



**Auditor of State
Betty Montgomery**

ELIDA DIGITAL ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Elida Digital Academy Community School
Allen County
4380 Sunnydale
Elida, Ohio 45807

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, 2003. 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 combined cash and combined fund cash balances of the Academy, as of June 30, 2003, and its combined 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 November 18, 2003, 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 18, 2003

**ELIDA DIGITAL ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPE
FOR THE PERIOD ENDED JUNE 30, 2003**

	Enterprise
Operating Revenues:	
Foundation Payments	\$120,087
Other Operating Revenues	1,950
	122,037
Total Operating Revenue	122,037
Operating Expenses:	
Purchased Services	119,967
Materials and Supplies	634
Other Operating Expenses	240
	120,841
Total Operating Expenses	120,841
Operating Income	1,196
Non-Operating Revenues:	
Interest Earnings	22
Federal and State Grants	86,904
	86,926
Total Non-Operating Revenues	86,926
Net Income	88,122
Beginning Fund Balance - July 1, 2002	0
Ending Fund Balance - June 30, 2003	\$88,122

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

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**ELIDA DIGITAL ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

1. DESCRIPTION OF THE ENTITY

The 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. In consideration of permitting the creation of the Academy, the Academy makes annual payments of \$1,000 per student per year to the Sponsor. The schedule and amounts of such payments may be varied by mutual agreement of the parties.

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.

The Board of Directors has entered into a two-year service contract with Tri-Rivers Educational Computer Association ("TRECA") to provide planning, instructional, administrative, and technical services required for the operation of the Academy. (See note 5)

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.

**ELIDA DIGITAL ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Academy did not present a board approved budget for the fiscal year ended June 30, 2003.

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 State of Ohio Community School Grant and the Federal Community School Grant Program through the Ohio Department of Education. Under these programs, the School was awarded and received \$81,300 to offset start-up costs of the Academy. Revenues received from these programs are recognized as non-operating revenue on the accompanying financial statements. The Academy also participates in the Educational Management Information System Program and Federal Idea B – Retarded/ Disabled Program. Revenue received from these programs is recognized as non-operating revenue on the accompanying financial statements.

3. DEPOSITS

At June 30, 2003, the carrying amount of the Academy's deposits was \$88,122 and the bank balance was \$88,162. 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 2003, the Academy was uninsured.

5. SERVICE AGREEMENT

The Academy entered into a two-year agreement on July 1, 2002 with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative and technical services required for the operation of the Academy. Under the contract, TRECA is required to provide the following services:

**ELIDA DIGITAL ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

5. SERVICE AGREEMENT (Continued)

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and /or payroll taxes with respect to all personnel providing to services to the Academy on behalf of TRECA. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to TRECA. In cases where equipment is unrecoverable, the Academy shall reimburse TRECA up to \$1,500 per student.
4. Curricular services limited to standardized curriculum developed by TRECA

For these services, the Academy is required to pay the following fees to TRECA:

1. Annual Fee – The Academy shall pay \$120,000 for fiscal year 2003, except that fee shall be reduced by \$25,000 due and payable to Sponsor for services acquired by TRECA. The remaining fee shall be due in two equal payments. The first due at execution of this agreement or receipt by Academy of first installment of the Ohio Charter Schools Federal Sub-grant Program, whichever is later. The second installment is due by January 1, 2003 or upon receipt of the aforementioned first installment of such grant, whichever is later.
2. Enrollment - \$3,500 per full-time high school student and \$2,500 per full-time K-8 student enrolled per year. In case of a student enrolled with an IEP, the Academy will determine if special education will be provided by TRECA or otherwise. If substantially all of the special education and services are provided to such a student by other than TRECA, the Academy does not have to pay TRECA the enrollment fee per the agreement, instead, actual costs for that student provided by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from Department of Education for special education and related services is due to TRECA for that student.

Note: In the event that payments to the Academy from the Department of Education are reduced, the payments due from the Academy to TRECA shall be reduced accordingly. Also, under this agreement, all obligations hereunder are subject to contingent upon the Academy's receipt of the first installment paid to the Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program. For fiscal year 2003, the Academy remitted to TRECA \$18,150 upon receipt of the Sub grant and \$62,136 based upon enrollment. See Note 9 regarding remaining fee payment and termination of the service agreement for fiscal year 2004.

6. PURCHASED SERVICES

For the period ended June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Service Agreement	\$80,286
Professional Services	<u>39,681</u>
Total Purchased Services	<u><u>\$119,967</u></u>

**ELIDA DIGITAL ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

7. 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, 2003.

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 is set for oral argument on November 18th, 2003. The effect of this suit, if any, on the school 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. The review for the fiscal year 2003 was completed July 29, 2003 with no errors identified.

8. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

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

9. SERVICE AGREEMENT TERMINATION

The Academy notified Tri-Rivers Educational Computer Association (TRECA) regarding termination of the Service Agreement for fiscal year 2004. Effective November 3, 2003, the Academy and TRECA entered into an agreement to sever the business relationship and terminate all contractual rights and responsibilities associated with that relationship. In accordance with this agreement, the Academy remitted \$48,143 to TRECA and TRECA released to the Academy and Elida Local School District all records and information pertaining to Academy and/or Elida Local School District Students.



Auditor of State Betty Montgomery

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

Elida Digital Academy Community School
Allen County
4380 Sunnydale
Elida, Ohio 45807

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, 2003, and have issued our report thereon dated November 18, 2003 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 2003-001 to 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Academy, in a separate letter dated November 18, 2003.

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 an additional matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated November 18, 2003.

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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

November 18, 2003

**ELIDA DIGITAL ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

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 Administrative Code Section 117-2-03(B) 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 2003-002

Auditor of State Audit Bulletin 2000-05 requires all financial activity of a community school be reported within an Enterprise Fund in accordance with governmental accounting principles.

The Academy reported a General Fund and three Special Revenues Funds rather than one Enterprise Fund. The accompanying financial statements have been adjusted to report financial activity as an Enterprise fund.

At year end, the Academy should prepare a financial statement which combines and reports all activity in one Enterprise Fund.

FINDING NUMBER 2003-003

Community School Contract (10/15/02) Article III B Financial Plan requires that a line item budget will be presented, discussed, and reviewed at all regular Board of Director meetings. The report is also to include current and encumbered expenses, with the Board of Directors moving to accept or reject the report.

The Board of Directors only met once during the fiscal year and no budgetary statements were presented or discussed.

Budgets should be presented, discussed and reviewed at all regular Board of Director meeting, with the Board accepting or rejecting the report.

FINDING NUMBER 2003-004

Ohio Rev. Code Section 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 2003.

The Academy should obtain liability insurance.



**Auditor of State
Betty Montgomery**

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ELIDA DIGITAL ACADEMY COMMUNITY SCHOOL

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
DECEMBER 23, 2003**