



**LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2007**



**Mary Taylor, CPA**  
Auditor of State



**LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of 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, 2007, as listed in the table of contents. These financial statements are the responsibility of the LFDA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lancaster Fairfield Digital Academy, Fairfield County, Ohio, as of June 30, 2007, and the changes in 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 November 2, 2007, 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.

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Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Mary Taylor, CPA**  
Auditor of State

November 2, 2007

**LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY**

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

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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, 2007. Readers should also review the basic financial statements and notes to enhance their understanding of the LFDA's financial performance.

**Highlights**

LFDA finished its fifth year of operation during fiscal year 2007 as a kindergarten through twelfth grade online internet school. Each student is provided a computer, scanner, and printer which are used to access a curriculum based on the state model and which uses certified/licensed instructors. Enrollment varied during the year but averaged 62 students.

Key highlights for fiscal year 2007 are as follows:

- Net assets increased \$72,150.
- LFDA had an operating income of \$54,807 compared to an operating loss of \$3,805 in fiscal year 2006.
- Total assets increased \$59,383, or 14 percent, due to a \$94,504 increase in cash and cash equivalents offset by a \$35,121 decrease in capital assets.
- Total liabilities decreased \$12,767 due mainly to LFDA being overpaid during fiscal year 2006 \$26,224 through their State foundation. This overpayment was posted as deferred revenue as of June 30, 2006. The State deducted the \$26,224 from their foundation payments during fiscal year 2007. The overpayment for fiscal year 2007 was \$6,951.

**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 2007. 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, 2007  
UNAUDITED  
(Continued)**

Table 1 provides a summary of LFDA's net assets for 2007 compared to 2006:

Table 1  
Net Assets

	2007	2006	Change
<u>Assets:</u>			
Current Assets	\$371,481	\$276,977	\$94,504
Capital Assets	110,542	145,663	(35,121)
Total Assets	482,023	422,640	59,383
 <u>Liabilities:</u>			
Current Liabilities	16,807	29,574	(12,767)
 <u>Net Assets:</u>			
Invested in Capital Assets, Net of Related Debt	110,542	145,663	(35,121)
Unrestricted	354,674	247,403	107,271
Total Net Assets	\$465,216	\$393,066	\$72,150

Total assets increased \$59,383. The increase was due to an increase in ending cash balances of \$94,504, which was offset by a decrease of \$35,121 in capital assets. Liabilities decreased \$12,767 due mainly to LFDA being overpaid \$26,224 through their State foundation for fiscal year 2006. This overpayment was posted as deferred revenue as of June 30, 2006. The State deducted the \$26,224 from their foundation payments during fiscal year 2007. The overpayment was \$6,951 for fiscal year 2007.

Table 2 reflects the changes in net assets for fiscal year 2007.



**LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY**

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

Table 2  
Change in Net Assets

	<u>2007</u>	<u>2006</u>	<u>Change</u>
<u>Operating Revenues:</u>			
Foundation	\$436,023	\$280,338	\$155,685
<u>Non-Operating Revenues:</u>			
Operating Grants	3,000	3,000	0
Interest Revenue	<u>14,343</u>	<u>2,860</u>	<u>11,483</u>
Total Revenues	<u>453,366</u>	<u>286,198</u>	<u>167,168</u>
 <u>Operating Expenses:</u>			
Purchased Services	345,527	236,128	109,399
Materials and Supplies	568	14,309	(13,741)
Depreciation	35,121	33,706	1,415
Other Operating Expenses	0	49,499	(49,499)
Loss on Disposal of Capital Assets	<u>0</u>	<u>865</u>	<u>(865)</u>
Total Expenses	<u>381,216</u>	<u>334,507</u>	<u>46,709</u>
 Total Increase (Decrease) in Net Assets	<u>\$72,150</u>	<u>(\$48,309)</u>	<u>\$120,459</u>

Fiscal year 2007 reflects an increase in foundation revenues and expenses due to the increase in the number of students served by the LFDA. The purchased services expenses were mainly for computer services with the Metropolitan Educational Council, for guidance and computer services with Tri-Rivers Educational Association, and computer imaging, technical and administrative services with the Sponsor. The decrease in materials and supplies was due to LFDA purchasing a large amount of computer supplies during fiscal year 2006. Other operating expenses in fiscal year 2006 represented amounts being classified as expenses due to the LFDA not receiving grant monies previously reflected as intergovernmental receivables.

