



**Auditor of State
Betty Montgomery**

MARION CITY SCHOOLS DIGITAL ACADEMY
MARION COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Marion City Schools Digital Academy
Marion County
910 East Church Street
Marion, Ohio 43302

To the Board of Directors:

We have audited the accompanying basic financial statements of the Marion City Schools Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Marion City School District, as of and for the year ended June 30, 2003, 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 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 financial position of the Marion City Schools Digital Academy, Marion County, Ohio, as of June 30, 2003, and the changes in financial position and 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 October 3, 2003, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. 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 black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 3, 2003

Marion City Schools Digital Academy
Marion County
Management's Discussion and Analysis
For the Year Ended June 30, 2003
Unaudited

The discussion and analysis of the financial performance of the Marion City Schools Digital Academy provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the Marion City Schools Digital Academy. 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 net assets represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

Table 1 provides a summary of the Academy's net assets for fiscal year 2003:

Table 1
Net Assets

	2003
Assets:	
Current Assets	\$ 196,171
Liabilities:	
Current Liabilities	108,366
Net Assets:	
Unrestricted	\$ 87,805

Marion City Schools Digital Academy
Marion County
Management's Discussion and Analysis
For the Year Ended June 30, 2003
Unaudited

Table 2 shows the changes in net assets for fiscal year 2003:

Table 2
Change in Net Assets

	2003
Operating Revenues:	
Foundation Payments	\$ 190,490
Operating Expenses:	
Purchased Services	278,542
Operating Loss	(88,052)
Non-Operating Revenues:	
State and Federal Grants	175,700
Interest Earnings	157
Total Non-Operating Revenues	175,857
Increase in Net Assets	\$ 87,805

This is the initial year of operation for the Academy; therefore, fiscal year 2002 financial information is not available for inclusion in the discussion and analysis and no comparison between current and prior year can be analyzed. Additionally, the Academy operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds is included in the discussion and analysis. Results of fiscal year 2003 operations indicate an increase in net assets of \$87,805 and corresponding ending net assets of \$87,805.

BUDGET

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors. Fiscal year 2003 revenues and expenses varied significantly from corresponding projections included on the five-year projection. The main cause of these variations was that the community school did not begin servicing students until January 6, 2003.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Academy has no capital assets and has not issued any debt.

OTHER INFORMATION

Management is currently unaware of any facts, decisions, or conditions that have occurred that are expected to have a significant effect on financial position or results of operations.

MARION CITY SCHOOLS DIGITAL ACADEMY
MARION COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2003

Assets

Cash and Cash Equivalents	\$ 91,171
Intergovernmental Receivable	<u>105,000</u>

<i>Total Assets</i>	196,171
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Liabilities

Due to Other Governments	<u>108,366</u>
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Net Assets

Unrestricted	<u><u>\$ 87,805</u></u>
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See accompanying notes to the basic financial statements

**MARION CITY SCHOOLS DIGITAL ACADEMY
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues	
Foundation Payments	\$ 190,490
Operating Expenses	
Purchased Services	<u>278,542</u>
<i>Operating Loss</i>	<u>(88,052)</u>
Non-Operating Revenues	
State and Federal Grants	175,700
Interest Earnings	<u>157</u>
<i>Total Non-Operating Revenues</i>	<u>175,857</u>
<i>Increase in Net Assets</i>	87,805
<i>Net Assets Beginning of Year</i>	<u>0</u>
<i>Net Assets End of Year</i>	<u><u>\$ 87,805</u></u>

See accompanying notes to the basic financial statements

**MARION CITY SCHOOLS DIGITAL ACADEMY
MARION COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received for School Foundation	\$ 190,490
Cash Payments to Suppliers for Goods and Services	<u>(170,176)</u>

<i>Net Cash Provided by Operating Activities</i>	<u>20,314</u>
--------------------------------------------------	---------------

Cash Flows from Noncapital Financing Activities

State and Federal Grants Received	<u>70,700</u>
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<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>70,700</u>
-------------------------------------------------------------	---------------

