TRECA DIGITAL ACADEMY
MARION COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

TRECA DIGITAL ACADEMY
MARION COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

TRECA Digital Academy
Marion County
2222 Marion-Mt. Gilead Road
Marion, Ohio 43302

To the Board of Education:

We have audited the accompanying basic financial statements of the TRECA Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Tri-Rivers Educational Computer Association (TRECA), 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.

Except as discussed in the following paragraph, 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.

The governing boards of the Academy and TRECA are comprised of the same individuals. Additionally, TRECA serves as fiscal agent and management of the Academy. Management of the Academy allocated certain expenses, including rent, credit card purchases, computer leases, and salaries between the Academy and TRECA. These allocations were not based on written agreements, allocation plans, or records supporting that amounts were related to expenses incurred by the respective entities. On February 24, 2004, the respective governing boards ratified the actual allocations, though no allocation support was provided. Due to the lack of supporting documentation we were unable to satisfy ourselves concerning the Academy's reported expenses which are based on management's actual allocations. The effects, if any, of such commingling on assets, net assets, and expenses is not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves concerning reported expenses as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the TRECA Digital Academy, Marion County, Ohio, as of June 30, 2003, and its change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2004, 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.

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.

We conducted our audit to form an opinion on the Academy's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Betty Montgomery

Betty Montgomery
Auditor of State

March 26, 2004

The discussion and analysis of TRECA Digital Academy's (TDA) financial performance provides an overall review of TDA's financial activities for the fiscal year ended June 30, 2003. Readers should also review the basic financial statements and notes to enhance their understanding of TDA's financial performance.

Highlights

TDA began its first year of operation in fiscal year 2002 and is very proud that six hundred forty-four students completed the program in the first year. For fiscal year 2003, student population increased to eight hundred twenty-four students, a 28 percent increase, and TDA has already experienced a 55 increase for fiscal year 2004, bringing the total current student population to 1,279. TDA is an Online Internet School; therefore, it requires each student to have a computer, printer, and scanner to participate in TDA's curriculum. TDA's charter has provisions for TDA to provide this equipment to students.

Using the Basic Financial Statements

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 TDA did financially during fiscal year 2003. 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 TDA'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 TDA has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of TDA's net assets for fiscal year 2003 compared to fiscal year 2002 (as restated):

Table 1
Net Assets

	Business Type Activities	
	2003	2002
Assets:		
Current and Other Assets	$128,792	$309,212
Capital Assets, Net	55,272	89,900
Total Assets	184,064	399,112
Liabilities:		
Current Liabilities	1,202,910	854,104
Net Assets:		
Invested in Capital Assets	55,272	89,900
Unrestricted	(1,074,118)	(544,892)
Total Net Assets	($1,018,846)	($454,992)

TDA had deficit net assets of $454,992 as a result of its first year of operations. TDA receives Foundation payments from the State based on the number of full-time equivalency students. As a result of estimating qualifying students for the first year of operations, TDA received unearned revenue in fiscal year 2002, in the amount of $492,138, which was reflected as deferred revenue. At June 30, 2003, $432,121 of this amount was still deferred. The Foundation payments to TDA are being reduced through fiscal year 2006 to offset this overpayment. Again in fiscal year 2003, TDA received an overpayment of foundation monies, in the amount of $126,028. This amount will be repaid in fiscal year 2004.

In fiscal year 2003, TDA experienced a decrease in net assets of $563,854. The decrease in total assets is primarily the result of TDA receiving and spending all of its intergovernmental monies within the fiscal year in fiscal year 2003. For fiscal year 2002, there were still outstanding receivables at fiscal year end. The decrease in net capital assets is the result of depreciation expense exceeding additions. The increase in total liabilities is the result of an increase in several liability accounts, such as due to TRECA and fringe benefits. These increases are the result of continued legal fees related to the startup and operation of TDA, as well as increased costs for instruction as the number of teachers increased. TDA also operated for a full fiscal year for the first time in fiscal year 2003.

Table 2 reflects the changes in net assets for the current and prior year (as restated).

Table 2
Change in Net Assets

	Business Type Activities	
	2003	2002
Operating Revenues		
Foundation	$4,474,533	$3,254,602
Sales	965	0
Other Revenues	5,150	0
Non-Operating Revenues		
Grants	443,193	472,347
Interest Revenue	2,064	1,945
Total Revenues	4,925,905	3,728,894
Operating Expenses		
Fringe Benefits	931,939	609,452
Purchased Services	4,209,211	2,968,983
Materials and Supplies	282,250	338,303
Depreciation	34,628	264,286
Other Operating Expenses	31,731	2,862
Total Expenses	5,489,759	4,183,886
Total Decrease in Net Assets	($563,854)	($454,992)

TDA continued to have deficit net assets at June 30, 2003. TDA realized a 37 percent increase in foundation revenues as a result of the increase in students. (The State funding amount paid to a community school for one student was $4,949 for fiscal year 2003.) While TDA had a decrease in a number of expenses from the prior fiscal year, generally associated with the initial startup of the school, there was a 31 percent increase in overall expenses due to the growth of TDA and the costs associated with that growth.

Budgeting

TDA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets

Capital Assets

At the end of fiscal year 2003, TDA had $55,272 invested in capital assets (net of accumulated depreciation). For further information regarding TDA's capital assets, refer to Note 5 to the basic financial statements.

