



**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

To the Board of Directors:

We have audited the accompanying 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, 2005, 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Elgin Digital Academy, Marion County, Ohio, as of June 30, 2005, 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 February 1, 2006, 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.

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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.

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Betty Montgomery
Auditor of State

February 1, 2006

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**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. Readers should also review the basic financial statements and notes to enhance their understanding of EDA's financial performance.

Highlights

In total, net assets decreased \$3,687, or 25 percent. Much of this is related to unpaid services EDA owed the Sponsor at fiscal year end.

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 2005. 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 2005 and fiscal year 2004:

	<u>2005</u>	<u>2004</u>
<u>Assets:</u>		
Current Assets	\$22,336	\$20,152
Capital Assets, Net	4,000	0
Total Assets	<u>26,336</u>	<u>20,152</u>
<u>Liabilities:</u>		
Current Liabilities	<u>15,562</u>	<u>5,691</u>
<u>Net Assets:</u>		
Invested in Capital Assets	4,000	0
Unrestricted	6,774	14,461
Total Net Assets	<u>\$10,774</u>	<u>\$14,461</u>

The primary change from the prior fiscal year is due to unpaid services EDA owed the Sponsor at fiscal year end.

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2005 and fiscal year 2004.

Table 2
Change in Net Assets

	2005	2004
<u>Operating Revenues:</u>		
Foundation	\$78,978	\$95,747
Other Operating Revenues	6,500	0
<u>Non-Operating Revenues:</u>		
Operating Grants	3,000	105,000
Interest Revenue	112	224
Total Revenues	88,590	200,971
 <u>Operating Expenses:</u>		
Purchased Services	90,144	236,592
Materials and Supplies	0	1,318
Depreciation	2,000	0
Other Operating Expenses	133	0
Total Expenses	92,277	237,910
Decrease in Net Assets	(\$3,687)	(\$36,939)

Foundation revenues decreased somewhat significantly (almost 18 percent) from the prior fiscal year, however, were 89 percent of EDA's total revenues for fiscal year 2005. Operating grants also decreased significantly. In the prior fiscal year, a majority of these monies were related to the start-up of EDA.

Budgeting

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

Capital Assets

At the end of fiscal year 2005, EDA had \$4,000 invested in capital assets (net of accumulated depreciation). These assets consisted of three laptops and ipods (refer to Note 3 to the basic financial statements).

Current Issues

In fiscal year 2005, enrollment decreased to fifteen students (there were 29 students in fiscal year 2004). The EDA Director is working very hard to increase 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.

EDA formed an assessment team in fiscal year 2005, whose purpose is to improve programs and testing scores. The Board of Education has broadened the programs offered by the digital academy (such as adding English as a Second Language).

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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
MARION COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

Assets:

Current Assets:

Intergovernmental Receivable	\$12,191
Prepaid Items	10,145
Total Current Assets	<u>22,336</u>

Non-Current Assets:

Depreciable Capital Assets	4,000
Total Assets	<u>26,336</u>

Current Liabilities:

Due to Primary Government	<u>15,562</u>
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Net Assets:

Invested in Capital Assets	4,000
Unrestricted	6,774
Total Net Assets	<u><u>\$10,774</u></u>

See Accompanying Notes to Basic Financial Statements

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Operating Revenues:</u>	
Foundation	\$78,978
Miscellaneous	6,500
Total Operating Revenues	<u>85,478</u>
 <u>Operating Expenses:</u>	
Purchased Services	90,144
Depreciation Expense	2,000
Other	133
Total Operating Expenses	<u>92,277</u>
 Operating Loss	 <u>(6,799)</u>
 <u>Non-Operating Revenues:</u>	
Operating Grants	3,000
Interest Revenue	112
Total Non-Operating Revenues	<u>3,112</u>
 Change in Net Assets	 (3,687)
 Net Assets at Beginning of Year	 <u>14,461</u>
Net Assets at End of Year	<u><u>\$10,774</u></u>