Cash Flows from Investing Activities

Interest on Investments	<u>157</u>
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<i>Net Cash Provided by Investing Activities</i>	<u>157</u>
--------------------------------------------------	------------

<i>Net Increase in Cash and Cash Equivalents</i>	91,171
--------------------------------------------------	--------

<i>Cash and Cash Equivalents Beginning of Year</i>	<u>0</u>
----------------------------------------------------	----------

<i>Cash and Cash Equivalents End of Year</i>	<u><u>91,171</u></u>
----------------------------------------------	----------------------

**Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities**

Operating Loss	(88,052)
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Adjustments to Reconcile Operating Loss to Net
Cash Provided by Operating Activities:

Increase in Liabilities:

Due to Other Governments	<u>108,366</u>
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<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 20,314</u></u>
--------------------------------------------------	-------------------------

See accompanying notes to the basic financial statements

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Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Marion City Schools 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 the Academy's 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 K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools 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 others, 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 approved for operation under a contract with the Marion City School District (the Sponsor). 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 operates under the direction of a six-member (five voting members) Board of Directors made up of:

- (a) Three persons employed and serving in administrator positions within the Marion City School District, which positions have been identified by the Marion City School District Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the Marion City School District Board of Education and its interests.
- (b) One person who is neither an officer nor employee of the Marion City School District who shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. Such person has been elected by the Marion City School District Board of Education.
- (c) One person who is neither an officer nor employee of the Marion City School District who is a representative initially appointed by the Tri-Rivers Educational Computer Association (TRECA), and who serves on the Board in his official capacity as a representative of TRECA and TRECA's interests. However, the TRECA representative shall within one year following the incorporation of the Academy, be replaced by a person appointed to represent the interests of parents and students served by the conversion school to be operated by the Academy. Such person must be the parent or legal guardian of a student who is enrolled in the conversion school. Such person shall be elected by the Marion City School District Board of Education.
- (d) The Academy's Treasurer as a non-voting ex officio member who is also the Marion City School District Treasurer and serves the Board of Directors in his official capacity as a representative of the Marion City School District Board of Education and its interests.

Therefore, the Academy is a component unit of the Marion City School District. Additionally, the Academy entered into a two-year contract on September 10, 2002, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services (See Note 8).

Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Marion City Schools Digital Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. 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 more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting

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.

The Academy uses enterprise accounting to track and report on its financial activities. 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 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 changes in net assets is appropriate for public policy, management control, accountability or other purposes.

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. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

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. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year 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.

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 Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Cash Equivalents

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2003, the Academy had no investments.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable. The Academy also participates in the State of Ohio Community School Grant Program and the Federal Charter School Grant Program through the Ohio Department of Education. Under these programs, the Academy was awarded \$175,700 to offset start-up costs of the Academy. Revenue received from these programs is recognized as non-operating revenue on the accompanying financial statements.

F. 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 did not have any restricted net assets at fiscal year end.

G. 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 service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

H. 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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount and bank balance of the Academy's deposits was \$91,171. The bank balance was covered entirely by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental (e.g. federal grant) receivables in the amount of \$105,000. All intergovernmental receivables are considered collectible in full and within one year.

NOTE 5 – FISCAL AGENT

The sponsorship agreement states the Treasurer of the Marion City School District shall serve as the Chief Financial Officer (Treasurer) of the Academy.

The Treasurer of Marion City School District shall perform the following functions while serving as the Treasurer of the Academy:

- A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of the Academy;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

NOTE 6 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

NOTE 7 - RELATED PARTY TRANSACTION

The Academy is a component unit of the Marion City School District (the District). As described in Note 1, the District is the Academy's sponsor. The Academy and the District entered into a 5-year sponsorship agreement on August 26, 2002 whereby terms of the sponsorship were established. Pursuant to this agreement, the District's treasurer serves as the Academy's fiscal officer. Also, the Academy is required annually to pay to the District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code, \$150 per student per year. This amounted to \$12,900 for fiscal year 2003 and is reported in Due to Other Governments in the accompanying financial statements.

In fiscal year 2003, other payments made by the Academy to the District totaled \$150,176. This represents payment for office space rent, start-up costs, and other related services provided by Marion City Schools to the Academy.

Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 8 - MANAGEMENT CONSULTING CONTRACT

The Academy entered into a two-year contract on September 10, 2002, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

1. TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
2. 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.
3. 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.
4. In exchange for the services and support (including equipment) provided by TRECA, the Academy shall pay to TRECA a fee of \$20,000 for the 2002-2003 school year and \$25,000 for the 2003-2004 school year.
5. The Academy shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K – 8 student enrolled in the Academy per school year. This amounted to \$95,466 for fiscal year 2003. Part-time students may be enrolled on such terms as are agreed to by the parties.

NOTE 9 - CONTINGENCIES

A. Grants

The School 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of 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, 2003.

B. Litigation

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18th, 2003. The effect, if any, on the Academy is not presently determinable.

NOTE 10 – PURCHASED SERVICES

For the period July 1, 2002 through June 30, 2003, purchased services expenses were payments for professional and technical services to TRECA in the amount of \$115,466. Of this amount, \$20,000 was paid during fiscal year 2003; the remaining \$95,466 represents a payable at June 30, 2003. Purchased services also included a payment to Marion City School District in the amount of \$150,176 for office space rent, start-up costs, and other related services provided by Marion City Schools to the Academy, and \$12,900 related to the \$150 per student fee payable to the District, as described in Note 7.

**Marion City Schools Digital Academy
Marion County**

*Notes to the Basic Financial Statements
For the Year Ended June 30, 2003*

NOTE 11 – FULL TIME EQUIVALENCY

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 conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to state funding for fiscal year 2003 as a result of such review.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Marion City Schools Digital Academy
Marion County
910 East Church Street
Marion, Ohio 43302

To the Board of Directors:

We have audited the basic financial statements of Marion City Schools Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Marion City School District, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 3, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Academy in a separate letter dated October 3, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-002.

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A material weakness is a 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted a certain other matter involving the internal control over financial reporting that does not require inclusion in this report that we have reported to management of the Academy in a separate letter dated October 3, 2003.

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

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

Betty Montgomery
Auditor of State

October 3, 2003

**MARION CITY SCHOOLS DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2003-001
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Finding Repaid Under Audit

The Academy was awarded an Ohio Public Charter Schools federal grant, of which \$45,000 was received in fiscal year 2003. The \$45,000, however, was deposited into the Marion City School District's bank account and posted to its accounting records.

On October 29, 2003, the Marion City School District repaid to the Academy the \$45,000.

Finding Number	2003-002
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Community School Contract

During fiscal year 2003, the Academy paid the Marion City School District (the District) \$150,176 for office space rent, start-up costs, and other related services provided by employees of the District to the Academy. Such services were provided by the Superintendent, Assistant Superintendent, Treasurer, EMIS Coordinator, Director of Student Services, and Administrative Assistants. However, there was no apparent provision in the Community School Contract entered into between the Academy and the District to allow for such payments.

Additionally, charges made by the District for a portion of employee salaries and benefits related to services provided to the Academy were not supported by time study documents, records of actual employee time spent on Academy projects, or similar documentation. Similarly, charges for rent were not supported by space utilization records.

The Boards of Education of the Marion City School District and the Marion City Schools Digital Academy passed subsequent resolutions dated December 8, 2003, and January 29, 2004, respectively, to retroactively approve the \$150,176 of payments made by the Academy to the District.

We recommend the District and the Academy review the terms of the contract to ensure it accurately reflects the intentions of both Boards of Education. The contract allows for changes or modifications provided such changes or modifications are made and agreed to in writing between the parties. Additionally, if a portion of District costs will be charged to the Academy, such costs should be supported by detailed documentation such as time studies, records of actual time spent, space utilization records, invoices of specific expenditures, or other similar documents. The Academy should ensure it receives such detailed documentation, reviews it for appropriateness and accuracy, and maintains it on file. Failure to properly document charges or clarify the terms of the agreement in writing could result in findings requiring repayment of grant or other funds.

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Betty Montgomery**

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MARION CITY SCHOOLS DIGITAL ACADEMY

MARION 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 23, 2004**