Current Issues

Enrollment has increased to 1,279 students in fiscal year 2004 due to greater knowledge of TDA's existence throughout the State of Ohio and TDA's reputation of being a good alternative for educational opportunities for Ohio students and our partnering with local schools.

As previously mentioned, TDA received an overpayment of Foundation during fiscal year 2002 and 2003. At June 30, 2003, $558,149 was still deferred. As a result, TDA will receive reduced payments through fiscal year 2006 to offset this overpayment.

Contacting TDA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of TDA's finances and to reflect TDA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Linda Phillips, Treasurer, TRECA Digital Academy, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

TRECA Digital Academy
Statement of Net Assets
June 30, 2003

Assets:	
Current Assets:	
Cash and Cash Equivalents	$128,792
Non-Current Assets:	
Depreciable Capital Assets, Net	55,272
Total Assets	184,064
Liabilities:	
Current Liabilities:	
Accounts Payable	33,402
Due to TRECA	456,115
Fringe Benefits Payable	80,591
Intergovernmental Payable	74,653
Deferred Revenue	558,149
Total Liabilities	1,202,910
Net Assets:	
Invested in Capital Assets	55,272
Unrestricted (Deficit)	(1,074,118)
Total Net Assets (Deficit)	($1,018,846)

See Accompanying Notes to the Basic Financial Statements

TRECA Digital Academy
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2003

Operating Revenues:	
Foundation	$4,474,533
Sales	965
Other Operating Revenues	5,150
Total Operating Revenues	4,480,648
Operating Expenses:	
Fringe Benefits	931,939
Purchased Services	4,209,211
Materials and Supplies	282,250
Depreciation	34,628
Other Operating Expenses	31,731
Total Operating Expenses	5,489,759
Operating Loss	(1,009,111)
Non-Operating Revenues	
Grants	443,193
Interest Revenue	2,064
Total Non-Operating Revenues	445,257
Change in Net Assets	(563,854)
Net Assets (Deficit) at Beginning of Year - Restated, See Note 3	(454,992)
Net Assets (Deficit) at End of Year	($1,018,846)

See Accompanying Notes to the Basic Financial Statements

TRECA Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Foundation	$4,540,544
Cash Received from Sales	965
Cash Payments for Fringe Benefits	(853,192)
Cash Payments for Goods and Services	(4,300,128)
Cash Received from Other Revenues	5,150
Cash Payments for Other Expenses	(19,016)
Net Cash Used for Operating Activities	(625,677)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Grants	557,865
Cash Flows from Investing Activities:	
Cash Received from Interest	2,064
Net Decrease in Cash and Cash Equivalents	(65,748)
Cash and Cash Equivalents at Beginning of Year	194,540
Cash and Cash Equivalents at End of Year	$128,792
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($1,009,111)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	34,628
Changes in Assets and Liabilities:	
Decrease in Accounts Payable	(63,960)
Increase in Due to TRECA	270,461
Increase in Fringe Benefits Payable	54,363
Increase in Intergovernmental Payable	21,931
Increase in Deferred Revenue	66,011
Net Cash Used for Operating Activities	($625,677)

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Description of the School

TRECA Digital Academy (TDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. TDA 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 TDA's tax exempt status. TDA'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. TDA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. TDA may acquire facilities as needed and contract for any services necessary for the operation of the school.

TDA was approved for operation under a contract with the Tri-Rivers Joint Vocational School (the Sponsor), with Tri-Rivers Educational Computer Association (TRECA) as the Governing Authority for a five year period commencing July 30, 2001. The Sponsor is responsible for evaluating the performance of TDA and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of TDA.

TDA operates under the direction of a seven-member (five voting member) Board of Directors made up of area school district superintendents. The Board of Directors is the same as that of TRECA; therefore, TDA is a component unit of TRECA. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. TRECA, under a contractual agreement, provides instructional staff and support faculty to TDA. TDA currently pays TRECA for the salaries for these individuals; however, pays amounts relating to fringe benefits and retirement directly to those providers. TDA provides services to eight hundred twenty-four students.

TRECA is an association of public school districts within the boundaries of Clark, Cuyahoga, Delaware, Franklin, Hamilton, Knox, Lucas, Mahoning, Marion, Morrow, Muskingum, Summit, Trumbull, Union, and Wyandot Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of TRECA consists of six representatives from the participating school districts and the superintendent from Tri-Rivers Joint Vocational School.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of TDA 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. TDA 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. TDA does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. Following are the more significant of the TDA's accounting policies.

A. Basis of Presentation

TDA'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.

TDA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus

TDA is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of TDA 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 TDA finances and meets 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. TDA'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, are recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which TDA 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 TDA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to TDA 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 TDA's contract with its Sponsor. The contract between TDA and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast, which is updated on an annual basis.

Note 2 - Summary of Significant Accounting Policies (continued)

E. Cash

Cash held by TDA 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, TDA had no investments.

F. Capital Assets

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

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture is depreciated over ten years, and computers are depreciated over three years.

G. 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 balance of any borrowing 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 TDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. TDA first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. TDA did not have any restricted net assets at fiscal year end.

