

LAKEWOOD DIGITAL ACADEMY
(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO
BASIC
FINANCIAL STATEMENTS
(Audited)
FOR THE FISCAL YEAR ENDED
JUNE 30, 2007

GLENN J. PLAISTED, TREASURER



Mary Taylor, CPA

Auditor of State

Board of Directors
Lakewood Digital Academy
525 E. Main Street
Hebron, OH 43025

We have reviewed the *Independent Auditor's Report* of the Lakewood Digital Academy, Licking County, prepared by Julian and Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lakewood Digital Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 26, 2007

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LAKWOOD DIGITAL ACADEMY
(A Component Unit of Lakewood Local School District)
LICKING COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Directors
Lakewood Digital Academy
525 E. Main Street
P. O. Box 70
Hebron, OH 43025

We have audited the accompanying financial statements of the Lakewood Digital Academy (A Component Unit of Lakewood Local School District), Licking County Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise the Lakewood Digital Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lakewood Digital 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 the 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 respective financial position of the Lakewood Digital Academy, as of June 30, 2007, and the respective changes in financial position and its cash flows for the fiscal 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 October 17, 2007, on our consideration of the Lakewood Digital Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3-5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Julian & Grube, Inc.
October 17, 2007

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKEWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The discussion and analysis of the Lakewood Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets were \$169,822 at June 30, 2007.
- The Academy had operating revenues of \$209,842 and operating expenses of \$213,352 for fiscal year 2007. The Academy also received \$343 in interest revenue and \$94,180 in state and federal grants during fiscal year 2007. Total change in net assets for the fiscal year was an increase of \$91,013.

Using these Basic Financial Statements

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

Reporting the Academy Financial Activities

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

These documents look at all financial transactions and ask the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

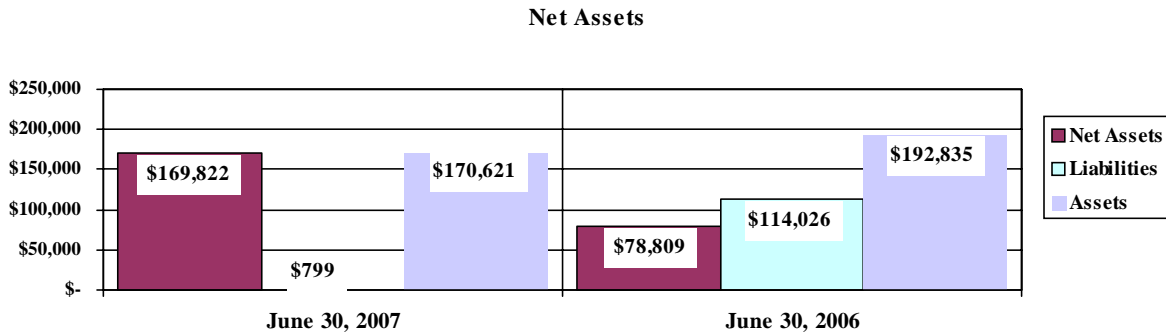
**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The table below provides a summary of the Academy's net assets for fiscal years 2007 and 2006.

Net Assets		
	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current assets	\$ 43,605	\$ 108,049
Capital assets, net	<u>127,016</u>	<u>84,786</u>
Total assets	<u>170,621</u>	<u>192,835</u>
<u>Liabilities</u>		
Current liabilities	<u>799</u>	<u>114,026</u>
Total liabilities	<u>799</u>	<u>114,026</u>
<u>Net Assets</u>		
Invested in capital assets	127,016	84,786
Restricted for federally funded programs	2,674	13,189
Unrestricted	<u>40,132</u>	<u>(19,166)</u>
Total net assets	<u>\$ 169,822</u>	<u>\$ 78,809</u>

The chart below illustrates the Academy's assets, liabilities and net assets at June 30 for fiscal years 2007 and 2006.



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Academy's assets exceeded liabilities by \$169,822.

