

LAKEWOOD DIGITAL ACADEMY

LICKING COUNTY, OHIO

**BASIC
FINANCIAL STATEMENTS**

(Audited)

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2006*

GLENN J. PLAISTED, TREASURER



Mary Taylor, CPA
Auditor of State

January 12, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**Auditor of State
Betty Montgomery**

Board of Directors
Lakewood Digital Academy
525 E. Main Street
PO Box 70
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, 2005 through June 30, 2006. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 3, 2007

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**LAKEWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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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 Lakewood Digital Academy (the "Academy"), Licking County, Ohio, (the "Academy"), a component unit of Lakewood Local School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, Licking County, Ohio, as of June 30, 2006, and the 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 26, 2006, on our consideration of the 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 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 26, 2006

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

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, 2006. 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 2006 are as follows:

- In total, net assets were \$78,809 at June 30, 2006.
- The Academy had operating revenues of \$108,121 and operating expenses of \$143,135 for fiscal year 2006. The Academy also received \$131 in interest revenue and \$117,194 in state and federal grants during fiscal year 2006. Total change in net assets for the fiscal year was an increase of \$82,311.

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 asks the question, "How did we do financially during 2006?" 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.

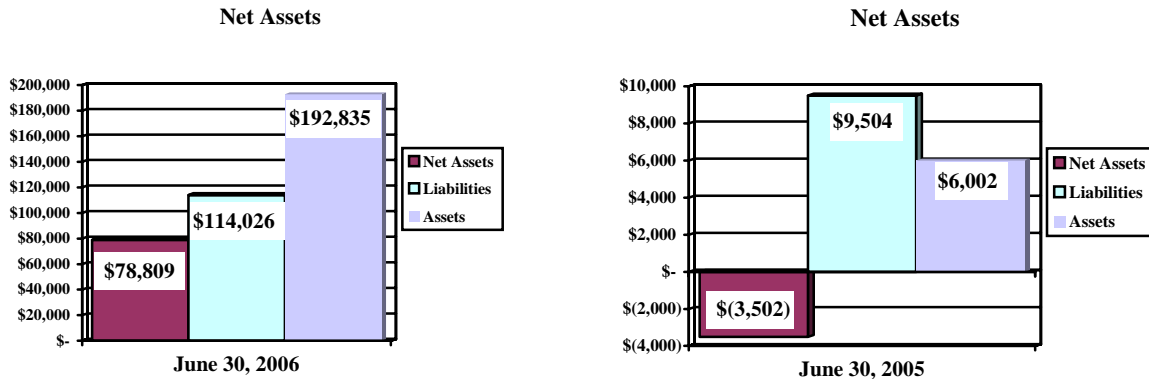
**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED

The table below provides a summary of the Academy's net assets for fiscal years 2006 and 2005.

	2006	2005
Net Assets		
<u>Assets</u>		
Current assets	\$ 108,049	\$ 1,344
Capital assets, net	84,786	4,658
Total assets	192,835	6,002
<u>Liabilities</u>		
Current liabilities	114,026	9,504
Total liabilities	114,026	9,504
<u>Net Assets</u>		
Invested in capital assets	84,786	4,658
Restricted for federally funded programs	13,189	-
Unrestricted	(19,166)	(8,160)
Total net assets	\$ 78,809	\$ (3,502)

The chart below illustrates the Academy's assets, liabilities and net assets at fiscal years 2006 and 2005.



Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Academy's assets exceeded liabilities by \$78,809.