H. Operating Revenues and Expenses

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

I. 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 - Correction of an Error and Restatement of Fund Equity

In the prior fiscal year, TDA incorrectly recorded liabilities for accounts payable and capital leases payable. In addition, TDA incorrectly recorded capital assets. As a result of these corrections, capital assets decreased $803,078 from $920,766 to $117,688 and accumulated depreciation decreased $222,907 from $250,695 to $27,788. Total liabilities decreased $713,289 from $1,567,393 to $854,104. As a result of this restatement, net assets and the change in net assets as previously reported as of June 30, 2002, increased $133,118, from ($588,110) to ($454,992).

Note 4 - 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 of TDA's deposits was $128,792 and the bank balance was $159,752. Of the bank balance, $100,000 was covered by federal depository insurance and $59,752 was uninsured and uncollateralized. Non-compliance with federal requirements could potentially subject TDA to a successful claim by the FDIC. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance at 6/30/02	Additions	Reductions	Balance at 6/30/03
Depreciable Capital Assets				
Furniture and Equipment	$117,688	$0	$0	$117,688
Less Accumulated Depreciation	(27,788)	(34,628)	0	(62,416)
Capital Assets, Net	$89,900	($34,628)	$0	$55,272

Note 6 - Defined Benefit Pension Plans

A. State Teachers Retirement System

TDA contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Note 6 - Defined Benefit Pension Plans (continued)

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and TDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

TDA's required contribution for pension obligations for the fiscal years ended June 30, 2003, and 2002 was $349,445 and $147,317 respectively; 84 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal year 2002. The unpaid portion is reported as intergovernmental payable. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were $138 made by TDA and $14,855 made by plan members.

B. School Employees Retirement System

Employees, including teachers and other support personnel, who provide service to TDA, are employed by TRECA. TDA reimburses TRECA for their services and pays the employer pension contribution for these employees.

TDA contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Note 6 - Defined Benefit Pension Plans (continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and TDA was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. TDA's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, and 2002 were $22,408 and $5,588 respectively; 100 percent has been contributed for both fiscal years.

Note 7 - Postemployment Benefits

The TDA provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For TDA, this amount was $26,891.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were $354,697,000, and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at $14,500. For TDA, the amount to fund health care benefits, including the surcharge, was $15,990 for fiscal year 2003.

Note 7 - Postemployment Benefits (continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were $182,946,777, and the target level was $274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of $335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 8 - Other Benefits

TDA provides medical, dental, vision, and life insurance benefits through the Tri-Rivers Joint Vocational School Self Insurance program.

Note 9 - Fiscal Agent

The Comprehensive Services Agreement between the TDA and the Tri-Rivers Educational Computer Association (TRECA), adopted September 1, 2001, establishes the services of the Treasurer to be included in those supplied by TRECA to TDA. Furthermore, the sponsorship agreement states the Treasurer of the Governing Authority shall serve as the Treasurer of TDA.

The Treasurer of the Governing Authority shall perform the following functions while serving as the Treasurer of TDA:

A. Maintain the financial records of TDA 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 TDA;

C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

Note 10 - State Foundation

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which foundation funding is calculated.

For the fiscal year ended June 30, 2003, and 2002, TDA received overpayments of $126,028 and $492,138, respectively. These amounts have been recorded as deferred revenue on the statement of net assets. TDA will receive reduced foundation payments through fiscal year 2004 to offset the 2003 overpayment and through fiscal year 2006 to offset the 2002 overpayment. As of June 30, 2003, $432,121 of the fiscal year 2002 amount was still deferred and the entire fiscal year 2003 amount was still deferred.

Note 11 - Related Party Transactions

The seven-member board of the Tri-Rivers Educational Computer Association, the Governing Authority, governs TDA. This makes TDA a component unit of the Governing Authority. As part of TDA's contractual agreement dated July 15, 2002, with the Governing Authority for fiscal year 2003, TDA is required to pay the Governing Authority $660,000 for various services and support. At June 30, 2003, $165,000 of this amount was outstanding and is included in the Due to TRECA liability in the accompanying financial statements. Also included in the liability is $291,115 related to salaries and benefits reimbursements owed to TRECA.

In addition to the $660,000 fee established between TRECA and TDA, during fiscal year 2003, TDA also made the following payments:

- $20,450 related to a lease entered into by TRECA for additional office space;
- $550,265 related to various leases entered into by TRECA for the acquisition of computers and related equipment;
- $23,880 for TDA purchases made on the credit card account of TRECA;
- $2,260,666 and $853,191 of payroll and benefits, respectively, for TRECA employees who served TDA.

In the Comprehensive Services Agreement entered into between TRECA and TDA on September 10, 2001, TDA agreed to pay TRECA three percent of the state foundation plan payments received by TDA, irrespective to when such payments were actually received by TDA. In exchange for this fee, TRECA agreed to provide TDA with the services of instructional personnel, supervisory personnel (including technical and professional development positions), administrative personnel (including the positions of Executive Director and Treasurer), and technical personnel of sufficient number, training, and experience to effectively implement the TDA plan of operation as set forth in the Sponsor Contract filed with the Ohio Department of Education. The terms of this agreement were effective for succeeding school years unless otherwise agreed by the parties. Although a new and separate agreement between TDA and TRECA was adopted on July 15, 2002, for fiscal year 2003, management maintains the position that certain terms of this agreement were still effective for fiscal year 2003, but that required payments were modified by the July 15, 2002 agreement. Accordingly, no portion of the three percent fee was paid by TDA for fiscal year 2003, nor is it reported as a liability at June 30, 2003.

