



**Auditor of State
Betty Montgomery**

HAMILTON LOCAL DIGITAL ACADEMY
FRANKLIN COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Hamilton Local Digital Academy
Franklin County
1055 Rathmell Road
Columbus, Ohio 43207

To the Board Directors:

We have audited the accompanying basic financial statements of the Hamilton Local Digital Academy, Franklin County, Ohio, (HDLA), a component unit of the Hamilton Local School District, as of June 30, 2004, and for the period from inception (February 24, 2003) through June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the HDLA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hamilton Local Digital Academy, Franklin County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, for the initial period 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 December 20, 2004, on our consideration of the HDLA'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.

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

December 20, 2004

Hamilton Local Digital Academy
Management's Discussion and Analysis
For the Initial Period of February 24, 2003 to June 30, 2004
Unaudited

The discussion and analysis of the Hamilton Local Digital Academy's (HLDA) financial performance provides an overall review of the HLDA's financial activities for the initial period ended June 30, 2004. The readers should also review the basic financial statements and notes to enhance their understanding of the HLDA's financial performance.

Highlights

The HLDA opened for its first year of operation in September 2003 as a kindergarten through twelfth grade online internet school. Additionally, each student was provided a computer and scanner which were used to access a curriculum based on the state model and which used certified/licensed instructors. The enrollment varied during the year but averaged 27 students.

Using this Annual Financial Report

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of the HLDA. Enterprise accounting uses a flow of economic resources measurement focus, which is similar to that which is used by most private-sector companies. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for the HLDA. The statement of revenues, expenses and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The change in net assets is important because it tell the reader whether the financial position of the HLDA has increased or decreased during the period. The statement of cash flows reflects how the HLDA finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Table 1 provides a summary of HLDA's net assets as of June 30, 2004:

Table 1
Net Assets

	2004
<u>Assets:</u>	
Current Assets	\$55,958
Capital Assets	19,752
Total Assets	75,710
 <u>Liabilities:</u>	
Current Liabilities	13,810
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	19,752
Restricted for Other Purposes	6,624
Unrestricted	35,524
Total Net Assets	\$61,900

Hamilton Local Digital Academy
Management's Discussion and Analysis
For the Initial Period of February 24, 2003 to June 30, 2004
Unaudited

Table 2 reflects the changes in net assets for the initial period ended June 30, 2004.

Table 2
Change in Net Assets

	<u>2004</u>
<u>Operating Revenues:</u>	
Foundation	\$179,229
<u>Non-Operating Revenues:</u>	
Operating Grants	<u>156,624</u>
Total Revenues	<u>335,853</u>
<u>Operating Expenses:</u>	
Purchased Services	265,372
Materials and Supplies	3,771
Depreciation	3,486
Other Operating Expenses	<u>1,324</u>
Total Expenses	<u>273,953</u>
Increase in Net Assets	<u>\$61,900</u>

This is the initial year of operation for the HLDA. The financial information for June 30, 2003 is not available for inclusion in the discussion and analysis. Therefore, no comparison between current and prior year can be analyzed. The HLDA operates as one enterprise fund. The results of fiscal year 2004 operations indicate an increase in net assets of \$61,900 and corresponding ending net assets of \$61,900.

Budgeting

HLDA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the HLDA's contract with its Sponsor. The contract between HLDA and its Sponsor prescribes an annual budget requirement of preparing a five year forecast, which is to be updated on an annual basis.

Capital Assets and Debt Administration

Capital Assets

The HLDA invested \$23,238 in computer equipment for the total fixed assets. The accumulated depreciation at June 30, 2004 amounted to \$3,486. The capital assets net of accumulated depreciation at June 30, 2004 amounted to \$19,752.

Hamilton Local Digital Academy
Management's Discussion and Analysis
For the Initial Period of February 24, 2003 to June 30, 2004
Unaudited

Debt

HLDA has not incurred any debt during the initial period ended June 30, 2004.

Current Issues

The cutting edge nature of this kind of instructional delivery makes for constant change during the first couple of years of operation. The upgrade and maintenance of equipment and technical support will be a major challenge in the future as the start-up grants have been expended.

