



**Auditor of State  
Betty Montgomery**



TRECA DIGITAL ACADEMY  
MARION COUNTY

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## Auditor of State Betty Montgomery

### 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, 2004. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting 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

April 15, 2005

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

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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, 2004. 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 six hundred forty-four students completed the program in our first year. For fiscal year 2003, our student population increased to eight hundred twenty-four students, a 28 percent increase, and we have experienced a 55% increase for fiscal year 2004, with a student population of 1,279. TDA is an Online Internet School. In fiscal year 2004, TDA signed a contract with Tri-Rivers Educational Computer Association (TRECA). The contract states that TRECA will be the management company for TDA and that 99 percent of all foundation monies and 100 percent of all Title monies will go to TRECA for the operation of TDA.

**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 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 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.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Table 1 provides a summary of TDA'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 and Other Assets	\$17,558	\$128,792
Capital Assets, Net	25,754	55,272
Total Assets	43,312	184,064
<u>Liabilities:</u>		
Current Liabilities	318,340	1,202,910
<u>Net Assets:</u>		
Invested in Capital Assets, Net of Related Debt	25,754	55,272
Unrestricted (Deficit)	(300,782)	(1,074,118)
Total Net Assets (Deficit)	(\$275,028)	(\$1,018,846)

In fiscal year 2003, TDA had contracted with TRECA who provided instructional staff for TDA; however, TDA paid for amounts relating to fringe benefits and retirement for those individuals directly to the providers of those services. With the new contract between TDA and TRECA, which took effect in February 2004, TRECA became responsible for all services related to TDA's operations, including all instructional, administrative, and technical services. As a result of the change in the operating arrangements for TDA, significant differences result in the comparison of the statement of net assets for fiscal year 2004 to fiscal year 2003.



**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

Table 2 reflects the change in net assets for fiscal years 2004 and 2003.

Table 2  
Change in Net Assets

	Business Type	
	Activities	
	2004	2003
<u>Operating Revenues:</u>		
Foundation	\$5,704,444	\$4,474,533
Sales	0	965
Other Operating Revenues	17,801	5,150
<u>Non-Operating Revenues:</u>		
Operating Grants	498,267	443,193
Interest Revenue	0	2,064
Total Revenues	6,220,512	4,925,905
<u>Operating Expenses:</u>		
Purchased Services	5,228,141	5,141,150
Materials and Supplies	208,400	282,250
Depreciation	35,517	34,628
Other Operating Expenses	4,636	31,731
Total Expenses	5,476,694	5,489,759
Total Increase (Decrease) in Net Assets	\$743,818	(\$563,854)

For fiscal year 2004, TDA realized a 27 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 \$5,058 for fiscal year 2004.)

**Budgeting**

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

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED  
(Continued)**

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**Capital Assets**

At the end of fiscal year 2004, TDA had \$25,754 invested in capital assets (net of accumulated depreciation). For further information regarding TDA's capital assets, refer to Note 4 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 our reputation of being a good alternative for educational opportunities for Ohio students and our partnering with local schools.

**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 Scott Armstrong, Treasurer, TRECA Digital Academy, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

Assets:

Current Assets:

Cash and Cash Equivalents	\$15,100
Intergovernmental Receivable	2,458
Total Current Assets	<u>17,558</u>

Non-Current Assets:

Depreciable Capital Assets, Net	25,754
Total Assets	<u>43,312</u>

Liabilities:

Current Liabilities:

Deferred Revenue	<u>318,340</u>
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Net Assets:

Invested in Capital Assets	25,754
Unrestricted (Deficit)	<u>(300,782)</u>
Total Net Assets (Deficit)	<u><u>(\$275,028)</u></u>

See Accompanying Notes to Basic Financial Statements

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Operating Revenues:</u>	
Foundation	\$5,704,444
Other Operating Revenues	17,801
Total Operating Revenues	<u>5,722,245</u>
 <u>Operating Expenses:</u>	
Purchased Services	5,228,141
Materials and Supplies	208,400
Depreciation	35,517
Other Operating Expenses	4,636
Total Operating Expenses	<u>5,476,694</u>
 Operating Income	 245,551
 <u>Non-Operating Revenues (Expenses):</u>	
Operating Grants	<u>498,267</u>
 Change in Net Assets	 743,818
 Net Assets (Deficit) at Beginning of Year	 <u>(1,018,846)</u>
 Net Assets (Deficit) at End of Year	 <u><u>(\$275,028)</u></u>

See Accompanying Notes to the Basic Financial Statements

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**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	\$5,462,177
Cash Payments for Goods and Services	(6,068,587)
Cash Received from Other Revenues	17,801
Cash Payments for Other Expenses	(17,351)
Net Cash Used for Operating Activities	(605,960)