Note 12 - 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…"

TDA is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

Note 13 - Contingencies

A. Grants

TDA received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of TDA at June 30, 2003.

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community Schools Program violates the State's 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 was heard for oral argument on November 18, 2003. The effect of this suit, if any, on TDA is not presently determinable.

Note 14 – Purchased Services

The purchased services account in the financial statements is made up of various expenses as follows:

Payroll	$2,260,666
Administrative Services	744,310
Technology Services	550,265
Utilities	424,742
Travel	78,106
Legal Services	70,495
Advertising	25,793
Rent	20,450
Miscellaneous	34,384
	$4,209,211

The payroll expenses relate to reimbursements to TRECA for service provided by TRECA employees to TDA.

Note 15 – Grants

TDA participated in the Ohio Charter School Grant Program through the Ohio Department of Education. Under this program, the TDA was awarded $150,000 to offset start-up costs of the school. Revenue from this program was recognized as non-operating revenue on the financial statements.

TDA also received various other grants awards during fiscal year 2003. Some of the more significant include Title I, Special Education, and Improving Teacher Quality.

Note 16 – Risk Management

TDA has not obtained liability insurance coverage or otherwise provided for potential liabilities of the school. Management is unaware of any material pending claims related to this period.

Note 17 – Subsequent Events

Contractual Agreement

On February 24, 2004, TRECA and TDA entered into a 2004 Comprehensive Services Agreement. Pursuant to this agreement, the parties established, in part, the following terms:

- TRECA shall provide TDA with instructional, supervisory/administrative, fiscal, and technical services sufficient to substantially implement, in cooperation with TDA, TDA's obligations pursuant to the Community School Contract (but not including those functions, such as governance, which TDA is exclusively capable of performing).

- All personnel providing services in fulfillment of TRECA's responsibilities shall be employees or contractors 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 its employees.

- The technical services provided by TRECA to TDA 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 Community School Contract as required. All equipment shall remain the property of TRECA, including but not limited to computer hardware and software equipment.

- In exchange for the services and support (including equipment) provided by TRECA, TDA shall pay to TRECA the following fees:

    - Annual Fee – Beginning with the 2004-2005 school year, TDA shall at the commencement of each school year (or at other times as agreed by the parties), pay to TRECA for curriculum and program development, teacher training, and marketing services associated with TDA, an annual fee in an amount agreed by the parties, that amount which was established, pursuant to an addendum to the agreement, at $50,000 for fiscal year 2004;

    - Ongoing Fees – On an ongoing basis, TDA shall pay to TRECA 99% of the base formula funds, and 100% of the additional funds (including but not limited to funds for special education and related services), received by TDA from the Ohio Department of Education pursuant to section 3314.08 of the Ohio Revised Code. These percentages may be adjusted at any time by agreement of the parties

    - Other Payments – If and as agreed by the parties, TDA may additionally pay to TRECA funds received by TDA from grants or other sources for services provided by TRECA that are consistent with the purposes of such funds.

TRECA DIGITAL ACADEMY
MARION COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/ *Pass Through Grantor* Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disburse-ments
UNITED STATES DEPARTMENT OF EDUCATION				
Passed Through the Ohio Department of Education:				
Title I Grants to Local Educational Agencies	143305-C1S1-2002	84.010	$104,812	$104,812
	143305-C1S1-2003		125,791	125,791
			230,603	230,603
Special Education_Grants to States	143305-6BCM-2003-P	84.027	32,139	32,139
	143305-6BSF-2003-P		59,456	59,456
			91,595	91,595
Safe and Drug-Free Schools and Communities_State Grants	143305-DRS1-2003	84.186	2,100	2,100
Eisenhower Professional Development State Grants	143305-MSS1-2002	84.281	1,886	1,886
Ohio Charter Schools - Sub Grant	143305-CHS1-2003	84.282	150,000	150,000
Innovative Education Program Strategies	143305-C2S1-2002	84.298	3,490	3,490
	143305-C2S1-2003		3,604	3,604
			7,094	7,094
Technology Literacy Challenge Fund Grants	143305-TJS1-2003	84.318	3,441	3,441
Class Size Reduction	143305-CRS1-2002	84.340	4,484	4,484
Assistive Technology Infusion Project	143305-ATS3-2002	84.352A	1,249	1,128
Improving Teacher Quality State Grants	143305-TRS1-2003	84.367	45,941	45,941
Total U.S. Department of Education			**538,393**	**538,272**
TOTAL FEDERAL AWARDS			**$538,393**	**$538,272**

The accompanying notes to this schedule are an integral part of this schedule.

TRECA DIGITAL ACADEMY
MARION COUNTY

NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures summarizes the activity of the Academy's federal award programs. The schedule has been prepared on the cash basis of accounting.

Auditor of State
Betty Montgomery

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

TRECA Digital Academy
Marion County
2222 Marion-Mt. Gilead Road
Marion, Ohio 43302

To the Board of Education:

We have audited the basic financial statements of the TRECA Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Tri-Rivers Educational Computer Association, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 26, 2004, which was qualified because management of the Academy allocated certain expenses, including rent, credit card purchases, computer leases, and salaries between the Academy and Tri-Rivers Educational Computer Association, without supporting documentation to demonstrate that each entity paid only for its respective obligations. Except as discussed in the preceding sentence, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Academy in a separate letter dated March 26, 2004.