At year-end, capital assets represented 74.44% of total assets. Capital assets consisted of computers and printers. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

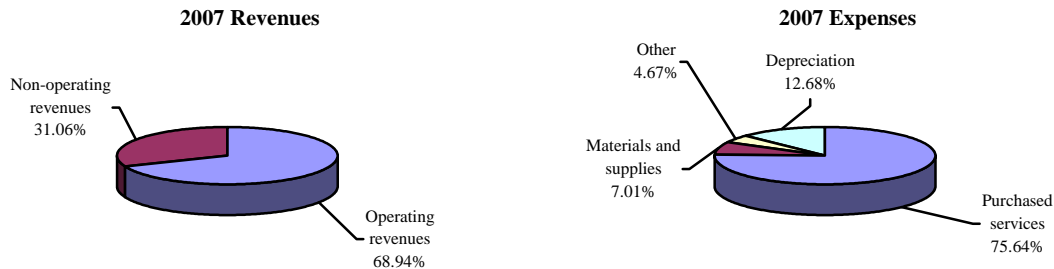
The table below shows the changes in net assets for fiscal years 2007 and 2006.

Change in Net Assets

	<u>2007</u>	<u>2006</u>
<u>Operating Revenues:</u>		
State foundation	\$ 209,842	\$ 108,121
Total operating revenue	<u>209,842</u>	<u>108,121</u>
<u>Operating Expenses:</u>		
Purchased services	161,362	122,958
Materials and supplies	14,962	4,464
Other	9,967	5,331
Depreciation	<u>27,061</u>	<u>10,382</u>
Total operating expenses	<u>213,352</u>	<u>143,135</u>
<u>Non-operating revenues:</u>		
Federal and state grants	94,180	117,194
Interest income	<u>343</u>	<u>131</u>
Total non-operating revenues	<u>94,523</u>	<u>117,325</u>
Change in net assets	91,013	82,311
Net assets at beginning of year	<u>78,809</u>	<u>(3,502)</u>
Net assets at end of year	<u>\$ 169,822</u>	<u>\$ 78,809</u>

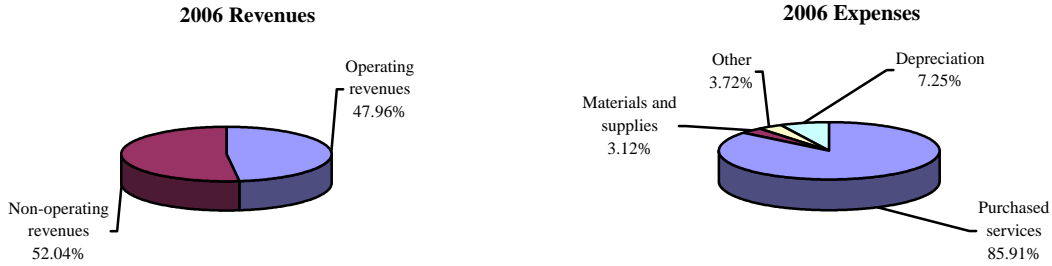
The increase in operating revenue and operating expenses are due to an increase in the number of students from FY06 to FY07.

The charts below illustrate the revenues and expenses for the Academy during fiscal years 2007 and 2006.



**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



Economic Conditions and Outlook

The Academy is sponsored by the Lakewood Local School District. This is the Academy's fourth year of operation. The Academy relies primarily on the State Foundation funds. The Academy was eligible to apply for a second round of Federal Sub-Grants during fiscal year 2006, and received a portion of those funds during the current fiscal year.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Glenna J. Plaisted, Treasurer, Lakewood Digital Academy, 525 East Main Street, P.O. Box 70, Hebron, Ohio 43025-0070.

