



**Auditor of State
Betty Montgomery**

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Elgin Digital Academy
Marion County
4616 LaRue-Prospect Road
Marion, Ohio 43302-8859

To the Board of Directors:

We have audited the accompanying basic financial statements of the Elgin Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Elgin Local School District, as of and for the year ended June 30, 2004, 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 Elgin Digital Academy, Marion County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2005, 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 grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing 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

March 2, 2005

Elgin Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

The discussion and analysis of Elgin Digital Academy's (EDA) financial performance provides an overall review of EDA's financial activities for the fiscal year ended June 30, 2004. Readers should also review the basic financial statements and notes to enhance their understanding of EDA's financial performance.

Highlights

EDA, an Online Internet School, began its first year of operation in fiscal year 2004 and had thirty-nine students participating in the program. EDA had received start-up resources in the prior fiscal year; however, EDA actually began operating as a school in fiscal year 2004.

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 change in net assets reflect how EDA did financially during fiscal year 2004. 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 EDA'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 EDA 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 EDA's net assets for fiscal year 2004 compared to fiscal year 2003:

Table 1
Net Assets

	Business Type Activities	
	2004	2003
<u>Assets:</u>		
Current Assets	\$20,152	\$51,400
<u>Liabilities:</u>		
Current Liabilities	5,691	0
<u>Net Assets:</u>		
Unrestricted	\$14,461	\$51,400

In the prior fiscal year, EDA's net assets consisted of start-up resources received from the Ohio Department of Education. The current liabilities at June 30, 2004, was a payable to the Tri-Rivers Educational Computer Association for services provided.

Elgin Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 reflects the change in net assets for fiscal year 2004. Since this is the first year the EDA has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Change in Net Assets

<u>Operating Revenues</u>	
Foundation	\$95,747
<u>Non-Operating Revenues</u>	
Operating Grants	105,000
Interest Revenue	224
Total Revenues	<u>200,971</u>
<u>Operating Expenses</u>	
Purchased Services	236,592
Materials and Supplies	1,318
Total Expenses	<u>237,910</u>
Decrease in Nets Assets	<u><u>(\$36,939)</u></u>

EDA had a decrease in net assets at June 30, 2004; however, this was associated with the initial startup of the school.

Budgeting

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

Current Issues

Enrollment has decreased to fifteen students in fiscal year 2005. The EDA Director is working very hard to increase the enrollment. It will be necessary to return the enrollment numbers to at least twenty-five students in order to apply for grant monies of \$150,000. EDA has up to three years to apply for these grant monies.

Contacting EDA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of EDA's finances and to reflect EDA'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 Ethel Wheeler, Treasurer, Elgin Digital Academy, 4616 Larue-Prospect Road, Marion, Ohio 43302.

Elgin Digital Academy
Statement of Net Assets
June 30, 2004

Current Assets:

Cash and Cash Equivalents \$20,152

Current Liabilities:

Intergovernmental Payable 5,691

Net Assets:

Unrestricted \$14,461

See Accompanying Notes to Basic Financial Statements

Elgin Digital Academy
Statement of Revenues, Expenses, and Change in Net Assets
For the Fiscal Year Ended June 30, 2004

<u>Operating Revenues:</u>	
Foundation	<u>\$95,747</u>
<u>Operating Expenses:</u>	
Purchased Services	236,592
Materials and Supplies	1,318
Total Operating Expenses	<u>237,910</u>
Operating Loss	<u>(142,163)</u>
<u>Non-Operating Revenues:</u>	
Operating Grants	105,000
Interest Revenue	224
Total Non-Operating Revenues	<u>105,224</u>
Change in Net Assets	(36,939)
Net Assets at Beginning of Year - See Note 3	<u>51,400</u>
Net Assets at End of Year	<u><u>\$14,461</u></u>

See Accompanying Notes to the Basic Financial Statements

Elgin Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$95,747
Cash Payments for Materials and Supplies	(1,318)
Cash Payments for Services	(205,901)
Net Cash Used for Operating Activities	(111,472)

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants	105,000
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Cash Flows from Investing Activities:

Cash Received from Interest	224
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Net Decrease in Cash and Cash Equivalents	(6,248)
Cash and Cash Equivalents at Beginning of Year	26,400
Cash and Cash Equivalents at End of Year	\$20,152

Reconciliation of Operating Loss

to Net Cash Used for Operating Activities:

Operating Loss	(\$142,163)
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Adjustments to Reconcile Operating Loss

to Net Cash Used for Operating Activities:

Changes in Assets and Liabilities:

Decrease in Prepaid Assets	25,000
Increase in Intergovernmental Payable	5,691
Net Cash Used for Operating Activities	(\$111,472)

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Description of the School

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

EDA was approved for operation under a contract with the Elgin Local School District (the Sponsor) for a five-year period commencing on October 20, 2003. The Sponsor is responsible for evaluating the performance of EDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the EDA with the Treasurer of the Sponsor performing the role of Treasurer for the EDA.