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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-003 through 2003-006.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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 each of the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Academy in a separate letter dated March 26, 2004.

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

March 26, 2004

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TRECA Digital Academy
Marion County
2222 Marion-Mt. Gilead Road
Marion, Ohio 43302

To the Board of Education:

Compliance

We have audited the compliance of the TRECA Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Tri-Rivers Educational Computer Association, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

As described in item 2003-007 in the accompanying schedule of findings and questioned costs**,** the Academy did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/ Cost Principles, and Eligibility that are applicable to its Title I grant. Compliance with such requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to this program.

In our opinion, because of the instance of noncompliance referred to in the preceding paragraph, the Academy did not comply, in all material respects with the requirements referred to above that are applicable to its Title I major federal program for the year ended June 30, 2003. However, in our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to its other major federal program for the year ended June 30, 2003. We also noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the Academy in a separate letter dated March 26, 2004.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
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Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Academy's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-007 and 2003-008.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance 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 both reportable conditions described above are material weaknesses.

This report is intended for the information and use of management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

March 26, 2004

TRECA DIGITAL ACADEMY
MARION COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Qualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material non-compliance at the financial statement level (GAGAS)?**	Yes
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	Yes
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Title I Grants to Local Educational Agencies – CFDA # 84.010 – Adverse Ohio Charter Schools – Sub-Grant – CFDA # 84.282 – Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Title I Grants to Local Educational Agencies – CFDA #84.010 Ohio Charter Schools – Sub-Grant – CFDA # 84.282
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

Finding Number	**2003-001**

Liability Insurance

Ohio Rev. Code Section 3314.03(11)(b) requires that the governing authority of each community school obtain liability insurance, or otherwise provide for the potential liability of the school. Additionally, the Academy's contract with its Sponsor requires the Academy to obtain liability insurance coverage.

For fiscal year 2003, the Academy was unable to obtain a liability insurance policy, and did not otherwise provide for the potential liability of the school through a designation of fund balance for contingencies or another method.

We recommend the Academy either obtain liability insurance coverage, or otherwise provide for its potential liability.

Finding Number	**2003-002**

Student Tuition

Ohio Rev. Code Section 3314.08(I) states no community school shall charge tuition for the enrollment of any student.

The Academy charged tuition fees for summer school students at a rate of $50 for a half credit and $100 for a full credit for all students enrolled in summer classes. In total, the Academy collected $4,850 in student tuition.

We recommend the Academy immediately discontinue charging students for tuition. The Academy should consult its legal counsel regarding whether to reimburse the tuition collected to the respective students who were charged for the summer school enrollment.

Finding Number	**2003-003**

Monthly Bank Reconciliations

Monthly cash reconciliations should be performed by the Academy to determine if all receipts and disbursements have been properly posted. Reconciling items should be identified at the time of the reconciliation. Documentation supporting or explaining all reconciling items should also be included with the reconciliation. Once completed, the reconciliation should be reviewed for completeness and accuracy by the Academy Board.

When cash reconciliations are not properly performed, monthly book balances may be understated or overstated and management cannot be assured that ledgers reflect the proper financial activities of the Academy. Also, lack of legislative monitoring may lead to errors, irregularities, or misappropriation of Academy assets.

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-003 (Continued)

Monthly Bank Reconciliations – (Continued)
The Academy did not timely or accurately reconcile its accounting ledgers to the bank balances throughout the year. The Academy prepared six months of bank reconciliations, from January 2003 through June 2003, at one time, in July 2003. In addition, the June 2003 monthly reconciliation revealed a bank balance $2,064.02 higher than the book balances, indicating a reconciliation error.

The Treasurer then made a book adjustment in June 2003 for $2,064.02 to increase the Academy's book balance to match the bank balance. By making this book adjustment in June 2003, it gave the bank reconciliation the appearance that the accounting ledgers were in balance with the bank at fiscal year end with no unusual reconciling items. Actually, this $2,064.02 represents unreconciled variances that were not identified by the Treasurer.

In addition to this error, the Treasurer also double-posted a $1,722 receipt during the year. When added to the $2,064.02 error described above, the overall effect is a $3,786.02 understatement of book balance caused by errors in posting of receipts and/or expenditures throughout the fiscal year.

Also, the Academy's outstanding check list at June 2003 improperly excluded $64.90 representing two checks that were still outstanding at the end of the fiscal year.

We recommend the Academy Treasurer perform monthly bank to book reconciliations that properly account for all transactions during the respective month. Unreconciled errors should be investigated by comparing transaction-level activity reflected on the bank statement with the activity posted in the accounting ledgers. The Treasurer should not make reconciling adjustments to the accounting ledgers unless specific errors have been identified and documentation exists to support the adjustment. We also recommend the Academy Board carefully review these reconciliations each month.

Finding Number	2003-004

Board Monitoring
The Academy Board does not review the Academy budget versus actual receipts or expenditures for unusual or unexpected variances. Furthermore, no systems-generated reports of cash receipts or cash disbursements were monitored by the Board during the year. The Treasurer prepared spreadsheets of financial activity at a summarized level with the receipt and disbursement activity of all the Academy's funds combined into one column. Furthermore, except for the general fund, the receipt line items included on the reports were only broken down at the fund level. The lack of detailed information at the fund level limits the usefulness of these reports and, thus, may compromise the Board's ability to properly monitor the financial activity of the Academy. Lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of Academy funds.

