



**Auditor of State
Betty Montgomery**

MARYSVILLE DIGITAL ACADEMY
UNION COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Marysville Digital Academy
Union County
1000 Edgewood Drive
Marysville, Ohio 43040

To the Board of Directors:

We have audited the accompanying basic financial statements of the Marysville Digital Academy, Union County, Ohio (the Academy), a component unit of the Marysville Exempt Village 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marysville Digital Academy, 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 November 18, 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, 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

November 18, 2005

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

Unaudited

The discussion and analysis of Marysville Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

- Net Assets decreased \$79,616.
- Operating revenues accounted for \$223,192 in revenue or 92.8% of all revenues.
- Capital asset additions of \$3,291 consisted of computers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of two parts – management's discussion and analysis and the basic financial statements. These statements are organized so the reader can understand the financial position of the Academy. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL ACADEMY AS A WHOLE

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Academy's condensed financial information for 2005 and 2004 derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

	Net Assets	
	2005	2004
Current and other assets	\$49,769	\$126,836
Capital assets, Net	48,369	58,685
Total assets	98,138	185,521
Other liabilities	1,210	8,977
Total liabilities	1,210	8,977
Net assets		
Invested in capital assets, net of related debt	48,369	58,685
Unrestricted	48,559	117,859
Total net assets	\$96,928	\$176,544

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2005

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2005 and 2004:

	Change in Net Assets	
	2005	2004
Revenues		
Foundation Payments	\$223,192	\$85,857
Total revenues	223,192	85,857
Expenses		
Purchased Services	298,614	157,419
Supplies and Materials	3,703	45,236
Fringe Benefits	1,089	0
Depreciation	13,607	6,234
Other Operating Expense	2,983	424
Total expenses	319,996	209,313
Operating Loss	(96,804)	(123,456)
Nonoperating Revenues		
Federal and State Restricted Grants	17,188	150,000
Total Change in Net Assets	(79,616)	26,544
Net Assets Beginning of Year	176,544	150,000
Net Assets End of Year	\$96,928	\$176,544

The Academy operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds are included in the discussion and analysis. Results of fiscal year 2005 indicate a decrease in net assets of \$79,616 and ending net assets of \$96,928. The decrease is the result of increased expenses. Purchased services increased because a full time director was hired, whereas, in 2004 the position was part-time. Additionally, the number of students enrolled in the Academy has increased which increased the fees paid to Tri-Rivers Educational Computer Association. The State Foundation revenue increased because it is based on the number of students enrolled in the Academy. The dependence upon State Foundation revenues is apparent as it represents all of the operating revenue of the Academy.

BUDGET

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 does not prescribe a budgetary process for the Academy. The Academy has developed a five year projection that is reviewed periodically by the Board of Directors.

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005 the Academy had \$48,369 net of accumulated depreciation invested in equipment. The following table shows fiscal years 2005 and 2004:

	Business-Type Activities		Increase (Decrease)
	2005	2004	
Furniture and Equipment	\$68,210	\$64,919	\$3,291
Less: Accumulated Depreciation	(19,841)	(6,234)	(13,607)
Totals	\$48,369	\$58,685	(\$10,316)

The decrease in capital assets is primarily due to the accumulation of depreciation. Additional information on the Academy's capital assets can be found in Note 4.

Debt

The Academy has not issued any debt.

ECONOMIC FACTORS

Management is currently unaware of any facts, decisions or conditions that have occurred that are expected to have a significant effect on financial position or results of operations.

OPERATIONS

The Marysville Digital Academy began operations on August 27, 2003. The Marysville Digital Academy was formed as a 501c (3) tax exempt organization. The Academy'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.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Dolores Cramer, Treasurer of Marysville Digital Academy.