**BASIC
FINANCIAL STATEMENTS**

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets:	
Current Assets:	
Cash and cash equivalents	\$ 41,159
Intergovernmental receivable	2,446
Total current assets	<u>43,605</u>
Non-Current Assets:	
Capital assets, net.	<u>127,016</u>
Total assets	<u>170,621</u>
Liabilities:	
Intergovernmental payable	<u>799</u>
Total liabilities	<u>799</u>
Net Assets:	
Invested in capital assets	127,016
Restricted for:	
Federally funded programs.	2,674
Unrestricted.	<u>40,132</u>
Total net assets	<u><u>\$ 169,822</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating revenues:	
State foundation.	\$ 209,842
Total operating revenues.	<u>209,842</u>
Operating expenses:	
Purchased services.	161,362
Materials and supplies	14,962
Other operating expenses	9,967
Depreciation	<u>27,061</u>
Total operating expenses	<u>213,352</u>
Operating loss	<u>(3,510)</u>
Non-operating revenues:	
Federal and state grants.	94,180
Interest income	<u>343</u>
Total non-operating revenues	<u>94,523</u>
Change in net assets.	91,013
Net assets at beginning of year	<u>78,809</u>
Net assets at end of year	<u><u>\$ 169,822</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKEWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Cash flows from operating activities:		
Cash received from foundation	\$	209,842
Cash payments to suppliers for goods and supplies		(198,254)
Cash payments for other expenses		(10,754)
		<hr/>
Net cash provided by operating activities		834
		<hr/>
Cash flows from noncapital financing activities:		
Federal and state grants.		169,655
		<hr/>
Net cash provided by noncapital financing activities		169,655
		<hr/>
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(159,801)
		<hr/>
Net cash used in capital and related financing activities		(159,801)
		<hr/>
Cash flows from investing activities:		
Interest received		343
		<hr/>
Net cash provided by investing activities		343
		<hr/>
Net increase in cash and cash equivalents		11,031
Cash and cash equivalents at beginning of year		30,128
Cash and cash equivalents at end of year.	\$	41,159
		<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(3,510)
Adjustments:		
Depreciation.		27,061
Changes in assets and liabilities:		
Decrease in accounts payable		(10,140)
Decrease in intergovernmental payable		(12,577)
		<hr/>
Net cash provided by operating activities.	\$	834
		<hr/> <hr/>

Non-cash transaction:

At June 30, 2006, the Academy purchased \$90,510 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Lakewood Digital Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect their tax exempt status. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the kindergarten through grade 12 population. It is to be operated under a contract with the Lakewood Local School District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and other, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the state's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

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

The Academy operates under the direction of a five-member Board of Directors which consists of residents of Lakewood Local School District. Due to the amount of influence the Lakewood Local School District has over the Academy's Board, the Academy is a component unit of the District. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Treasurer of Lakewood Local School District is the Treasurer of the Academy.

The Board of Directors has entered into a one-year contract with Tri-Rivers Educational Computer Association ("TRECA") to provide planning, instructional, administrative, and technical services required for the operation of the Academy (see Note 5).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

A. Basis of Presentation

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

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

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

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

D. Cash

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

E. Capital Assets and Depreciation

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

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

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

F. Net Assets

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

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

G. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program, through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation program for the 2007 school year excluding federal and state grants totaled \$209,842.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education, the Title VI-B grant, Title I grant, Title II-A grant and Title V grant. Revenues received from these programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Federal and state grants for the fiscal year 2007 received by the Academy were \$94,180.

H. Accrued Liabilities

The Academy has recognized certain expenses due but unpaid as of June 30, 2007. These expenses are reported as accrued liabilities in the accompanying financial statements, which include payments to the Sponsor, which have been reported as intergovernmental payables.

I. Estimates

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

NOTE 3 - CASH AND CASH EQUIVALENTS

At June 30, 2007, the carrying amount of the Academy's deposits was \$41,159. Based upon the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosure", as of June 30, 2007, the entire bank balance of \$41,175 was covered by Federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - CAPITAL ASSETS

A summary of capital assets activity for the fiscal year ended June 30, 2007 follows:

	Balance at <u>6/30/2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>6/30/2007</u>
Equipment	\$ 97,165	\$ 69,291	\$ -	\$ 166,456
Less: accumulated depreciation	<u>(12,379)</u>	<u>(27,061)</u>	<u>-</u>	<u>(39,440)</u>
Net capital assets	<u>\$ 84,786</u>	<u>\$ 42,230</u>	<u>\$ -</u>	<u>\$ 127,016</u>

NOTE 5 - SERVICE AGREEMENT

A. Tri-Rivers Educational Computer Association

The Academy entered into a one-year agreement on July 5, 2006, with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative and technical services required for the operation of the Academy. Under the contract, TRECA is required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing to services to the Academy on behalf of TRECA. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to TRECA. In cases where equipment is unrecoverable, the Academy shall reimburse TRECA up to \$1,000 per student.
4. Curricular services limited to standardized curriculum developed by TRECA.

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

Enrollment - \$3,650 per full-time student enrolled per year, less \$1,415 for services provided by the Academy for a net fee of \$2,235 per student. In case of a student enrolled with an Individualized Educational Program (IEP), the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by an entity other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, only actual costs for that student provided by TRECA will be paid. If the special education for a student is provided by TRECA, then any additional amount received from the Department of Education for special education and related services is due to TRECA for that student.