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	**2003-004 (Continued)**

Board Monitoring (Continued)
Monitoring comprises regular management activities established to oversee whether management's financial objectives are being achieved. Data from such reports may indirectly provide assurance as to the reliability of financial reporting information if it conforms with the users' expectations.

To use the budget as an effective tool, we recommend the Board request the Treasurer present to the Board monthly systems-generated financial reports that include budgeted and actual receipts and disbursements at a more detailed level, such as each revenue source account within each fund and, for disbursements, each major function account within each fund. The Board should carefully review these reports each month for any unusual or unexpected financial activity. Appropriate follow-up should be made regarding any unusual balances or transactions.

Finding Number	**2003-005**

Credit Cards
Tri-Rivers Educational Computer Association (TRECA) serves as fiscal agent and management of the Academy. During fiscal year 2003, credit card purchases totaling $83,766 were incurred by the eight employees who hold credit cards on an account in the name of TRECA. These credit cards were used to make purchases for both TRECA and the Academy. Moreover, there was no policy governing the use of credit cards. The following examples, while not deemed illegal, give an indication of expenditures that can occur when proper policies and procedures are not in place.

- TRECA's Personnel Policy Manual (Section 6.1(C)) expressly prohibits reimbursement for alcohol purchases. There was a credit card payment made for the purchase of alcohol, evidenced by fifty-five cents of liquor tax on the summary of a restaurant bill. The dollar amount of the alcohol purchase was not able to be determined because the original detailed receipt was not maintained.

- A TRECA employee used a TRECA credit card to purchase three packages of cigarettes on two separate occasions. The employee was later required to reimburse TRECA for these purchases.

- TRECA employees made credit card gasoline purchases in the amount of $6,948 during the fiscal year without sufficient supporting explanation and/or documentation.

- TRECA expended $658 for shirts and related logo embroidering without sufficient explanation and/or documentation of the purpose of such expenditure.

- TRECA expended $210 for valet parking for three employees attending a two-day conference in Columbus, Ohio. There was not documentation indicating the purpose of the valet parking; however, TRECA and the Academy later explained the expenditure was for secure parking rather than public parking for vans loaded with computer equipment.

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	**2003-005 (Continued)**

Credit Cards (Continued)

- Out-of-state travel purchases incurred on the credit card, including air fare, hotels, rental cars, parking and meals, totaled $27,701. This amount does not include additional out-of-state travel reimbursements to employees who do not hold credit cards.

- Throughout the year, there were charges of $7,038 for meals unrelated to out-of-state travel. Of this amount, $4,109 related to meals in Marion, Ohio, the office location of TRECA and the Academy. There were also additional reimbursements paid to employees related to other in-state meal purchases. There is no policy in place allowing for meals to be provided other than out-of-state travel meals. Furthermore, receipts maintained for such meal purchases were primarily receipts only showing the total of the entire meal purchase; detailed receipts of the individual items purchased were not available.

There was an instance noted in which one employee used the credit card assigned to another employee. Ken Papay used the TRECA credit card assigned to John Shank to purchase postage stamps.

Of the total credit card purchases made, a total of $2,996 in credit card purchases was made on days in which the payroll records reflect that the employee(s) who made the purchase in question were on vacation leave from work. TRECA and the Academy later explained the payroll records were incorrect and that the employees worked on these days instead of taking vacation leave.

Throughout the fiscal year, the credit card balance ranged between $3,348 and $17,145. At no time during the year was the entire balance on the monthly credit card statement paid in full. As a result, finance charges of $1,065 were incurred. Furthermore, there were five instances during the year in which no payment was made on the credit card balance or the payment was made late, thereby resulting in $115 of late fees.

Following credit card purchases, TRECA's practice requires employees to submit supporting documentation (e.g. receipt or invoice) to the Treasurer to maintain with the payment of the monthly credit card bill. However, neither TRECA nor the Academy was able to provide any supporting documentation for $10,065 of the $83,766 of credit card purchases. Furthermore, receipts for the Superintendent's credit card purchases were not submitted to the Treasurer to be maintained with the credit card statements. Upon request, the receipts were later provided by the Superintendent.

We recommend the Board adopt a policy regarding employee use of credit cards. This policy should indicate which employees are authorized to use the credit cards, specifically what types of purchases are allowable, what types of purchases are prohibited, and any maximum use amount in total and/or by purchase type. This policy should also require original supporting detailed receipts/invoices for every purchase made and that the original receipts be submitted to and maintained by the Treasurer. The policy should further establish a system of supervisor review and approval of credit card purchases and a system of monitoring to ensure the Board policy is being followed. We further recommend the Board review each monthly credit card statement prior to payment to help ensure purchases have been made only for authorized and proper public purposes. Finally, if credit card use will be permitted for in-state travel costs (including such items as lodging, meals, or motor fuel), the Board should establish a formal policy governing such costs, including what travel costs are permitted, what limits apply, and what supporting documents and approvals are required.

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-005 (Continued)

Credit Cards (Continued)
Failure to establish and adhere to such a policy may result in possible findings for recovery in future periods.

Total payments made on the credit cards equaled $78,183. Of the total credit card payments made, $54,303 was paid by TRECA and $23,880 was paid by the TRECA Digital Academy.