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants	498,267
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Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(5,999)
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Net Decrease in Cash and Cash Equivalents	(113,692)
Cash and Cash Equivalents at Beginning of Year	128,792
Cash and Cash Equivalents at End of Year	\$15,100

Reconciliation of Operating Income

to Net Cash Used for Operating Activities:

Operating Income	\$245,551
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Adjustments to Reconcile Operating Income

to Net Cash Used for Operating Activities:

Depreciation	35,517
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(2,458)
Decrease in Accounts Payable	(33,402)
Decrease in Due to TRECA	(536,706)
Decrease in Intergovernmental Payable	(74,653)
Decrease in Deferred Revenue	(239,809)
	(802,506)

Net Cash Used for Operating Activities	(\$605,960)
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See Accompanying Notes to the Basic Financial Statements

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**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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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 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 provides services to 1,279 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.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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**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.



**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**D. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio 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.

**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 2004, 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 to ten 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.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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

**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 - 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 \$15,100 and the bank balance was \$54,375. 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 4 - RECEIVABLES**

At June 30, 2004, the TDA had an intergovernmental receivable, in the amount of \$2,458. The receivable is expected to be collected within one year.

**NOTE 5 - CAPITAL ASSETS**

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

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
Depreciable Capital Assets				
Furniture and Equipment	\$117,688	\$5,999	\$0	\$123,687
Less Accumulated Depreciation	(62,416)	(35,517)	0	(97,933)
Capital Assets, Net	<u>\$55,272</u>	<u>(\$29,518)</u>	<u>\$0</u>	<u>\$25,754</u>

**NOTE 6 - FISCAL AGENT**

The Comprehensive Service Agreement between the TDA and 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.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)**

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**NOTE 6 - FISCAL AGENT (Continued)**

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 7 - CONTRACT WITH TRECA**

On February 24, 2004, TDA entered into a contract with the 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 TDA's educational plan and TDA's assessment and accountability plan.
- 2. All personnel providing services to TDA 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.

Through March 19, 2004, TDA paid TRECA for the salaries for instructional staff and support faculty; however, TDA paid amounts relating to fringe benefits and retirement directly to those providers. Due to change in the Comprehensive Service Agreement, adopted February 24, 2004, TRECA is now paying for all salaries and benefits.

- 3. 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 plan of operation.

**NOTE 8 - 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.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**(Continued)**

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**NOTE 8 - STATE FOUNDATION (Continued)**

For the fiscal year ended June 30, 2004, and 2002, TDA received overpayments of \$30,259 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 2005 to offset the 2004 overpayment and through fiscal year 2006 to offset the 2002 overpayment. As of June 30, 2004, the entire fiscal year 2004 amount was still deferred and \$288,081 of the fiscal year 2002 amount was still deferred.

**NOTE 9 - 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 February 24, 2004, with the Governing Authority for fiscal year 2004, TDA is required to pay the Governing Authority the following fees:

1. Ongoing Fees - On an ongoing basis, TDA shall pay TRECA 99 percent of the base formula funds and 100 percent 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. As of June 30, 2004, the percentage was 99 percent.
2. Other Payments - If and as agreed by the parties, TDA may additionally pay TRECA funds received by TDA from grants or other sources for services provided by TRECA that are consistent with the purpose of such funds.

Payments made by TDA to TRECA in fiscal year 2004 totaled \$1,767,970. This consists of the \$1,448,228 in fees, and \$319,742 in fees for which TDA obtained grant monies.

**NOTE 10 - 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.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**(Continued)**

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**NOTE 11 - 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, 2004.

**B. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community 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 TDA is not presently determinable.

**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. As discussed in Note 8, TDA received an overpayment of \$30,259 in fiscal year 2004. This amount has been recorded as deferred revenue in the accompanying financial statements.

**D. Risk Management**

TDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. TDA did not obtain liability insurance from July 1, 2003, through March 28, 2004. Effective March 29, 2004, TRECA contracted with Harcum-Hyre Insurance Agency, Inc., to provide property and general liability insurance for TDA.

**NOTE 12 – SUBSEQUENT EVENTS**

On January 25, 2005, the TRECA Board of Directors adopted a new TDA Articles of Incorporation and appointed a new Board of Education consisting of TRECA administrators/employees.

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**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***

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 TRECA Digital Academy, Marion County, Ohio, (the Academy) as of and for the year ended June 30, 2004, and have issued our report thereon dated April 15, 2005, 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 (TRECA) 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 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 in order to express our opinion on the financial statements and not to opine 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 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-001 through 2004-003.

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. 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 material weaknesses. We consider each of the reportable conditions listed above to be material weaknesses. In a separate letter to the Academy's management dated April 15, 2005, we reported a certain other matter involving internal control over financial reporting which we did not deem a reportable condition.