Contacting the HLDA's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the HLDA's finances and to show the HLDA's accountability for the money it receives. If you have any questions about this report or need additional financial information contact John Kinsel, Treasurer, Hamilton Local Digital Academy, 1055 Rathmell Road, Columbus, Ohio 43207.

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Hamilton Local Digital Academy
Franklin County
Statement of Net Assets
June 30, 2004

Assets:

Current Assets:

Cash and Cash Equivalents \$55,958

Noncurrent Assets:

Depreciable Capital Assets, Net of Accumulated Depreciation 19,752

Total Assets 75,710

Liabilities:

Current Liabilities:

Intergovernmental Payable 13,810

Net Assets:

Invested in Capital Assets, Net of Related Debt 19,752

Restricted for Other Purposes 6,624

Unrestricted 35,524

Total Net Assets \$61,900

See accompanying notes to the basic financial statements

**Hamilton Local Digital Academy
Franklin County**

*Statement of Revenues, Expenses, and Changes in Net Assets
For the Initial Period of February 24, 2003 through June 30, 2004*

<u>Operating Revenues:</u>	
Foundation Payments	<u>\$179,229</u>
<u>Operating Expenses:</u>	
Purchased Services	265,372
Materials and Supplies	3,771
Depreciation	3,486
Other Operating Expenses	<u>1,324</u>
Total Operating Expenses	<u>273,953</u>
Operating Loss	(94,724)
<u>Non-Operating Revenues:</u>	
Operating Grants	<u>156,624</u>
Change in Net Assets	61,900
Net Assets at Beginning of Year	<u>0</u>
Net Assets at End of Year	<u><u>\$61,900</u></u>

See accompanying notes to the basic financial statements

Hamilton Local Digital Academy
Franklin County
Statement of Cash Flows
For the Initial Period of February 24, 2003 through June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$179,229
Cash Payments to Suppliers for Goods and Services	<u>(256,657)</u>
Net Cash Used for Operating Activities	<u>(77,428)</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received	<u>156,624</u>
Net Cash Provided by Noncapital Financing Activities	<u>156,624</u>

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	<u>(23,238)</u>
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Net Cash Used for Capital and Related Financing Activities	<u>(23,238)</u>
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Net Increase in Cash and Cash Equivalents	55,958
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Cash and Cash Equivalents Beginning of Year	<u>0</u>
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Cash and Cash Equivalents End of Year	<u><u>\$55,958</u></u>
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Reconciliation of Operating Loss to

Net Cash Used for Operating Activities:

Operating Loss	(\$94,724)
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Reconciliation of Operating Loss

to Net Cash Used for Operating Activities:

Depreciation	3,486
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Increase in Liabilities:

Intergovernmental Payable	<u>13,810</u>
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Net Cash Used for Operating Activities	<u><u>(\$77,428)</u></u>
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See accompanying notes to the basic financial statements

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Hamilton Local Digital Academy
Franklin County
Notes to the Basic Financial Statements
For the initial period ending from February 24, 2003 to June 30, 2004

NOTE 1 – DESCRIPTION OF THE SCHOOL

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

HLDA was created on February 24, 2003 by entering into a contract with the Hamilton Local School District (the Sponsor). The Sponsor is also the fiscal agent of the HLDA, with the Treasurer of the Sponsor completing the role of Treasurer for the HLDA.

HLDA operates under the direction of a six-member (five voting members) Board of Directors made up of:

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

Therefore, the HLDA is a component unit of the Hamilton Local School District. Additionally, the HLDA entered into a two-year contract on February 25, 2003, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. (See Note 4).

Hamilton Local Digital Academy
Franklin County
Notes to the Basic Financial Statements
For the initial period ending from February 24, 2003 to June 30, 2004

NOTE 1 – DESCRIPTION OF THE SCHOOL (Continued)

The Sponsor can suspend the HLDA's operations for any of the following reasons: 1) The HLDA's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The HLDA's failure to meet generally accepted standards of fiscal management, 3) The HLDA's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of HLDA and the children it serves. During the initial period ended June 30 2004, HLDA paid purchased services to TRECA for providing the planning, design, implementation, instructional, administrative, and technical services. HLDA used the facilities of the Sponsor.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the HLDA 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. HLDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the HLDA's accounting policies are described below.