Finding Number	2003-006

Commingling of Financial Activity
Pursuant to Governmental Accounting Standards Board Statement No. 14, the Academy is considered a component unit of the Tri-Rivers Educational Computer Association (TRECA), for purposes of external financial reporting. Additionally, TRECA serves as fiscal agent and management of the Academy, and the governing boards of both entities are comprised of the same individuals. The Academy and TRECA, however, are legally separate entities requiring processing of respective financial transactions in separate accounting systems.

Furthermore, the governing boards of TRECA and the Academy entered into a Comprehensive Service Agreement, dated September 10, 2001, initially covering fiscal year 2002 with provision for future application. Under the agreement TRECA is to provide certain services to the Academy for a fee as set forth in the agreement. A twelve month Letter of Agreement was entered into between TRECA and the Academy, signed July 15, 2002 by Mike Carder and Linda Phillips on behalf of the Academy and TRECA, respectively. These individuals serve as TRECA Superintendent and Treasurer, respectively, and serving in those capacities also serve as management of the Academy. The Letter of Agreement provides that TRECA will provide certain services to the Academy for a fee as set forth in the agreement.

Other than the stated fees provided for in the agreements, neither the Comprehensive Service Agreement nor the Letter of Agreement explicitly provide that the Academy will reimburse TRECA for TRECA's actual costs of providing services under the agreements. Neither agreement provides guidelines or methodologies for allocating any joint costs. Finally, though the management of TRECA and the Academy contend that certain provisions of both agreements were in effect for fiscal year 2003, it is not clear how certain service provisions and the fees provided for by the agreements are to be reconciled, or to what extent the Letter of Agreement effectively alters the Comprehensive Service Agreement approved by the governing boards.

TRECA did not charge the Academy for the full service fee provided for in the Letter of Agreement. However, during the fiscal year, certain expenses, including rent payments, credit card purchases, computer lease payments, and employee salaries, were commingled and allocated between the entities such that it is unclear whether each entity properly paid for, and only for, its respective share of the expenses. These allocations were not based on allocation plans or records supporting that amounts were related to expenses incurred by the respective entities. In some cases, the allocations are related to services that are provided for under the agreements. Total allocations were in excess of the $660,000 fee provided for in the Letter of Agreement. On February 24, 2004, the respective governing boards ratified the actual allocations, although no allocation support was provided. A summary of the more significant allocations follows:

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-006 (Continued)

Commingling of Financial Activity (Continued)

- In October 2002, TRECA entered into a lease agreement for office space to be used primarily to house the Academy. Of the ten monthly lease payments made, eight payments were made by TRECA totaling $81,800, and two payments were made by the Academy totaling $20,450. Neither TRECA nor the Academy was able to provide any documentation, such as space utilization records, supporting this allocation.

- A credit card account is maintained in the name of TRECA. Eight individuals who work for TRECA (some of whom provide services to the Academy under the agreements) have been assigned credit cards on this account. Total credit card purchases were $83,766 and total credit card payments made were $78,183. Of the total payments made, $54,303 was paid by TRECA and $23,880 was paid by the Academy. The Academy's Treasurer, who also serves as Treasurer of TRECA, determined the allocation of the payments between TRECA and the Academy for each of the monthly credit card statements; however, the Treasurer was unable to provide any documentation supporting this allocation, or any documentation indicating which individual credit card purchases were made by/for which entity.

- Since fiscal year 2002, TRECA has entered into two capital lease agreements with Apple Financial Services and one capital lease agreement with Bank One Leasing Corporation for the acquisition of computers and related equipment. These computers were acquired to be used by students who attend the Academy and by students who attend other digital academies that contract with TRECA to provide instruction and computer equipment. TRECA and the Academy each made various payments related to these leases. Since all three leases were entered into by TRECA, title to the assets and the corresponding liability rests with TRECA. Though there is no written agreement, the parties assert they have verbally agreed to terms by which the Academy makes payments on the leases for the portion of computers used by the Academy's students. However, based on the Academy's average number of students during the fiscal year and the average computer cost obtained from the three lease agreements, the Academy could have paid $350,385. Actual payments made by the Academy totaled $550,265, resulting in a difference of $199,880.

- All employees, including teachers and other support personnel, who provided service to the Academy, were hired by TRECA as TRECA employees and are paid on TRECA paychecks. Each pay period, the Treasurer made a posting adjustment to allocate back to the Academy the payroll expense of the employees providing services to the Academy. This allocation is complicated by the fact that certain of the teachers who provide instruction to the Academy's students also provide instruction to students of other established digital academies that contract with TRECA for instruction services. As such, if TRECA and the Academy had agreed to allocate payroll associated with instruction of the Academy's students, the payroll associated with instruction of students from other digital academies contracting with TRECA should be paid by TRECA. The Treasurer was not able to provide any documentation, such as time records, supporting the allocation of such payroll between TRECA and the Academy. Total payroll and benefits paid by the Academy during fiscal year 2003 were $2,260,666, and $853,191, respectively.

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	**2003-006 (Continued)**

Commingling of Financial Activity (Continued)
As TRECA and the Academy are legally separate entities, it is imperative to maintain separate and distinct operations. Failure to do so compromises the financial accountability for these entities and may result in possible findings for recovery in future periods.

