

**SOUTHWEST LICKING DIGITAL ACADEMY  
(A Component Unit of Southwest Licking Local School District)  
LICKING COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

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

**RICHARD JONES, TREASURER**





Mary Taylor, CPA  
Auditor of State

Board of Directors  
Southwest Licking Digital Academy  
927A South Street  
Pataskala, Ohio 43062

We have reviewed the *Independent Auditor's Report* of the Southwest Licking Digital Academy, Licking County, prepared by Julian & 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 Southwest Licking Digital Academy is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 4, 2008

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**SOUTHWEST LICKING DIGITAL ACADEMY**  
**(A Component Unit of Southwest Licking Local School District)**  
**LICKING COUNTY, OHIO**

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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  
Southwest Licking Digital Academy  
927-A South Street  
Pataskala, Ohio 43062

We have audited the accompanying financial statements of the Southwest Licking Digital Academy, Licking County, Ohio, a component unit of Southwest Licking Local School District, as of and for the fiscal year ended June 30, 2007, which collectively comprise the Southwest Licking Digital Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Southwest Licking 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.

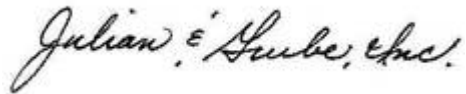
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Southwest Licking Digital Academy, as of June 30, 2007, and the respective changes in financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 9A. to the basic financial statements, the Southwest Licking Digital Academy restated its net assets at June 30, 2006 due to the implementation of accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2007, on our consideration of the Southwest Licking 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.

Board of Directors  
Southwest Licking Digital Academy  
Page Two

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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 18, 2007



**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
(Unaudited)

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The management's discussion and analysis of the Southwest Licking 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 our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

The total assets of the Academy were \$21,403 as of June 30, 2007 and the total liabilities were \$2,909 at fiscal year end. Net assets of the Academy totaled \$18,494, a increase of \$16,959 from the prior year.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34.

**Report Components**

The statement of net assets and the statement of revenues, expenses and changes in net assets provide information about the Academy as a whole.

The management's discussion and analysis is intended to serves as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of two components: the financial statements and the notes to the financial statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how the Academy did financially during the year ended June 30, 2007. The change in net assets is important because it tells the reader whether the financial position of the Academy has increased or decreased during the period. Over time, these increases and /or decrease are one indicator of whether the financial position is improving or deteriorating.

The notes to the financial statements are an integral part of the basic financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Academy has elected to present its financial statements on an Accrual basis of accounting. Under the Academy's accrual basis of accounting, revenues and expenses are recorded when incurred rather than when cash is received or paid. The Academy uses enterprise presentation for all of its activities.

**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
(Unaudited)

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**Financial Analysis**

Table 1 provides a summary of the Academy's net assets for 2007:

**Table 1**  
**Net Assets at Year End**

	2007	Restated 2006
Cash and Cash Equivalents	\$ 18,342	\$ 20,243
Accounts Receivable	3,061	-
Total Assets	21,403	20,243
Accounts Payable	2,909	84
Intergovernmental Payable	-	18,624
Total Liabilities	2,909	18,708
Unrestricted	18,494	1,535
Total Net Assets	\$ 18,494	\$ 1,535

At year end the Academy has no assets that are subject to external restrictions on how they may be used.

**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
(Unaudited)

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**Financial Analysis**

Table 2 provides a summary of the Academy's change in net assets for 2007:

**Table 2**  
**Changes in Net Assets**

	2007
<b>Operating Revenues:</b>	
Foundation Revenues	\$ 260,231
Miscellaneous Revenues	2,815
Total Operating Revenues	263,046
 <b>Operating Expenses:</b>	
Purchased Services	252,358
Supplies and Materials	1,241
Other	611
Total Operating Expenses	254,210
Operating Income (Loss)	8,836
 <b>Nonoperating Revenues</b>	
Federal Grants	1,651
State Grants	3,000
Interest Earnings	3,472
Total Nonoperating Revenues	8,123
Change in Net Assets	16,959
Net Assets at the Beginning of Year, as restated	1,535
Net Assets at the End of the Year	\$ 18,494

In future years, when prior year information is available, a comparative analysis of the change in net assets will be presented.

**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2007  
(Unaudited)

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**Budget Highlights**

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

**Capital Assets and Debt Administration**

Capital Assets

The Academy did not have any capital assets that exceeded the capitalization threshold at June 30, 2007.

Debt

The Academy does not have any debt outstanding as of June 30, 2007.