A. Basis of Presentation

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

The HLDA uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or changes in net assets is appropriate for public policy, management control, accountability or other purposes.

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of HLDA 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 HLDA finances meet its cash flow needs.

C. Basis of Accounting

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

Hamilton Local Digital Academy
Franklin County
Notes to the Basic Financial Statements
For the initial period ending from February 24, 2003 to June 30, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- (Continued)

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash received by HLDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. HLDA had no investments during the initial period ended June 30, 2004.

F. Intergovernmental Revenues

The HLDA currently participates in the State Foundation Program. Revenues received from these programs are recognized as operating revenues (foundations payments) in the accounting period in which they are earned and become measurable. The HLDA also participates in the Federal Charter School Grant Program and Federal Special Education Grants through the Ohio Department of Education. Under this program, the HLDA was awarded \$150,000 to offset start-up costs. The HLDA also participates in the Federal Special Education Grant Program through the Ohio Department of Education. Under this program, the HLDA was awarded \$6,624 to offset costs of providing special education services to students. Revenue received from these programs is recognized as non-operating revenue on the accompanying financial statements.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by HLDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. HLDA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

H. Capital Assets

HLDA's capital assets during fiscal year 2004 consisted of computers. All capital assets are capitalized at cost and updated for any additions and retirements during the fiscal year. HLDA maintains a capitalization threshold of five hundred dollars. All of HLDA's reported capital assets are depreciated using the straight-line method over five years of useful life.

I. Operating Revenues and Expenses

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

J. Estimates

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

Hamilton Local Digital Academy
Franklin County
Notes to the Basic Financial Statements
For the initial period ending from February 24, 2003 to June 30, 2004

NOTE 3 - DEPOSITS

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

At June 30, 2004, the carrying amount of HLDA's deposits was \$55,958 and the bank balance was \$315,809. \$100,000 of the bank balance was covered by federal depository insurance and the remaining \$218,809, was uninsured and uncollateralized as defined by GASB, although it was secured by collateral held by third party trustees, pursuant to section 135.81 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of HLDA.

NOTE 4 – MANAGEMENT CONSULTING CONTRACT

HLDA entered into a two-year contract on February 2003 through July 2003 and then August 2003 through July 2004, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide HLDA with instructional, supervisory/administrative, and technical services sufficient to effectively implement HLDA's educational plan and HLDA's assessment and accountability plan.
- All personnel providing services to HLDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to HLDA 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.
- HLDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of HLDA.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- In exchange for the services and support (including some equipment) provided by TRECA, HLDA shall pay to TRECA a fee of \$60,000 and \$25,000 for the 2003-2004 school year.
- HLDA shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K - 8 student enrolled in HLDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For the initial period \$165,647 was payable under this contract. HLDA paid 100% of this amount as of June 30, 2004.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance			Balance
	June 30, 2003	Additions	Deletions	June 30, 2004
Equipment	\$0	\$23,238	\$0	\$23,238
Less Accumulated Depreciation	\$0	(\$3,486)	\$0	(\$3,486)
Depreciable Capital Assets, Net	\$0	\$19,752	\$0	\$19,752

Hamilton Local Digital Academy
Franklin County
Notes to the Basic Financial Statements
For the initial period ending from February 24, 2003 to June 30, 2004

NOTE 6 – RISK MANAGEMENT

HLDA is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. During the initial period ended June 30, 2003, LDA had no liability insurance. The Board has not obtained insurance as of December 20, 2004 the date of this report. This is in violation of the HLDA's Sponsorship agreement and the Ohio Revised Code. The management of HLDA is unaware of any material pending claims that may effect the initial period ended June 30, 2004.

NOTE 7 – RELATED PARTY TRANSACTIONS

The HLDA is a component unit of the Hamilton Local School District (the District). As described in Note 1, the District is the HLDA's sponsor. The HLDA and the District entered into a five-year sponsorship agreement on February 25, 2003, whereby terms of the sponsorship were established. Pursuant to this agreement, the District's treasurer serves as the HLDA's fiscal officer. Also, the HLDA is required annually to pay to the District, from funding provided to the HLDA from the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code, \$150 per student per year. This amounted to \$4,050 for fiscal year 2004 and is reported in Intergovernmental Payable in the accompanying financial statements.

