full-time K-8 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 2005, \$203,494 was paid to TRECA and \$5,142 was a payable to TRECA at June 30, 2005.

To obtain TRECA's audited June 30, 2005, financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Computer Equipment	105,401	14,987	0	120,388
Less Accumulated Depreciation	(12,457)	(19,232)	0	(31,689)
Capital Assets, Net	<u>\$92,944</u>	<u>(\$4,245)</u>	<u>\$0</u>	<u>\$88,699</u>

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; injuries to employees; and natural disasters. During fiscal year 2005, LFDA contracted with Hilb, Rogal, and Hobbs for insurance coverage with the Netherlands Insurance Company. The types and amounts of coverage provided are as follows:

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	1,000,000
Medical Expense Limit - Any One Person/Occurrence	10,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Errors and Omissions (Deductible \$10,000):	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

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.

9. PURCHASED SERVICES

For the period July 1, 2004 through June 30, 2005, purchased service expenses were for the following services:

Type	Amount
Professional and Technical Services	\$291,831
Audit Services	3,699
Testing Services	2,000
Total	<u>\$297,530</u>

**LANCASTER-FAIRFIELD DIGITAL ACADEMY
FAIRFIELD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. RELATED PARTY TRANSACTIONS

Of the seven-member board of the LFDA, Lancaster City School District, Sponsor, appoints five-members. LFDA is presented as a component unit of the Sponsor. During fiscal year 2005, LFDA paid \$79,121 to their Sponsor for administrative services, the development of web delivered services, technology relating to those services and curricular design, and the reimbursement of audit expenses. As of June 30, 2005, LFDA owed \$9,000 to their Sponsor for EMIS services.

11. 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, 2005.

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools Program violates the State's 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 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on LFDA is not presently determinable.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LFDA. These reviews are conducted to ensure LFDA is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. The fiscal year 2005 review is currently not available.



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*

Lancaster-Fairfield Digital Academy
Fairfield County
111 South Broad 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 the Lancaster City School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 27, 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 LFDA'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 LFDA's management dated December 27, 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 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*. In a separate letter to the LFDA's management dated December 27, 2005, we reported other matters related to noncompliance we deemed immaterial.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

We intend this report solely for the information and use of 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

December 27, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
FEBRUARY 9, 2006**