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### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated April 15, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and Board of Education. 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

April 15, 2005



TRECA DIGITAL ACADEMY  
MARION COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2004

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

Finding Number

2003-001

**Commingling of Financial Activity**

TRECA serves as fiscal agent and management of the Academy, and the governing boards of both entities are comprised of the same individuals. Also, pursuant to Governmental Accounting Standards Board Statement No. 14, the Academy is considered a component unit of TRECA for purposes of external financial reporting. The Academy and TRECA, however, are legally separate entities requiring processing of respective financial transactions in separate accounting systems.

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. Management contends this agreement was modified for fiscal year 2003 upon the adoption of a twelve month Letter of Agreement between TRECA and the Academy. Upon expiration of that Letter of Agreement, it is not clear whether provisions of the original Comprehensive Service Agreement went back into effect. TRECA charged the Academy no fees from July 2003, to February 2004.

Other than the stated fee provided for in the agreement, the Comprehensive Service Agreement did not explicitly provide that the Academy will reimburse TRECA for TRECA's actual costs of providing services under the agreement. The agreement provided no guidelines or methodologies for allocating any joint costs.

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. 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:

- In October 2002, TRECA entered into a lease agreement for office space to be used primarily to house the Academy. Of the seven monthly lease payments made from July 1, 2003 through February 29, 2004, three payments were made by TRECA totaling \$31,575, and four payments were made by the Academy totaling \$41,200. Neither TRECA nor the Academy was able to provide any documentation, such as space utilization records, supporting this allocation.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>
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<b>2003-001 (Continued)</b>
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**Commingling of Financial Activity (Continued)**

- A Visa credit card account and a Meijer purchasing card account were maintained in the name of TRECA. These cards are used to make purchases for both TRECA and the Academy. Total credit card payments made on the Visa account, from July 1, 2003 through February 29, 2004, were \$51,636. Of the total payments made, \$35,660 was paid by TRECA and \$15,976 was paid by the Academy. Total purchasing card payments made to Meijer, from July 1, 2003 through February 29, 2004, were \$2,376. Of the total payments made, \$1,903 was paid by TRECA and \$473 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.
  
- TRECA has entered into three capital lease agreements with Apple Financial Services. 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. From July 1, 2003 through February 29, 2004, actual payments made by the Academy totaled \$274,563, and actual payments made by TRECA totaled \$98,648.
  
- All employees, including teachers and other support personnel, who provided service to the Academy, were hired by TRECA as Association employees and are paid on Association 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, from July 1, 2003 through February 29, 2004, were \$1,888,032, and \$671,241, respectively. Total payroll and benefits paid by TRECA, from July 1, 2003 through February 29, 2004, were \$1,224,237, and \$580,370.

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.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2003-001 (Continued)</b>
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**Commingling of Financial Activity (Continued)**

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. Additionally, for any overlapping financial activity allocated between the entities, clear and concise documentation needs to be maintained to support such allocation.

TRECA and the Academy entered into a 2004 Comprehensive Services Agreement on February 24, 2004, which, unless modified by the parties, remains in effect until June 30, 2006. Pursuant to this agreement, beginning March 1, 2004 through June 30, 2004, the Academy paid to TRECA 99% of its base formula funds and 100% of the additional funds received from the Ohio Department of Education pursuant to section 3314.08 of the Ohio Revised Code, in exchange for all instructional, supervisory/administrative, fiscal, and technical services.

<b>Finding Number</b>	<b>2003-002</b>
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**Monthly Bank Reconciliations**

Monthly cash reconciliations should be performed by the Academy's Treasurer 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 Superintendent and Board of Education.

Throughout the fiscal year, the Treasurer made the following bank transfers between the bank accounts of the Academy and TRECA:

<u>Date</u>	<u>TRECA</u>	<u>TRECA Digital Academy</u>
8/6/2003	\$ 30,000	\$ (30,000)
9/22/2003	(77,002)	77,002
9/24/2003	50,000	(50,000)
10/30/2003	40,000	(40,000)
10/28/2003	(10,000)	10,000
3/2/2004	80,000	(80,000)
	<u>\$ 112,998</u>	<u>\$ (112,998)</u>

Each of these transfers represented a movement of cash between the Academy and TRECA, two legally separate entities, without any Board authorization. Furthermore, the Treasurer was unable to provide any verbal explanation or supporting documentation indicating why these transfers were made. None of these transfers were posted to the accounting ledgers of TRECA or the Academy.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2003-002 (Continued)</b>
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**Monthly Bank Reconciliations (Continued)**

These off-the-books bank transfers caused reconciling items on the monthly bank reconciliations. As of June 30, 2004 the bank reconciliation of TRECA and the Academy each had a reconciling item of \$38,350, representing the cumulative net amount of cash owed by the Academy to TRECA as a result of these bank transfers and other payroll-related transactions for which amounts were owed between TRECA and the Academy.