Payment terms provided for in agreements should be adhered to. All significant service or cost allocation agreements should be in writing and clearly articulate the services or benefits to be provided and the manner and amount of payment. The Academy should review the agreements it has with TRECA and negotiate clarification to the terms. Additionally, for any overlapping financial activity allocated between the entities, clear and concise documentation needs to be maintained to support such allocation. Any allocation of rental expense between the entities should be supported by space utilization records that clearly support the proportion of the expense paid by each entity. In regard to the use of credit cards, we recommend TRECA and the Academy maintain separate credit card accounts to properly separate their financial activity. Any allocation of computer lease payments should be in direct proportion to the number of students using the computers. Salary allocations of teachers who provide service on behalf of TRECA and the Academy should be supported by time and/or student participation records. Similarly, any other expense allocated between TRECA and the Academy should be made only after careful evaluation and documentation of the proportionate benefits received by each party and whether such services or benefits have already been provided for under an existing agreement.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2003-007
CFDA Title and Number	CFDA # 84.010 – Title I Grants to Local Educational Agencies
Federal Award Number / Year	143305-C1S1-2002/2003
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Title I Grant
Noncompliance Citation – Activities Allowed or Unallowed, Allowable Costs/ Cost Principles, Eligibility
Material Weakness
Questioned Costs: $230,603

According to the 2003 Consolidated Application approved by the Ohio Department of Education (ODE), funding under the Academy's award is for the operation of a targeted assistance Title I program and payment of salaries and approved fringe benefits for teachers and administrators to provide services to eligible students in the areas of reading/ language arts and mathematics through a delivery method of teacher mentoring and coaching.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Title I Grant (Continued)

20 U.S. Code Section 6315, provides that Title I funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas, a school (i.e., building or operating unit) operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging academic achievement standards. Eligible children are identified on the basis of multiple, educationally-related, objective criteria established by the local educational agency (LEA) (i.e., the Academy) and supplemented by the school. Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient children are eligible for Title I services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards and are thus eligible for Title I services because of their status. Such children include: children who are homeless; children who participated in a Head Start or Even Start program at any time in the two preceding years; children who received services under a program for youth who are neglected, delinquent, or at risk of dropping out under Title I, Part D (or its predecessor authority) at any time in the two preceding years; and , children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school is to select those children who have the greatest need for special assistance to receive Title I services. In addition, targeted assistance programs are to provide strategies to increase parental involvement in accordance with 20 USC 6318, such as family literacy services.

U.S. Office of Management and Budget (OMB) Circular A-122 *Cost Principles for Non-Profit Organizations,* Attachment A, Section A, 2 provides in part, that to be allowable under federal awards, costs must be allocable to federal awards under the provisions of the Circular. Attachment A, Section A, 4 provides, in part, that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received.

The Academy did not have a process designed or in place to identify and evaluate Title I eligible students or to design and provide Title I services in accordance with the approved grant application, and federal laws and regulations. The Academy did not provide any documentation indicating it made a determination as to which students were eligible to receive Title I benefits, or that it had established a Title I targeted assistance program. Additionally, no documentation was provided to indicate the salaries and benefits charged to the Title I grant were directly related to mentoring and coaching in the areas of reading/language arts and math, as provided for in the approved grant application. The Academy, however, utilized the entire Title I grant of $230,603 to pay the salaries of four teachers that were designated by title as Title I instructors and the salaries of various administrators. As a result, we are reporting questioned costs of $230,603.

We recommend the Academy carefully review the requirements of its grant and monitor its expenditures in relation to its federal awards to ensure grant funds are used only for goods and services allowable under the grant agreements.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2003-008
CFDA Title and Number	CFDA # 84.282 – Ohio Charter Schools – Sub-Grant
Federal Award Number / Year	143305-CHS1-2003
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Authorization of Expenditures
Material Weakness

Authorization for Academy expenditures is granted by the Academy's Superintendent who serves as the purchasing agent. The Academy's stated procedures require his signature on each purchase requisition to evidence his prior approval. After obtaining the Superintendent's approval of the requisition, a systems-generated purchase order is prepared with the signature of the Superintendent automatically printed on it.

Testing of 100% of expenditures related to the Ohio Charter School Grant revealed the requisitions were either missing, or the signature of the Superintendent was computer generated. Sound internal control procedures do not preclude the use of computer generated signatures; however, if such method of approval is utilized, the computer generated signature must be restricted by physical or logical access controls, such that only the respective individual has access to the computer generated signature. The Superintendent's signature stamp was not restricted physically or logically to only the Superintendent; the Treasurer also has access to the signature stamp.

We recommend the Academy make expenditures only after obtaining evidence of the Superintendent's approval of the transaction. If the computer generated signature is used to document the Superintendent's approval, access to the signature should be appropriately restricted to only the Superintendent. This control also serves as a means for the Academy to help ensure the expenditure is an allowable expenditure under the corresponding federal grant.

TRECA DIGITAL ACADEMY
MARION COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-10651-001	Ohio Rev. Code Section 3314.03(11)(b) requires the Academy to obtain liability insurance.	No	Not corrected; this comment has been repeated as finding number 2003-001 in the current audit report.
2002-10651-002	Ohio Rev. Code Section 3314.03(A)(11)(g) requires the Academy submit an annual report of its activities, progress in meeting academic goals, and financial status to the Academy's sponsor, the parents of all students, and the legislative office of oversight.	No	Partially corrected; the Academy filed the report with sponsor and legislative oversight office, however, the report was not filed with the parents of students. This finding has been repeated in the current management letter.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

TRECA 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
JUNE 22, 2004