**Current Issues**

The Academy was incorporated in March of 2003 and has used Tri-Rivers Educational Computer Association (TRECA) since the inception to provide most if its instructional and administrative services. The Academy will continue to utilize TRECA for these services in fiscal year 2007. The Academy plans to continue to offer the same services in the next fiscal year and are hopeful enrollment will continue to grow.

Although the Academy does not have a ceiling for student enrollment, we do not expect a significant change in the next fiscal year.

**Contacting the Academy's Financial Management**

The financial report is designed to provide a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have any questions about this report or need additional information contact Richard D. Jones, Treasurer, at [RDJones@laca.org](mailto:RDJones@laca.org) or call 740-927-4744.

**SOUTHWEST LICKING DIGITAL ACADEMY  
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)  
LICKING COUNTY**

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

<b>Assets</b>	
Cash and Cash Equivalents	\$ 18,342
Accounts Receivable	<u>3,061</u>
Total Assets	<u>21,403</u>
<b>Liabilities</b>	
Accounts Payable	<u>2,909</u>
Total Liabilities	<u>2,909</u>
<b>Net Assets</b>	
Unrestricted	<u>18,494</u>
Total Net Assets	<u><u>\$ 18,494</u></u>

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING DIGITAL ACADEMY  
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)  
LICKING COUNTY**

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

<b>Operating Revenues:</b>	
Foundation Revenues	\$ 260,231
Miscellaneous Revenues	2,815
Total Operating Revenues	<u>263,046</u>
<b>Operating Expenses:</b>	
Purchased Services	252,358
Supplies and Materials	1,241
Other	611
Total Operating Expenses	<u>254,210</u>
Operating Income (Loss)	<u>8,836</u>
<b>Non-Operating Revenues:</b>	
Federal Grants	1,651
State Grants	3,000
Interest Earnings	3,472
Total Non-Operating Revenues	<u>8,123</u>
Change in Net Assets	16,959
Net Assets at Beginning of Year, as restated	1,535
Net Assets at End of Year	<u>\$ 18,494</u>

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING DIGITAL ACADEMY  
(A COMPONENT UNIT OF SOUTHWEST LICKING LOCAL SCHOOL DISTRICT)  
LICKING COUNTY**

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

<b>Cash Flows From Operating Activities</b>	
Cash Received from Government	\$ 241,607
Cash Received from Other Sources	1,768
Cash Paid for Services	(249,533)
Cash Paid for Other Expenses	(3,866)
Net cash used by operating activities	<u>(10,024)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Subsidy from state and federal grants	<u>4,651</u>
Net cash provided by noncapital financing activities	<u>4,651</u>
<b>Cash Flows From Investing Activities</b>	
Interest Received	<u>3,472</u>
Net cash provided by investing activities	<u>3,472</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,901)
Cash and Cash Equivalents at Beginning of Year	<u>20,243</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 18,342</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used by) Operating Activities:</b>	
Operating Income/(Loss)	\$ 8,836
<b>Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:</b>	
Change in Assets and Liabilities	
(Increase) in Accounts Receivable	(3,061)
Increase in Accounts Payable	2,825
(Decrease) in Intergovernmental Payable	<u>(18,624)</u>
Total Adjustments	<u>(18,860)</u>
Net Cash Used by Operating Activities	<u><u>\$ (10,024)</u></u>

See accompanying notes to the basic financial statements.

**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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**Note 1 – Description of the School Academy and Reporting Entity**

The Southwest Licking Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. 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 the Academy's tax exempt status. The Academy'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 schooled children, 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 within the Southwest Licking Local School District, the sponsor school district, that desire a specific course not currently offered that is available through online instruction.

The Academy was formally created on January 9, 2003, by entering a five year contract with the Southwest Licking Local School District (the Sponsor). The Academy was approved by the Sponsor through a preliminary agreement on June 20, 2003. 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 Treasurer for the Academy is also the Treasurer for the Southwest Licking Local School District. See Note 6 for additional information regarding the sponsorship agreement with the Sponsor.

The Academy paid purchased services to Tri-Rivers Educational Computer Association (TRECA) for providing the planning, design, and implementation, instructional, administrative and technical services during the fiscal year. See Note 5 for information regarding the contract between the Academy and TRECA.

The Academy operates under the direction of a five-member Board of Directors made up of three-members from the Southwest Licking Local School District and two-members from the public, both of which are appointed by the Sponsor. The first public member is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. The second public member shall be a person who represents the interests of parents and students served by the Academy.