**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 2007, LFDA had \$110,542 invested in computer equipment. Table 3 shows fiscal year 2007 balances compared to 2006.

LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
UNAUDITED  
(Continued)

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Table 3  
Capital Assets (Net of Depreciation)

	<u>2007</u>	<u>2006</u>
Computer Equipment	\$110,542	\$145,663

**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 Stephen St. Clair, Treasurer, Lancaster-Fairfield Digital Academy, 345 East Mulberry Street, Lancaster, Ohio 43130. Or E-Mail at [S\\_STCLAIR@LANCASTER.K12.OH.US](mailto:S_STCLAIR@LANCASTER.K12.OH.US).

**LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2007**

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<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 370,189
Prepaid Items	1,292
Total Current Assets	<u>371,481</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>110,542</u>
Total Assets	<u><u>482,023</u></u>
 <u>Liabilities:</u>	
Intergovernmental Payable	9,856
Deferred Revenue	6,951
Total Liabilities	<u>16,807</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	110,542
Unrestricted	354,674
Total Net Assets	<u><u>\$ 465,216</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, 2007**

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<u>Operating Revenues:</u>	
Foundation	\$ 436,023
<u>Operating Expenses:</u>	
Purchased Services	345,527
Materials and Supplies	568
Depreciation	35,121
Total Operating Expenses	<u>381,216</u>
Operating Income	<u>54,807</u>
<u>Non-Operating Revenues and Expenses:</u>	
Operating Grants	3,000
Interest Revenue	14,343
Total Non-Operating Revenues and Expenses	<u>17,343</u>
Change in Net Assets	72,150
Net Assets at Beginning of Year	<u>393,066</u>
Net Assets at End of Year	<u>\$ 465,216</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, 2007**

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Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$ 416,750
Cash Payments to Suppliers for Goods and Services	(339,582)
Net Cash Provided by Operating Activities	<u>77,168</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received	3,000
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Cash Flows from Investing Activities:

Interest on Investments	<u>14,343</u>
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Net Increase in Cash and Cash Equivalents 94,511

Cash and Cash Equivalents Beginning of Year 275,678

Cash and Cash Equivalents End of Year 370,189

Reconciliation of Operating Income to

Net Cash Provided by Operating Activities:

Operating Income 54,807

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

Depreciation 35,121

Changes in Assets and Liabilities:

Decrease in Prepaid Items	7
Decrease in Accounts Payable	(35)
Increase in Intergovernmental Payable	6,541
Decrease in Deferred Revenue	<u>(19,273)</u>

Net Cash Provided by Operating Activities \$ 77,168

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, 2007**

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**Note 1 - Description of the School**

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

LFDA was created on August 27, 2002 by entering 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 was created to operate 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. On March 30, 2007, House Bill 79 became effective which updated Ohio Revised Code (ORC) sections 3314.02, 3314.03, and 3314.014 and created ORC section 3314.026. These ORC sections revised the procedures for the selection of Board of Directors for community schools. Under advisement from LFCS's legal counsel, the six former board members resigned their positions as Board of Directors because they were employees of the Sponsor and Tri-Rivers Educational Computer Association (TRECA). As of June 30, 2007, the Board of Directors only consisted of two members. The Sponsor attempted to recruit new board members but was unsuccessful. During fiscal year 2007, LFDA paid purchased services to TRECA for providing the planning, design, implementation, and instructional services. Thus, LFDA did not have any employees. LFDA rented facilities from the Sponsor.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the LFDA have been prepared in conformity with generally accepted accounting principles (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, 2007  
(Continued)**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**A. Basis of Presentation**

The LFDA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

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

**B. Measurement Focus**

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

**C. Basis of Accounting**

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

**D. Budgetary Process**

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

**E. Cash and Cash Equivalents**

Cash received by LFDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. LFDA had no investments during the fiscal year ended June 30, 2007.

**F. Prepaid Items**

LFDA records payments made to vendors for services that will benefit periods beyond June 30, 2007, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.



**LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY**

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

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**G. Capital Assets**

LFDA's capital assets during fiscal year 2007 consisted of computer equipment. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. LFDA maintains a capitalization threshold of five hundred dollars. All of LFDA's reported capital assets are depreciated using the straight-line method over six years of useful life.

**H. Net Assets**

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

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

**I. Operating Revenues and Expenses**

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

**J. Estimates**

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

**Note 3 - 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, 2007, the bank balance of LFDA's deposits was \$370,189. \$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", \$270,189 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**Note 4 – Contract with TRECA**

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

- TRECA shall provide LFDA with instructional, supervisory/administrative, and technical services sufficient to effectively implement LFDA's educational plan and LFDA's assessment and accountability plan.

**LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY**

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

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**Note 4 – Contract with TRECA (Continued)**

- 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.
- LFDA shall pay TRECA up to \$3,650 per full-time student K-12 student enrollment in LFDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2007 \$228,310 was paid to TRECA under this contract and \$500 was a payable to TRECA at June 30, 2007.

To obtain TRECA's audited June 30, 2007, financial statements please contact Scott Armstrong, Treasurer, at [scott@treca.org](mailto:scott@treca.org).

**Note 5 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance June 30, 2006	Additions	Deletions	Balance June 30, 2007
Computer Equipment	\$210,725	\$0	\$0	\$210,725
Less Accumulated Depreciation	(65,062)	(35,121)	0	(100,183)
Capital Assets, Net	<u>\$145,663</u>	<u>(\$35,121)</u>	<u>\$0</u>	<u>\$110,542</u>

**Note 6 - Risk Management**

LFDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2007, 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:

**LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY**

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

**Note 6 - Risk Management (Continued)**

General Liability:	
Each Occurrence	\$1,000,000
General Aggregate Limit	2,000,000
Products - Completed Operations Aggregate Limit	2,000,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Damage to Rented Premises - Each Occurrence	500,000
Personal and Advertising Injury	1,000,000
Excess/Umbrella Liability:	
Each Occurrence	1,000,000
Aggregate	1,000,000
Automobile Liability	1,000,000
Errors and Omissions:	
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.

**Note 7 – Purchased Services**

For the period July 1, 2006 through June 30, 2007, purchased service expenses were for the following services:

Type	Amount
Professional and Technical Services	\$322,307
Rent	17,920
Audit Services	5,300
Total	<u>\$345,527</u>

**Note 8 – 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 2007, LFDA paid \$92,920 to their Sponsor for administrative services, the development of web delivered services, technology relating to those services and curricular design, rent, and for reimbursements of miscellaneous services. As of June 30, 2007, there were two payables due from the LFDA to their Sponsor. The payables were for \$109 for a miscellaneous reimbursement and \$3,000 for EMIS services provided during fiscal year 2007.

LANCASTER-FAIRFIELD DIGITAL ACADEMY  
FAIRFIELD COUNTY

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

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**Note 9 - 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, 2007.

**B. Ohio Department of Education Enrollment Review**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by LFDA. These reviews are conducted to ensure LFDA is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. During fiscal year 2007, LFDA repaid \$26,224 to the State through foundation revenue reductions due to receiving an overpayment during fiscal year 2006. The fiscal year 2007 review resulted in the discovery of an overpayment to LFDA in the amount of \$6,951. This amount has been reflected as deferred revenue and will be deducted from foundation funding in fiscal year 2008.

**C. Litigation**

A suit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on LFDA cannot presently be determinable.



# Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of 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, 2007, and have issued our report thereon dated November 2, 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LFDA's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the LFDA's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the LFDA's internal control over financial reporting.

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

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

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

We noted certain matters that we reported to the LFDA's management in a separate letter dated November 2, 2007.

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### **Compliance and Other Matters**

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

We did note a certain noncompliance or other matter that we reported to the LFDA's management in a separate letter dated November 2, 2007.

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

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

**Mary Taylor, CPA**  
Auditor of State

November 2, 2007



**Mary Taylor, CPA**  
Auditor of State

**LANCASTER – FAIRFIELD DIGITAL ACADEMY**  
**FAIRFIELD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED**  
**DECEMBER 4, 2007**