At year-end, capital assets represented 43.97% 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
LICKING COUNTY, OHIO**

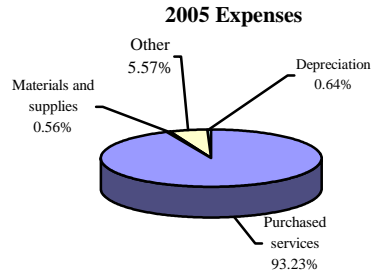
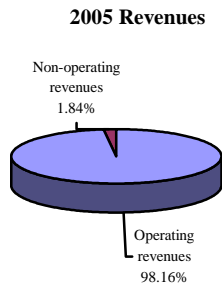
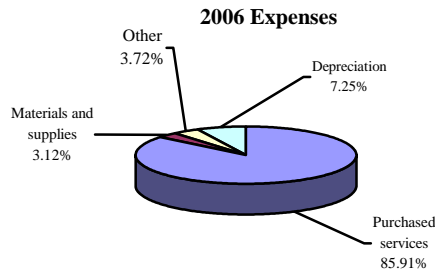
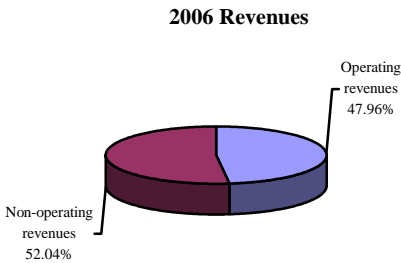
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

The table below shows the changes in net assets for fiscal years 2006 and 2005.

Change in Net Assets

	<u>2006</u>	<u>2005</u>
<u>Operating Revenues:</u>		
State foundation	\$108,121	\$ 167,745
Total operating revenue	<u>108,121</u>	<u>167,745</u>
<u>Operating Expenses:</u>		
Purchased services	122,958	192,717
Materials and supplies	4,464	1,165
Other	5,331	11,508
Depreciation	<u>10,382</u>	<u>1,331</u>
Total operating expenses	<u>143,135</u>	<u>206,721</u>
<u>Non-operating revenues:</u>		
Federal and state grants	117,194	3,000
Interest income	<u>131</u>	<u>136</u>
Total non-operating revenues	<u>117,325</u>	<u>3,136</u>
Change in net assets	<u>\$ 82,311</u>	<u>\$ (35,840)</u>

The charts below illustrate the revenues and expenses for the Academy during fiscal years 2006 and 2005.



**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

Economic Conditions and Outlook

The Academy is sponsored by the Lakewood Local School District. This is the Academy's third 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 2005, and received a portion of those funds during this 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 E. Main Street, P.O. Box 70, Hebron, Ohio 43025-0070.

**BASIC
FINANCIAL STATEMENTS**

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets:	
Current Assets:	
Cash and cash equivalents	\$ 30,128
Intergovernmental receivable	77,921
Total current assets	<u>108,049</u>
Non-Current Assets:	
Capital assets, net.	<u>84,786</u>
Total assets	<u>192,835</u>
Liabilities:	
Accounts payable	100,650
Intergovernmental payable	<u>13,376</u>
Total liabilities	<u>114,026</u>
Net Assets:	
Invested in capital assets	84,786
Restricted for:	
Federally funded programs.	13,189
Unrestricted.	<u>(19,166)</u>
Total net assets	<u><u>\$ 78,809</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating revenues:	
State foundation	\$ 108,121
Total revenue	<u>108,121</u>
Operating expenses:	
Purchased services	122,958
Materials and supplies	4,464
Other operating expenses	5,331
Depreciation	10,382
Total expenses	<u>143,135</u>
Operating loss	<u>(35,014)</u>
Non-operating revenues:	
Federal and state grants	117,194
Interest income	131
Total other non-operating revenues	<u>117,325</u>
Change in net assets	82,311
Net assets at beginning of year	<u>(3,502)</u>
Net assets at end of year	<u><u>\$ 78,809</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LAKESWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Cash flows from operating activities:		
Cash received from foundation	\$	108,121
Cash payments to suppliers for goods and supplies		(114,197)
Cash payments for other expenses		(4,544)
		<hr/>
Net cash used in operating activities		(10,620)
		<hr/>
Cash flows from noncapital financing activities:		
Federal and state grants		39,273
		<hr/>
Net cash provided by noncapital financing activities		39,273
		<hr/>
Cash flows from investing activities:		
Interest received		131
		<hr/>
Net cash provided by investing activities		131
		<hr/>
Net increase in cash and cash equivalents		28,784
Cash and cash equivalents at beginning of year		1,344
Cash and cash equivalents at end of year.		<u>30,128</u>
		<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(35,014)
Adjustments:		
Depreciation.		10,382
Changes in assets and liabilities:		
Increase in accounts payable		9,961
Increase in intergovernmental payable		4,051
		<hr/>
Net cash used in operating activities.	\$	<u>(10,620)</u>
		<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
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 entirely through distance learning technologies. 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 the Lakewood Local School District superintendent, High School Academic Dean, Curriculum Coordinator, and a guidance counselor and one board member who shall not be an officer or employee of the Lakewood School District, but shall be a public educator or official. 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.

**LAKESWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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, the Federal Charter School Grant Program through the Ohio Department of Education, the Title VI-B grant, Title V grant and the EMIS grant. Revenues received from these programs are recognized as 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.

H. Accrued Liabilities

The Academy has recognized certain expenses due but unpaid as of June 30, 2006. These expenses are reported as accrued liabilities in the accompanying financial statements, which include payments to TRECA, which have been reported as intergovernmental payables, as well as equipment purchases recorded as accounts payable.

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, 2006, the carrying amount of the Academy's deposits was \$30,128. Based upon the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosure", as of June 30, 2006, the entire bank balance of \$30,134 was covered by Federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**LAKESWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - CAPITAL ASSETS

A summary of capital assets activity for the fiscal year ended June 30, 2006 follows:

	Balance at		Balance at
	<u>6/30/2005</u>	<u>Additions</u>	<u>6/30/2006</u>
		<u>Reductions</u>	
Equipment	\$ 6,655	\$ 90,510	\$ 97,165
Less: accumulated depreciation	<u>(1,997)</u>	<u>(10,382)</u>	<u>(12,379)</u>
Net capital assets	<u>\$ 4,658</u>	<u>\$ 80,128</u>	<u>\$ 84,786</u>

NOTE 5 - SERVICE AGREEMENT

A. Tri-Rivers Educational Computer Association

The Academy entered into a one-year agreement on October 1, 2005, 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 \$1,500 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 - \$3,600 per full-time student enrolled per year. 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 other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, actual costs for that student provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from 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 shall be reduced accordingly. For fiscal year 2006, the Academy remitted to TRECA \$56,007 based on enrollment and \$12,064 for special education services.

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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 2006. 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 2006 from the Academy to Lakewood Local School District:

Purchased services for administrative and fiscal services	\$20,221
Annual payments of 5% of funding provided by the Ohio Department of Education (management fee)	7,500
Purchased services for Director and student assistant specialist	<u>31,261</u>
Total amount of payments made by the Academy to Lakewood LSD in fiscal year 2006	<u>\$58,982</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, 2004, the Sponsor joined an insurance purchasing pool through the Metropolitan Educational Council Group (the "Plan"), established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a seven member board consisting of superintendents, treasurers and business managers.

Specialty Claims Services, Inc. is responsible for processing claims. March, Inc. serves as the Plan's administrator, sales representative, and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from the Metropolitan Educational Council Group Program, 2100 Citygate Drive, Columbus, Ohio 43219-3566.

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, 2006.

**LAKWOOD DIGITAL ACADEMY
LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 - CONTINGENCIES - (Continued)

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 third year of operations. The Academy anticipates no adjustments to state funding for fiscal year 2007.

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Contractual services	\$ 120,804
Professional services	1,131
Travel	<u>1,023</u>
Total	<u>\$ 122,958</u>

NOTE 9 - SIGNIFICANT SUBSEQUENT EVENT

As of August 1, 2006, the new Director of the Academy was Eva Bickle-Pound, who was appointed upon the resignation of the previous Director, Dennis Neff.



Julian & Grube, Inc.
Serving Ohio Local Governments

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

**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 (the "Academy"), Licking County, Ohio, a component unit of Lakewood Local School District, as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated October 26, 2006. 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 Lakewood Digital Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 Directors of 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 26, 2006



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
JANUARY 18, 2007