The Academy is a component unit of the Sponsor. The Sponsor appoints a majority of the Board of Directors and is able to impose its will on the Academy. The Sponsor can suspend the Academy's operations for any of the following reasons: 1) The Academy's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The Academy's failure to meet generally accepted standards of fiscal management, 3) the Academy'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 is 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 the Academy and the children it serves. The Academy also used the facilities of the Sponsor.



**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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

The financial statements of the Academy 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. The Academy 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 Academy's accounting policies are described below. Following are the more significant of the Academy's accounting policies.

**A. Basis of Presentation**

The Academy'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. These statements are prepared on the accrual basis of accounting as further described in Note 2 C.

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

**B. Measurement Focus**

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. The statement of revenues, expenses and changes in net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets. The statement of cash flows reflects how the Academy 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. The Academy'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 non-exchange transactions, in which the Academy 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 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. Expenses are recognized at the time they are incurred.

**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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

**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 Rev. Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its 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**

During the fiscal year, investments were limited to a repurchase agreement.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**F. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws or other governments or imposed by enabling legislation.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year which services are consumed. At fiscal year-end, prepaid items are not available to finance future net asset expenses. The Academy had no prepaid items for the year ended June 30, 2007.

**H. Inventory**

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. The Academy had no inventory for the year ended June 30, 2007.

**I. Capital Assets**

All capital assets are capitalized at cost and updated for any additions and retirements during the fiscal year. The Academy mentions a capitalization threshold of five thousand dollars. The Academy does not currently have any assets that meet the threshold.

**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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

**J. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. The Academy had no employees during the fiscal year.

**K. Accrued Liabilities and Long-Term Obligations**

All accrued liabilities and long-term debt is reported on the statement of net assets. The Academy had Accounts Payable for the year ended June 30, 2007. However, the Academy had no long-term debt for the year ended June 30, 2007

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The Academy's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

**M. Operating Revenues and Expenses**

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 goods or services that are the primary activities of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

**N. 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 and Investments**

**A. Deposits**

At year-end the carrying amount of the Academy's deposits was \$3,764 and the bank balance of \$5,000. The entire balance was covered by federal depository insurance.

**B. Investments**

As of June 30, 2007, the Academy's only investment was a repurchase agreement in the amount of \$14,578, all of which may be withdrawn on demand.

**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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**Note 3 – Deposits and Investments (Continued)**

*Interest Rate Risk:* The Academy's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years. The Treasurer cannot make investments which he does not reasonably believe can be held until the maturity date.

*Credit Risk:* The Academy has no investment policy that addresses credit risk. The investments underlying the Academy's repurchase agreements were rated AAA.

*Concentration of Credit Risk:* The Academy places no limit on the amount that may be invested in any one issuer except commercial paper. At June 30, 2007, the only investment held by the Academy was a repurchase agreement.

**Note 4 – Risk Management**

**Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the District purchased insurance coverage from Ohio School Plan. Their insurance agent was Hylant Administrative Services, LLC. The types and amounts of coverage provided by Ohio School Plan are as follows:

Employee Benefits Liability - \$1,000,000 in excess of \$3,000,000  
Errors and Omissions Injury - \$1,000,000 in excess of \$3,000,000  
Employment Practices Injury - \$1,000,000 in excess of \$3,000,000

Settled claims have not exceeded this commercial coverage in any of the past two fiscal years. There has been no significant reduction in insurance coverage from the prior fiscal year.

**Note 5 – Contract with the Tri-Rivers Educational Computer Association**

The Academy entered into a one year contract with the Tri-Rivers Educational Computer Association (TRECA) on July 6, 2006 for the period July 1, 2006 through June 30, 2007. Under the contract, the following terms were agreed upon:

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

**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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**Note 5 – Contract with the Tri-Rivers Educational Computer Association (Continued)**

- The Academy 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 the Academy.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- The Academy shall pay to TRECA \$3,650 per full-time student enrolled in the Academy during the 2006-2007 academic year or pro rated per portion thereof; part-time students may be enrolled on such terms as are agreed to by the parties.

During the year ended June 30, 2007, the Academy paid TRECA \$134,012 for these services.

To obtain TRECA's audited June 30, 2007 financial statements, contact Scott Armstrong, Treasurer, at [scott@treca.org](mailto:scott@treca.org) or call 740-389-4798.