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MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Statement of Net Assets
June 30, 2005

Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 36,437
Receivables:	
Intergovernmental	13,332
<i>Non Current Assets:</i>	
Capital Assets, Net of Accumulated Depreciation	48,369
Total Assets	98,138
Liabilities:	
<i>Current Liabilities:</i>	
Accounts Payable	1,210
Total Liabilities	1,210
Net Assets	
Invested in Capital Assets	48,369
Unrestricted	48,559
Total Net Assets	\$ 96,928

See accompanying notes to the basic financial statements

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2005

Operating Revenues:	
Foundation Payments	\$ 223,192
Total Operating Revenues	<u>223,192</u>
Operating Expenses:	
Fringe Benefits	1,089
Purchased Services	298,614
Supplies and Materials	3,703
Depreciation	13,607
Other Operating Expense	2,983
Total Operating Expenses	<u>319,996</u>
Operating Loss	(96,804)
Nonoperating Revenue (Expenses):	
Federal and State Restricted Grants	<u>17,188</u>
Total Nonoperating Revenues (Expenses)	<u>17,188</u>
Change in Net Assets	(79,616)
Net Assets Beginning of Year	<u>176,544</u>
Net Assets End of Year	<u>\$ 96,928</u>

See accompanying notes to the basic financial statements

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2005

<u>Cash Flows from Operating Activities:</u>	
Cash Received for School Foundation	\$223,192
Cash Payments for Goods and Services	<u>(314,156)</u>
Net Cash Used for Operating Activities	<u>(90,964)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Restricted Grants Received	<u>113,782</u>
Net Cash Provided by Noncapital Financing Activities	<u>113,782</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	<u>(3,291)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(3,291)</u>
Net Increase in Cash and Cash Equivalents	19,527
Cash and Cash Equivalents at Beginning of Year	<u>16,910</u>
Cash and Cash Equivalents at End of Year	<u><u>\$36,437</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Loss	(\$96,804)
Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities:	
Depreciation Expense	13,607
Changes in Assets and Liabilities:	
Decrease in Accounts Payable	<u>(7,767)</u>
Total Adjustments	<u>5,840</u>
Net Cash Used for Operating Activities	<u><u>(\$90,964)</u></u>

See accompanying notes to the basic financial statements

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MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Marysville Digital Academy, Ohio (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy 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 the Academy's tax-exempt status. The Academy'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. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Marysville Exempted Village School District (the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

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

- 1) Three persons employed and serving in administrator position within the Marysville Exempted Village School District, which positions have been identified by the Marysville Exempted Village School District Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the Marysville Exempted Village School District Board of Education and its interests.
- 2) One person who is neither an officer nor employee of the Marysville Exempted Village School District who shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. Such person has been elected by the Marysville Exempted Village School District Board of Education.

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

- 3) One person who is neither an officer nor employee of the Marysville Exempted Village School District who is a representative initially appointed by the Tri-Rivers Educational Computer Association (TRECA), and who serves on the Board in his official capacity as a representative of TRECA and TRECA's interests. However, the TRECA representative shall within one year following the incorporation of the Academy, be replaced by a person appointed to represent the interests of parents and students served by the conversion school to be operated by the Academy. Such person must be the parent or legal guardian of a student who is enrolled in the conversion school. Such person shall be elected by the Marysville Exempted Village School District Board of Education.
- 4) The Academy's Treasurer as a non-voting ex officio member who is also the Marysville Exempted Village School District Treasurer and serves the Board of Directors in her official capacity as a representative of the Marysville Exempted Village School District Board of Education and its interests.

Therefore the Academy is a component unit of the Marysville Exempted Village School District. Additionally, the Academy entered into a two-year contract on March 10, 2003 with TRECA for management consulting services. This contract was extended for one year on December 5, 2004.

The accounting policies and financial reporting practices of the Academy conform to generally accepted accounting principles as applicable to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and change in net assets, and a statement of cash flows. Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Academy follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its enterprise funds.

Revenues – Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 does not prescribe a budgetary process for the Academy.

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, and investments with original maturities of three months or less. During fiscal year 2005, the Academy had no investments.

G. Capital Assets and Depreciation

Capital assets are defined by the Academy as assets with an initial, individual or group cost of more than \$1,000.

1. Property, Plant and Equipment

Property, plant and equipment acquired by the Academy are stated at cost (or estimated historical cost). Contributed capital assets are recorded at fair market value at the date received.

2. Depreciation

All capital assets are depreciated excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Furniture, Fixtures and Equipment	5

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 balances of any borrowings 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 the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Estimates

The preparation of the 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 could differ from those estimates.

J. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Academy, these revenues are foundation payments. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Statutes require the classification of funds held by the Academy into three categories. Category 1 consists of "active" funds - those funds required to be kept in a "cash" or "near cash" status for immediate use by the Academy. Such funds must be maintained either as cash in the Academy Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

A. Deposits

At year end the carrying amount of the Academy’s deposits was of \$36,437 and the bank balance was \$39,544. The Federal Deposit Insurance Corporation (FDIC) covered \$39,544 of the bank balance.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005 consisted of intergovernmental receivables. The total is for Federal Restricted Grant of which 100% is considered collectible.

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 4 - CAPITAL ASSETS

Summary by category of changes in capital assets at June 30, 2005:

Historical Cost:

<u>Class</u>	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
<i>Capital Assets being depreciated:</i>				
Furniture, Fixtures and Equipment	\$64,919	\$3,291	\$0	\$68,210
Total Cost	<u>\$64,919</u>	<u>\$3,291</u>	<u>\$0</u>	<u>\$68,210</u>

Accumulated Depreciation:

<u>Class</u>	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2005</u>
Furniture, Fixtures and Equipment	(\$6,234)	(\$13,607)	\$0	(\$19,841)
Total Depreciation	<u>(\$6,234)</u>	<u>(\$13,607)</u>	<u>\$0</u>	<u>(\$19,841)</u>
<i>Net Value:</i>	<u>\$58,685</u>			<u>\$48,369</u>

NOTE 5 – RELATED PARTY TRANSACTION

The Academy is component unit of the Marysville Exempted Village School District. As described in Note 1, the District is the Academy's sponsor. The Academy and the District entered into a 5-year sponsorship agreement on March 10, 2003 whereby terms of the sponsorship were established. Pursuant to this agreement, the District's Treasurer serves as the Academy's fiscal officer.

In Fiscal year 2005, payments made by the Academy to the District totaled \$136,718. This represents payment for consulting services and other related services provided by the District.

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 6 – MANAGEMENT CONSULTING CONTRACT

The Academy entered into a two-year contract on March 10, 2003 with TRECA for management consulting services. This contract was extended for one year on December 5, 2004. Under the contract, the following terms were agreed upon:

- 1) TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
- 2) All personnel providing services to the Academy 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.
- 3) The technical services provided by TRECA to the Academy 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) The Academy shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K-8 student enrolled in the Academy school year. This amounted to \$119,816 for fiscal year 2005.

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

NOTE 7 – PURCHASED SERVICES

For fiscal year ended June 30, 2005, purchased services expenses were as follows:

Legal Fees	\$	834
Tuition		1,200
Communication		1,090
Consulting		25,000
Advertisement		206
Support Services		51,683
Executive Director		74,688
Fiscal Services		12,044
TRECA Services		<u>119,816</u>
Professional Development		<u>12,053</u>
Total	\$	298,614

MARYSVILLE DIGITAL ACADEMY

MARYSVILLE, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2005

NOTE 8 - CONTINGENCIES

A. Grants

The Academy receives financial assistance from federal 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 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 the Academy 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) 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 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 of this suit, if any on the Academy 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. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to state funding for fiscal year 2005 as a result of such review.

NOTE 9 – MANAGEMENT'S PLAN

For fiscal year 2005, the Academy had an operating loss of (\$96,804), change in net assets of (\$79,616), and net assets of \$96,928. The Academy has reorganized and is now the Marysville Academy as of August 2005. The Academy is offering two new programs in addition to the digital program in an effort to increase the number of students enrolled.

The Board authorized the implementation of the Calvert School program and the PACE option program. The Calvert School program is a home-based instructional program for students grades kindergarten through eighth. The PACE program is offered to select students within the District who cannot attend regular classes and is administered jointly with the Marysville High School. Student enrollment has increased from 37 students at the end of fiscal year 2005 to 61 students as of October 31, 2005.

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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*

Marysville Digital Academy
Union County
1000 Edgewood Drive
Marysville, Ohio 43040

To the Board of Directors:

We have audited the basic financial statements of the Marysville Digital Academy (the Academy) as of and for the year ended June 30, 2005, and have issued our report thereon dated November 18, 2005. 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. In a separate letter to the Academy's management dated November 18, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 November 18, 2005, we reported an other matter related to noncompliance we deemed immaterial.

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

November 18, 2005



**Auditor of State
Betty Montgomery**

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MARYSVILLE DIGITAL ACADEMY

UNION 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 19, 2006**