See Accompanying Notes to the Basic Financial Statements

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$66,787
Cash Payments for Services	(90,196)
Cash Received from Other Operating Revenues	6,500
Cash Payments for Other Operating Expenses	(355)
Net Cash Used for Operating Activities	(17,264)

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants	3,000
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Cash Flows for Capital and Related Financing Activities

Acquisition of Capital Assets	(6,000)
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Cash Flows from Investing Activities:

Cash Received from Interest	112
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Net Decrease in Cash and Cash Equivalents	(20,152)
Cash and Cash Equivalents at Beginning of Year	20,152
Cash and Cash Equivalents at End of Year	\$0

Reconciliation of Operating Loss
to Net Cash Used for Operating Activities:

Operating Loss	(\$6,799)
----------------	-----------

Adjustments to Reconcile Operating Loss
to Net Cash Used for Operating Activities:

Depreciation	2,000
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(12,191)
Increase in Prepaid Items	(10,145)
Increase in Due to Primary Government	15,562
Decrease in Intergovernmental Payable	(5,691)
Net Cash Used for Operating Activities	(\$17,264)

See Accompanying Notes to the Basic Financial Statements

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**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 EDA with the Treasurer of the Sponsor performing the role of Treasurer for 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 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 2005, EDA purchased services from TRECA for providing the instructional, administrative, and technical services for EDA.

The EDA participates in the Ohio School Plan, an insurance pool. This organization is presented in Note 8 to the basic financial statements.

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.

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year in which services are consumed.

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

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. EDA maintains a capitalization threshold of five hundred dollars. EDA 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. Capital assets, currently consisting of equipment, are depreciated over three years.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. 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.

H. 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.

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 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance at 6/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/05</u>
Depreciable Capital Assets				
Equipment	\$0	\$6,000	\$0	\$6,000
Less Accumulated Depreciation	0	(2,000)	0	(2,000)
Capital Assets, Net	<u>\$0</u>	<u>\$4,000</u>	<u>\$0</u>	<u>\$4,000</u>

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 4 - Risk Management

EDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, EDA contracted for the following insurance coverage:

Coverage provided by the Ohio School Plan:

General Liability (\$1,000 deductible)

Each Occurrence	\$1,000,000
Aggregate	3,000,000

Settled claims have not exceeded this commercial coverage for fiscal year 2005. EDA did not have insurance coverage in the prior fiscal year.

For fiscal year 2005, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant

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; and
- 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.

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 6 - Contract with TRECA (continued)

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. EDA 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 EDA.
5. Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
6. 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. This amount was waived for fiscal year 2005 because EDA did not receive the appropriate grant monies.
7. EDA shall pay to TRECA \$3,550 per full-time high school student and \$2,550 per full-time K-8 student enrolled in EDA per year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2005, \$44,688 was paid to TRECA.

To obtain TRECA's June 30, 2005 audited, financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

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 2005, other payments were made by EDA to the Sponsor totaling \$9,938. These represent payments for reimbursements for services provided by the Sponsor to EDA. At fiscal year end, EDA had an outstanding payable to the Sponsor, in the amount of \$15,562.

Payments made by EDA to TRECA in fiscal year 2005 totaled \$73,100. This consists of the \$44,688 in student charges and \$28,412 in miscellaneous fees.

Note 8 - Insurance Pool

EDA participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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, 2005.

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 on November 18, 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 Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect, if any, on EDA 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 results of this review revealed EDA was due an additional \$12,191. A receivable in this amount is reflected in the accompanying financial statements.



**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

To the Board of Directors:

We have audited the 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, 2005, and have issued our report thereon dated February 1, 2006. 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. 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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We intend this report solely for the information and use of the 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

February 1, 2006

**ELGIN DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC 3314.03(A)(11)(b) The Academy did not obtain liability insurance.	Yes	Fully Corrected; the Academy obtained liability insurance.



**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 02, 2006**