EDA operates under the direction of a five-member Board of Directors made up of the Superintendent, the High School Principal, and an Elementary School Principal of the Elgin Local School District and two members from the public. The first public member shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of EDA. The second public member shall be a representative appointed by the Tri-Rivers Educational Computer Association (TRECA). After the first year of operation, the member appointed by TRECA will be replaced by a person who represents the interests of parents and students served by the EDA. The Sponsor makes up a majority of the Board; therefore, EDA is a component unit of the Elgin Local School District. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. During fiscal year 2004, EDA purchased services from TRECA for providing the planning, design, implementation, instructional, administrative, and technical services for EDA.

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

EDA'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.

EDA 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

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

E. Cash

Cash held by EDA 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 2004, EDA had no investments.

Note 2 - Summary of Significant Accounting Policies (continued)

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding 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 EDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. EDA first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. EDA 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 EDA. Operating expenses are necessary costs incurred to provide the service that is the primary activity of EDA. 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 - Change in Accounting Principles and Restatement of Fund Equity

For the fiscal year ended June 30, 2004, the EDA has presented for the first time basic financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, the EDA has changed its basis of accounting from a cash basis to the accrual basis of accounting using an enterprise presentation for its basic financial statements. The restatement to beginning net assets is \$51,400.

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 EDA's deposits was \$20,152 and the bank balance was \$20,152. The entire bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 - Fiscal Agent

The sponsorship agreement states the Treasurer of the Sponsor shall serve as the fiscal officer of EDA.

The Treasurer of the Sponsor shall perform the following functions while serving as the Treasurer of EDA:

- A. Maintain the financial records of EDA 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 EDA;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

Note 6 - Contract with TRECA

EDA entered into a two-year contract on October 20, 2003, 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 EDA's educational plan and EDA's assessment and accountability plan.
- 2. All personnel providing services to EDA 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 EDA 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, EDA shall pay to TRECA a fee of \$25,000 for fiscal year 2004.
- 5. EDA shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K-8 student enrolled in EDA per year. This amounted to \$48,659 for fiscal year 2004. Part-time students may be enrolled on such terms as are agreed to by the parties.

Note 7 - Related Party Transactions

EDA is a component unit of the Sponsor (Elgin Local School District). EDA and the Sponsor entered into a 5-year sponsorship agreement on October 20, 2003 whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's Treasurer serves as EDA's fiscal officer.

In fiscal year 2004, other payments were made by EDA to the Sponsor totaling \$143,453. These represent payments of \$89,060 for administrative services provided by the Sponsor to EDA and \$54,393 for reimbursements for supplies and equipment purchases made by the Sponsor for EDA.

Payments made by EDA to TRECA in fiscal year 2004 totaled \$51,314. This consists of \$48,659 in student charges, and \$2,655 in miscellaneous fees. An additional \$25,000, representing the fiscal year 2004 annual fee, was paid by EDA to TRECA prior to fiscal year 2004 and is reflected in purchased services expense on the accompanying financial statements.

Note 8 - 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...".

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

Note 9 - Contingencies

A. Grants

EDA 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 EDA at June 30, 2004.

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 for oral arguments was heard. The effect, if any, on EDA is not presently determinable.

Note 9 - Contingencies (continued)

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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. EDA does not anticipate any material adjustments to state funding for fiscal year 2004 as a result of such review.

Note 10 – Risk Management

EDA did not have liability insurance coverage during fiscal year 2004. Management does not believe there is any material liability to EDA.



**Auditor of State
Betty Montgomery**

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

Elgin Digital Academy
Marion County
4616 LaRue Prospect Road
Marion, Ohio 43302-8859

To the Board of Directors:

We have audited the basic financial statements of the Elgin Digital Academy, Marion County, Ohio, (the Academy) as of and for the year ended June 30, 2004, and have issued our report thereon dated March 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the Academy's management dated March 2, 2005, we also reported other matters related to noncompliance we deemed immaterial.

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We intend this report solely for the information and use of management and the Board of Directors. It is not intended for 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

March 2, 2005

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

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

Finding Number	2004-001
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Liability Insurance

Ohio Rev. Code Section 3314.03(A)(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 2004, the Academy did not obtain a liability insurance policy, or otherwise provide for the potential liability of the school.

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



**Auditor of State
Betty Montgomery**

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**ELGIN 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 29, 2005**