In the event that payments to the Academy from the Department of Education are reduced, the payments due from the Academy to TRECA are reduced accordingly. For fiscal year 2007, the Academy remitted to TRECA \$65,292 based on enrollment and \$4,708 for special education services.

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 5 - SERVICE AGREEMENT - (Continued)

B. Lakewood Local School District

The Community School Sponsorship Contract and the annual Purchased Services Contract between the Academy and Lakewood Local School District outlined the specific payments to be made by the Academy to Lakewood Local School District during fiscal year 2007. In addition the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Lakewood LSD. The following payments were made in fiscal year 2007 from the Academy to Lakewood Local School District:

Purchased services for administrative and fiscal services	\$ 32,918
Annual payments of 4% of funding provided by the Ohio Department of Education (management fee)	7,983
Purchased services for Director and student assistant specialist	39,407
Purchased services for cellular phone, tuition reimbursement and maintenance	<u>20,270</u>
Total amount of payments made by the Academy to Lakewood LSD in fiscal year 2007	<u>\$ 100,578</u>

NOTE 6 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On August 1, 2003, the Academy was named as an additional insured party on Lakewood Local School District's, the Sponsor, insurance policy. As of July 1, 2006, the Sponsor obtained a policy with Indiana Insurance for general liability insurance and property insurance. The entire risk of loss; less any deductibles, transfers to the commercial carrier. The following limits and deductibles are in aggregate for both the Academy and the Sponsor. Indiana Insurance provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate.

Settled claims have not exceeded commercial insurance coverage for fiscal year 2007. The sponsor was previously insured through a purchasing pool through the Metropolitan Educational Council Group.

Indiana Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverage insures up to a blanket limit of \$1,000,000 with a \$5,000 deductible, commercial crime covers up to \$25,000. The limits and deductibles stated above are in aggregate for both the Academy and the Sponsor.

**LAKWOOD DIGITAL ACADEMY
(A COMPONENT UNIT OF LAKWOOD LOCAL SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 7 - CONTINGENCIES

A. Grants

The Academy received financial assistance from state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

B. Litigation

The Academy is not currently party to any pending litigation.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School was not reviewed during the fourth year of operations. The Academy anticipates no adjustments to state funding for fiscal year 2008.

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2007, purchased services expenses were as follows:

Contractual services	\$ 158,914
Professional services	1,020
Travel	124
Other	<u>1,304</u>
Total	<u>\$ 161,362</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

The Academy is a component unit of the Sponsor (Lakewood Local School District). The Academy and the Sponsor entered into a five-year sponsorship agreement on November 11, 2002, whereby terms of the sponsorship agreement were established. Pursuant to this agreement, the Sponsor's Treasurer serves as the Academy's fiscal officer.

In fiscal year 2007, payments were made by the Academy to the Sponsor totaling \$100,578. These represent payments for reimbursements for services provided by the Sponsor to the Academy. Also, at fiscal year end, the Academy had an outstanding payable to the Sponsor, in the amount of \$799, reported in the statement of net assets as "intergovernmental payable".

NOTE 10 - SIGNIFICANT SUBSEQUENT EVENT

The Academy approved a new one-year contract TRECA and a five-year contract with the Sponsor on July 1, 2007.



Julian & Grube, Inc.
Serving Ohio Local Governments

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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Directors
Lakewood Digital Academy
525 E. Main Street
P. O. Box 70
Hebron, OH 43025

We have audited the financial statements of the Lakewood Digital Academy (a component unit of Lakewood Local School District) as of and for the year ended June 30, 2007, which collectively comprise Lakewood Digital Academy's basic financial statements and have issued our report thereon dated October 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lakewood Digital Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lakewood Digital Academy's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Lakewood Digital Academy'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 the normal course of 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 Lakewood Digital Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lakewood Digital Academy's financial statements that is more than inconsequential will not be prevented or detected by the Lakewood Digital Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lakewood Digital Academy's internal control.

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 deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Lakewood Digital Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lakewood Digital Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education of the Lakewood Digital Academy and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
October 17, 2007



Mary Taylor, CPA
Auditor of State

LAKESWOOD DIGITAL ACADEMY

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 6, 2007**