



**Auditor of State
Betty Montgomery**

**ELIDA DIGITAL ACADEMY
ALLEN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Elida Digital Academy
Allen County
1920 Slabtown Road
Lima, Ohio 45801

To the Board of Directors:

We have audited the accompanying financial statements of the Elida Digital Academy Community School, Allen County, (the Academy), as of 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.

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.

Ohio Administrative Code Section 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash, and fund cash balance of the Academy, as of June 30, 2004, and its cash receipts and disbursements for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2004, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Elida Digital Academy
Allen County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of management, the Board of Directors, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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Betty Montgomery
Auditor of State

December 1, 2004

**ELIDA DIGITAL ACADEMY
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND BALANCE
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Enterprise</u>
Operating Revenues:	
Foundation Payments	\$162,052
Other Operating Revenues	<u>700</u>
Total Operating Revenue	162,752
Operating Expenses:	
Purchased Services	223,976
Materials and Supplies	15,602
Equipment	70,694
Other Operating Expenses	<u>3,413</u>
Total Operating Expenses	<u>313,685</u>
Operating Income	(150,933)
Non-Operating Revenues:	
Interest Earnings	106
Federal and State Grants	<u>136,480</u>
Total Non-Operating Revenues	<u>136,586</u>
Net Income	(14,347)
Beginning Fund Balance - July 1, 2003	<u>88,122</u>
Ending Fund Balance - June 30, 2004	<u><u>\$73,775</u></u>

The accompanying notes are an integral part of the financial statement.

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**ELIDA DIGITAL ACADEMY
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE ENTITY

Elida Digital Academy Community School (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the growing need for a comprehensive educational program delivered to students in the K – 12 population primarily through distance learning technologies. The comprehensive educational program will address 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 some 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.

The Academy was approved for operation under contract with the Elida Local School District (the Sponsor) for a period of five years commencing July 1, 2002. The Academy accepted students beginning September 3, 2002. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a three-member Board of Directors. The Board 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. Elida Local School District appoints the voting majority of the Board of Directors and is able to significantly influence the programs or services performed or provided, therefore, the Academy is a component unit of the Elida Local School District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Academy chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

A. Basis of Presentation

Enterprise Accounting

The Academy 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 (expenses) 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 net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Budgetary Process

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

**ELIDA DIGITALACADEMY
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash

All monies received by the Academy are accounted for by the Academy's fiscal agent, Treasurer of Elida Local School District. All cash received by the fiscal agent is maintained in a separate bank account in the Academy's name.

D. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues from this program are recognized as operating revenues in the accompanying financial statements.

The Academy participates in the Federal Community School Grant Program through the Ohio Department of Education. The Academy also participates in the Educational Management Information System Program, the SchoolNet program, Federal Idea B – Retarded/ Disabled Program, Drug Free Schools Program, Improving Teacher Quality program, and Innovative Education Program strategies Program. Revenues received from these programs are recognized as non-operating revenue on the accompanying financial statements. Under these programs, the School was awarded and received \$136,480.

3. DEPOSITS

At June 30, 2004, the carrying amount of the Academy's deposits was \$73,775 and the bank balance was \$83,264. The bank balance was covered by federal depository insurance.

4. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. For fiscal year 2004, the Academy was uninsured.

5. PURCHASED SERVICES

For the period ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Administrative Services	\$ 16,251
Teacher contracts	62,409
Support Services Contracts	<u>145,316</u>
Total Purchased Services	<u>\$223,976</u>

Teacher contracts are individual independent service contracts.

**ELIDA DIGITAL ACADEMY
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

6. CONTINGENCIES

A. Grants

The Academy 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) School's 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 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 effect of this suit, if any, on the Academy is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the school. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. For the fiscal year 2004, the Academy does not anticipate any material adjustments to state funding.

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

8. SUBSEQUENT EVENT

Effective July 1, 2004, the Academy was renamed the West Central Learning Academy.

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Auditor of State Betty Montgomery

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

Elida Digital Academy
Allen County
1920 Slabtown
Lima, Ohio 45801

To the Board of Directors:

We have audited the financial statements of the Elida Digital Academy Community School, Allen County, (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated December 1, 2004 wherein we noted that the Academy has reported on the cash basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required.. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2004-001 to 2004-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Academy, in a separate letter dated December 1, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted additional matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated December 1, 2004.

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This report is intended for the information and use of management, and the Board of Directors, and is not intended to be and should not be used by 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

December 1, 2004

**ELIDA DIGITAL ACADEMY
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

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

FINDING NUMBER 2004-001

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Adm. Code Section 117-2-03(B) and Community School Contract (10/15/02) Article III B. Financial Plan requires the Elida Digital Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Elida Digital Academy prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the Elida Digital Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Academy should prepare their financial statements in accordance with generally accepted accounting principles in order to provide financial statement users information regarding the financial condition of the Academy.

FINDING NUMBER 2004-002

Ohio Rev. Code 3314.03 (A)(11)(b) and the Community School Contract (10/15/02) Article III, Responsibilities of the School, states the governing authority will purchase liability insurance, or otherwise provide for the potential liability of the school.

The Academy is unable to provide evidence of the purchase or provision of liability insurance for fiscal year 2004.

The Academy should obtain liability insurance.

**ELIDA DIGITAL ACADEMY
ALLEN COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC Sec. 117.38 & OAC Sec. 117-2-03(B) – Failure to report in accordance with GAAP	No	See finding 2004-001
2003-002	AOS Bulletin 2000-005 - Failed to Report financial activities as Enterprise Fund	Yes	
2003-003	Community School Contract Art. III B. – Failed to adopt a budget	Yes	
2003-004	ORC Sec. 3314.03 (A)(11)(b) – Failed to obtain liability insurance	No	See Finding 2004-002



**Auditor of State
Betty Montgomery**

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ELIDA DIGITAL ACADEMY

ALLEN 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 18, 2005**