There were additional errors in the bank reconciliations performed by the Treasurer during fiscal year 2004 as follows:

- As of June 30, 2004, the outstanding check list included a \$59.70 check that had cleared the bank in a previous month. At the time this check cleared, it was posted as an additional expenditure to the Academy's accounting ledgers and as a result, the Academy's fund balance was understated.
- As of June 30, 2004, there was \$368.44 of unposted bank fees not reported on the reconciliation. Also, \$225.02 of bank fees from April, May, and June 2004 reported as being outstanding had, in fact, been posted to the accounting ledgers.
- The Treasurer posted a \$757.96 negative expenditure in June 2004 in an attempt to reconcile. This adjustment overstated the Academy's fund balance.
- A payroll check improperly issued to an employee was later voided at the gross amount and repaid and deposited at the net amount. This resulted in a \$285.86 error in fund balance.
- The amount of cash reported as being owed to TRECA at June 30, 2004 on the bank reconciliation was also understated by \$1,702.

The Academy's June 30, 2004 bank reconciliation gave the appearance the Academy's ledgers were, in fact, reconciled to the bank, although each of these errors should have represented a reconciling item on the Academy's June 30, 2004 bank reconciliation and none were included.

We recommend the Academy's Treasurer perform monthly bank to book reconciliations that properly account for all transactions during the respective month. Complete and accurate documentation supporting or explaining all reconciling items should be included with the reconciliations. We also recommend the Superintendent and Board of Education carefully review these reconciliations each month, along with bank statements and supporting documentation for all reconciling items.

The Academy should also stop the practice of transferring cash between the bank accounts of TRECA and the Academy. Any such unauthorized transfers of cash may result in findings for recovery in future periods.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2004  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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<b>Finding Number</b>	<b>2003-003</b>
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**Board Monitoring**

The Treasurer prepares monthly budget versus actual financial reports to present to the Board for monitoring purposes. These reports, however, combine all Academy funds in 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 Academy receives various grant awards, each having stipulations regarding how the grant may or must be spent. As a result, it is important for the Board to monitor the Academy's financial activity by line item within each fund. The lack of detailed information limits the usefulness of these reports and, thus, may compromise the Board's ability to properly monitor the financial activity of the Academy.

Furthermore, these reports are not generated from the Academy's accounting system. Re-entry of financial information into separate spreadsheet files is not only inefficient but also increases the likelihood of data entry errors and, thus, may limit the usefulness of the information.

Although the accounting system contained no budgeted receipts or expenditures, the monthly reports prepared by the Treasurer did contain budgeted amounts. There is indication of Board approval of certain budgeted amounts as reflected in the Board minutes; however, it is unclear whether the budgeted amounts included on the monthly reports are those amounts approved by the Board. As a result, the usefulness of such budgeted versus actual reports may be limited.

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. Lack of effective legislative monitoring may lead to errors, irregularities, or misappropriation of the Academy funds.

Although not required by Ohio law, for effective monitoring of financial information, the Board should consider approving any financial budgets prepared by management after carefully reviewing the budget and requesting any supporting documentation or explanations as may be necessary. The amounts approved should be reflected in the Board minutes. The Board should also request the financial reports be systems generated and provided at the fund level. The Board should carefully review these reports each month for any unusual or unexpected financial activity or account balances. Appropriate follow-up should be made regarding any unusual balances or transactions.

**TRECA DIGITAL ACADEMY  
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><i>Explain:</i></b>
2003-001	Liability Insurance	No	Partially corrected; the Academy did obtain liability insurance effective March 29, 2005. This finding is repeated in the current audit management letter.
2003-002	Student Tuition	No	Partially corrected; this finding is repeated in the current audit management letter.
2003-003	Bank Reconciliations	No	Not corrected; this finding is repeated in the current audit report as finding 2004-002.
2003-004	Board Monitoring	No	Not corrected; this finding is repeated in the current audit report as finding 2004-003.
2003-005	Credit Cards	No	Partially corrected; this finding is repeated in the current audit management letter.
2003-006	Commingling of Financial Activity	No	Partially corrected; on February 24, 2004, the Academy and TRECA entered into a new contractual agreement whereby TRECA provides all services to the Academy in exchange for a contractual fee. This finding is repeated in the current audit report as finding 2004-001.
2003-007	Title I	No	Partially corrected. The Academy's federal expenditures were below the threshold requiring single audit testing. Based on correspondence from the Ohio Department of Education, the Academy was in the process of working to correct this issue.
2003-008	Authorization of Expenditures	Yes	Fully corrected; the Superintendent began hand signing all requisitions to indicate his approval.



**Auditor of State  
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**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  
MAY 5, 2005**