**Note 6 – Fiscal Agent and Payment to Sponsor**

The Community School Sponsorship Contract between the Academy and the Southwest Licking Local School District requires the Academy to pay the following amounts:

- The Academy was required to pay to the Sponsor \$25,000 for planning, design, and initial implementation services acquired by the Sponsor on behalf of the Academy from TRECA. This fee was paid during fiscal year 2004.
- The Academy is required to make annual payments to the Sponsor of \$150 per student per year.
- The Academy may also pay the Sponsor other amounts as are mutually agreed for any services provided to the Academy by the Sponsor.

During the year ended June 30, 2007, the Academy paid the Sponsor \$104,723 for the services defined above.

**Note 7 – Contingencies**

**A. Grants**

The Academy 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 grantor agencies. Any disallowed claims resulting from such audits could become a liability for the Academy. 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.

**Southwest Licking Digital Academy**  
**(A Component Unit of Southwest Licking Local School District)**  
**Licking County**  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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**Note 7 – Contingencies (Continued)**

**B. Litigation**

A lawsuit 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 currently pending, and the effect of the suit, if any, on the Academy cannot presently be determined.

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

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. The fiscal year 2006 review found the Academy was overpaid \$18,624. The Academy's fiscal year 2007 foundation receipts were reduced by this amount. The fiscal 2007 review found the Academy was correctly funded.

**Note 8 – Change in Basis of Accounting and Restatement of Net Assets**

**A. Change in Basis of Accounting**

For 2007, the School District began to report using generally accepted accounting principles as described in Note 2C.

**B. Restatement of Net Assets**

The implementation of this change had the following effects on net assets of the enterprise fund of the Academy as they were previously reported.

	Net Assets
Net Assets June 30, 2006	\$ 20,243
<b>Accrual Entries:</b>	
Accounts Payable	(84)
Intergovernmental Payable	(18,624)
Net Assets July 1, 2006	\$ 1,535



**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  
Southwest Licking Digital Academy  
927-A South Street  
Pataskala, Ohio 43062

We have audited the financial statements of Southwest Licking Digital Academy, Licking County, Ohio, a component unit of Southwest Licking Local School District as of and for the fiscal year ended June 30, 2007 and have issued our report thereon dated December 18, 2007. As disclosed in Note 9A. to the basic financial statements, Southwest Licking Digital Academy restated its net assets at June 30, 2006 due to the implementation of accounting principles generally accepted in the United States of America. 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 Southwest Licking Digital Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southwest Licking Digital Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Southwest Licking 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 Southwest Licking 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 Southwest Licking Digital Academy's financial statements that is more than inconsequential will not be prevented or detected by Southwest Licking 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 Southwest Licking 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  
Southwest Licking Digital Academy

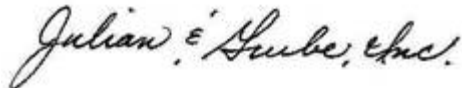
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Licking 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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 2007-SWLDA-001.

We noted a certain matter that we reported to management of Southwest Licking Digital Academy in a separate letter dated December 18, 2007.

Southwest Licking Digital Academy's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Southwest Licking Digital Academy's response and, accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
December 18, 2007



**SOUTHWEST LICKING DIGITAL ACADEMY  
(A Component Unit of Southwest Licking Local School District)  
LICKING COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2007**

<b>FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>	
Finding Number	2007-SWLDA-001

Ohio Revised Code Section 5705.391 and Ohio Admin. Code Section §3301-92-04 state that boards must adopt spending plans and prepare five year projections of revenues and expenditures.

The Academy did not submit the required five year budget forecast.

A lack of preparing this document could prevent providing the Board with valuable tools that might provide an indication of potential problems in their early stages when they can be most readily solved.

We recommend that the Academy prepare and submit the five year forecast. This forecast should be approved by the Board of Directors. Preparation of this forecast will serve as a valuable budgeting tool for management.

Client response: The Academy will attempt to comply with the required Ohio Revised Code Sections and submit a five year budget forecast timely.

**SOUTHWEST LICKING DIGITAL ACADEMY**  
**(A Component Unit of Southwest Licking Local School District)**  
**LICKING COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS**  
**JUNE 30, 2007**

<b><u>Finding Number</u></b>	<b><u>Finding Summary</u></b>	<b><u>Fully Corrected?</u></b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i></b>
2006-001	Ohio Revised Code Section 3314.03(A)(8) and Ohio Administrative Code 117-2-3(B), failure to prepare financial statements in accordance with generally accepted accounting principles.	Yes	N/A



**Mary Taylor, CPA**  
Auditor of State

**SOUTHWEST LICKING 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  
MARCH 6, 2008**