In fiscal year 2004, other cash payments made by HLDA to the District totaled, \$94,885. This represents payment for start-up costs and other related services provided by Hamilton Local Schools to the HLDA.

NOTE 8 - CONTINGENCIES

A. Grants

HLDA received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the HLDA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the HLDA at June 30, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (Le., 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 was heard for oral argument on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on HLDA is not presently determinable.

NOTE 9 – PURCHASED SERVICES

For the period of February 24, 2003 to June 30, 2004, purchased services expenses were payments for professional and technical services to TRECA in the amount of \$165,647. Purchased services also include payments to Hamilton Local School District in the amount of \$94,885, for start-up costs and other related services provided by the District, and other services (e.g. data processing etc) in the amount of \$4,840.

Hamilton Local Digital Academy
Franklin County
Notes to the Basic Financial Statements
For the initial period ending from February 24, 2003 to June 30, 2004

NOTE 10- STATE SCHOOL FUNDING

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 decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

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



Auditor of State Betty Montgomery

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

Hamilton Local Digital Academy
Franklin County
1055 Rathmell Road
Columbus, Ohio 43207

To the Board Directors:

We have audited the basic financial statements of the Hamilton Local Digital Academy, Franklin County, Ohio, (the HLDA)), a component unit of the Hamilton Local School District, as of June 30, 2004, and for the period of inception (February 24, 2003) through June 30, 2004 and have issued our report thereon dated December 20, 2004. 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 HLDA's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the HLDA in a separate letter dated December 20, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the HLDA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the HLDA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

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

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. However, we 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 HLDA in a separate letter dated December 20, 2004.

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



Betty Montgomery
Auditor of State

December 20, 2004

HAMILTON LOCAL DIGITAL ACADEMY
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2004

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

Finding Number	2004-001
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Material Non-Compliance

Liability Insurance

Ohio Rev. Code Section 3314.03(11)(b) states the governing authority will purchase liability insurance, or otherwise provide for the potential liability of the school. The HLDA's sponsorship agreement dated February 24, 2003 (Article III) indicates that the HLDA must obtain liability insurance.

The HLDA did not obtain liability insurance for the period of inception (February 24, 2003) through June 30, 2004. The HLDA, as of December 20, 2004, the date of this report, has not obtained liability insurance or otherwise provided for the potential liability.

We recommend the HLDA obtain liability insurance or otherwise provide for its potential liability as required by the Sponsorship agreement and the Ohio Revised Code.

Finding Number	2004-002
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Reportable Condition

Auditor of State Bulletin 98-003 states in part that in order for each community school to be accounted for as a separate school district, the community school must have a complete set of distinguishable financial records including, but not limited to:

- its own checking and other bank accounts (possibly separate banks)
- its own federal and state tax identification numbers
- its own checks and other financial documents such as purchase orders
- its own separate data processing runs to keep track of each community school separately. (For example, the fiscal agent may run payroll checks for his/her school district; then stop and switch checks, this time loading those belonging to community school A; then run payroll for community school A; then switch from community school A to community school B; then run and so forth.)
- its own reconciliations and control totals
- its own general ledger
- its own cash receipts records
- its own cash disbursements records
- its own fixed asset records, and
- other records necessary to enable the school to prepare an annual report that conforms to GAAP

As of the balance sheet date of June 30, 2004, the HLDA did not maintain its own checks and other financial documents, general ledger, cash receipts records, cash disbursements records, and fixed asset records.

**HAMILTON LOCAL DIGITAL ACADEMY
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

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

Finding Number	2004-002 (Continued)
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The HLDA's financial information for the fiscal year flowed through the sponsor, Hamilton Local School District, in a separate enterprise fund. In June of 2004, the HLDA prepared memo entries to record the financial activity from the Sponsor's records to its own financial records. However, all checks we issued under the Sponsor's bank account and reimbursed by the HLDA.

The Board of Directors should assure the above mentioned financial records are maintained separately from the Sponsor financial records.

We recommend the HLDA maintain its own financial record keeping process on a consistent basis which would include its own bank reconciliations, checks, and other pertinent financial information.



**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

**HAMILTON LOCAL DIGITAL ACADEMY
FRANKLIN 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
JANUARY 20, 2005**