



**WEST CENTRAL LEARNING ACADEMY
ALLEN COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State
Betty Montgomery**

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

West Central Learning Academy Community School
Allen County
650 East Edwards Street
Lima, Ohio 45801

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the West Central Learning Academy, Allen County, Ohio, (the Academy), as of and for the year ended June 30, 2005, which comprise the Academy's basic financial statements 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.

Ohio Administrative Code § 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of the business-type activities, of West Central Learning Academy, Allen County, Ohio, as of June 30, 2005, and the changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2005, the Academy revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 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.

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

January 17, 2006

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

This discussion and analysis of the West Central Learning Academy's financial performance provides an overall review of the Academy's financial activities for the year ended June 30, 2005, within the limitations of the Academy's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

HIGHLIGHTS

Key highlights for fiscal year 2005 are as follows:

Although revenues increased over fiscal year 2004, net assets decreased because salaries and fringe benefit expenses also increased.

The Academy's revenues are primarily school foundation payments, grants and entitlements. These receipts represent respectively 73.7 and 24.3 percent of the total cash received for business type activities during the year.

Using The Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Academy's cash basis of accounting.

Report Components

The statement of net assets and the statement of revenues, expenses and change in net assets provide information about the cash activities of the Academy as a whole.

The notes to the financial statements are an integral part of the financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Academy has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Academy's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

Reporting The Academy As A Whole

The statement of net assets and the statement of revenues, expenses and changes in net assets reflect how the Academy did financially during fiscal year 2005, within the limitations of the cash basis accounting. The statement of net assets presents the cash balances and investments of the business-type activities of the Academy at year end. The statement of revenues, expenses and changes in net assets presents cash disbursements compared with revenues of the business-type activity.

These statements report the Academy's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Academy's financial health. Over time, increases or decreases in the Academy's cash position is one indicator of whether the Academy's financial health is improving or deteriorating. When evaluating the Academy's financial condition, you should also consider other non-financial factors as well such as the changes in revenue sources, the condition of capital assets, the extent of the debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in revenue sources.

In the statement of net assets and the statement of revenues, expenses and changes in net assets, the Academy reports business-type activities. Business-type activities are where the Academy's basic services are reported, including, but not limited to, instruction, support services, and operation of plant.

Table 1 provides a summary of the Academy's net assets for 2005 compared to 2004 on a cash basis:

Table 1		
Net Assets		
	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	<u>\$55,659</u>	<u>\$73,775</u>
Net Assets		
Unrestricted	<u>\$55,659</u>	<u>\$73,775</u>

Total assets decreased by \$18,116, which represents a 24.6 percent decrease from fiscal year 2004. As mentioned previously, net assets decreased because of the increase in salaries and fringe benefits.

The Statement of Revenues, Expenses, and Change in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

Since the Academy did not prepare financial statements in this format for 2004, a comparative analysis of Academy data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

**Table 2
Change in Net Assets**

	<u>2005</u>
Operating Revenue	
Foundation Payments	\$461,846
Disadvantaged Pupil Impact Aid	5,191
Special Education	21,275
Other Operating Revenues	11,888
Total Operating Revenues	<u>500,200</u>
Operating Expenses	
Salaries	345,947
Fringe Benefits	50,009
Purchased Services	200,579
Materials and Supplies	10,872
Capital Outlay	67,164
Other Operating Expense	5,736
Total Operating Expenses	<u>680,307</u>
Non-Operating Revenues	
Operating Grants - Federal	155,298
Operating Grants - State	5,925
Interest	768
Total Non-Operating Revenues	<u>161,991</u>
Increase/(Decrease) in Net Assets	<u><u>(\$18,116)</u></u>

State Foundation Payments, Disadvantaged Pupil Impact Aid, and Special Education, as a whole, are the primary support for the Academy, representing 97.6 percent of the operating revenue. Salaries and Fringe Benefits comprise 58.2 percent of operating expenses.

The Academy had total revenues of \$662,191, and total expenses of \$680,307. The change in net assets for the year was a decrease of \$18,116 which was due to the increase in salaries and fringe benefits.

Capital Assets And Debt Administration

Capital Assets

The Academy does not currently report its capital assets and infrastructure on the cash basis of accounting.

Debt

The Academy does not currently have any debt.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

Current Issues

The challenge for all Academies is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking funding. Our newly prepared financial forecast predicts a deficit for fiscal year 2007; therefore, the administration implemented a strategy to delay the deficit. This plan became effective during 2005. The sources of revenue were reviewed and it was determined that increases were unlikely unless more students enrolled in the second semester. We then reviewed the disbursement history of the Academy. We have also reduced staffing days in areas where we felt it would have the least impact on services. All areas are reducing expenditures.

Contacting The Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to reflect the Academy'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 the Treasurer or Administrative Supervisor, at West Central Learning Academy, 650 E. Edwards Street, Lima, Ohio 45801.

WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
AS OF JUNE 30, 2005

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$55,659</u>
Total Assets	55,659
Net Assets	
Unrestricted	<u>55,659</u>
Total Net Assets	<u><u>\$55,659</u></u>

See accompanying notes to the basic financial statements

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

Operating Revenues:

Foundation Payments	\$461,846
Disadvantaged Pupil Impact Aid	5,191
Special Education	21,275
Other Operating Revenues	11,888
Total Operating Revenues	<u>500,200</u>

Operating Expenses:

Salaries	345,947
Fringe Benefits	50,009
Purchased Services	200,579
Materials and Supplies	10,872
Capital Outlay	67,164
Other Operating Expenses	5,736
Total Operating Expenses	<u>680,307</u>
Operating Loss	(180,107)

Non-Operating Revenues

Operating Grants - Federal	155,298
Operating Grants - State	5,925
Interest	768
Total Non-Operating Revenues	<u>161,991</u>
Change in Net Assets	<u>(18,116)</u>
Net Assets at Beginning of Year	<u>73,775</u>
Net Assets at End of Year	<u><u>\$55,659</u></u>

See accompanying notes to the basic financial statements.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

1. DESCRIPTION OF THE ENTITY

The West Central Learning Academy Community School (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the growing need for a comprehensive educational program delivered to students in grade 6 through grade 12 population primarily through online electronic learning technologies. The mission of the Academy is to enhance and facilitate student learning by combining state-of-the-art digital curriculum and instruction with access to local school resources that complement that instruction and to prepare students to become lifelong learners and productive citizens.

The comprehensive educational program addresses the special problems of some 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 as Elida Digital Academy 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. For fiscal year 2005, the Academy changed its name to the West Central Learning Academy and accepted students from all Allen County Schools. 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 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 operates under the direction of a five-member Board of Directors. Board members are appointed and are 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. The Academy is a conversion community school.

For fiscal year 2006, the Lima City School District established and became the sponsor of the West Central Learning Academy II (WCLA II), a start-up school. On August 3, 2005, the West Central Learning Academy (WCLA), the conversion school sponsored by Elida Local School District, officially merged with WCLA II.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Academy does not apply FASB statements issued after November 30, 1989, to its business-type activities.

Following are the more significant of the Academy's accounting policies.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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 cash basis of accounting 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.

The Academy's basic financial statements consist of a statement of net assets and a statement of revenues, expenses and change in net assets. The Academy 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, and financial position.

The statement of net assets presents the cash balance of the business-type activities of the Academy at fiscal year end. The statement of revenues, expenses and changes in net assets compares disbursements with receipts for each function of the Academy's business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible.

B. Basis of Accounting

The Academy's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Academy's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

C. 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.

D. Cash

All monies received by the Academy are accounted for by the Academy's Treasurer. All cash received by the Treasurer is maintained in a separate bank account in the Academy's name. Monies for the Academy are maintained in these accounts or temporarily used to purchase short-term investments.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and revenues from this program are recognized as operating revenues in the accompanying financial statements. The Academy participates in the Federal Community School Grant, the Educational Management Information System, the School Net, Federal IDEA B – Retarded/Disabled, Drug Free Schools, Title I, Technology Title II D, Improving Teacher Quality and Innovative Education Strategies programs through the Ohio Department of Education. 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 \$161,223.

F. Inventory and Prepaid Items

The Academy reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Academy's cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The Academy recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Net 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 creditor, grantor, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At June 30, 2005, the Academy had no restricted net assets.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the Academy changed its method of accounting for financial reporting from a basis of accounting formerly prescribed by the Auditor of State to a cash basis comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The basis of accounting is similar to the cash receipts and disbursements basis. The Academy recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

The financial statements are presented on a cash basis. The beginning net asset amount is the fund balance as of June 30, 2004. There was no effect on beginning fund balances at July 1, 2004.

4. DEPOSITS AND INVESTMENTS

State statutes require the classification of the monies held by the Academy into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Academy Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive monies are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including but not limited to passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. 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 and interest by the United States;
2. 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;
3. 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;

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

4. DEPOSITS AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio, or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Academy, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits - Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the Academy's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits.

At fiscal year-end, the carrying amount of the Academy's deposits was \$55,569, and the bank balance was \$115,327. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2005, \$100,000 of the Academy's bank balance of \$115,327 was sufficiently collateralized with Federal depository insurance and the remaining amount of \$15,327 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging institution's trust department or agent, but not in the Academy's name.

The Academy has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Academy or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments - The Academy had no investments.

5. 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; injuries to employees; and natural disasters. For the fiscal year ended June 30, 2005, the Academy was insured through Auto Owners Insurance Company as follows:

Commercial General Liability:	
General Aggregate Limit	2,000,000
Operations Aggregate Limit	2,000,000
Personal Injury Limit	1,000,000
Each Occurrence Limit	1,000,000
Fire Damage	50,000
Medical Expense	5,000

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

6. PURCHASED SERVICES

For the period ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

Administrative Services	\$ 5,722
Instructional Support	46,130
Support Services Contracts	<u>148,727</u>
Total Purchased Services	<u>\$200,579</u>

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5833.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy was required to contribute an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll.

A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2005, was \$2,452; 100 percent has been paid for fiscal year 2005.

B. State Teachers Retirement Systems (STRS)

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090 or by visiting the STRS Ohio Web site at www.strsoh.org.

Plan Options – New members have a choice of three retirement plan options, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. This plan offers an annual retirement based on final average salary times a percentage that varies based on years of service. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years.

The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent.

Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices.

A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1 percent of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3 percent of the original base amount for Defined Benefit Plan participants.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Academy's required contribution for pension obligations for the fiscal year ended June 30, 2005, was \$46,577, which includes the Board pick-up of the employee share. Contributions to the DB plan for fiscal year 2005 were \$16,831 made by the Academy and \$11,000 made by the plan members. As of June 30, 2005, outstanding pension obligations due STRS by the Board was \$29,745.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients.

Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

8. POSTEMPLOYMENT BENEFITS (Continued)

In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2 percent of each employer's SERS salaries. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the fiscal year 2005, the Academy paid \$796 to fund health care benefits.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available), were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of \$300.8 million. The number of recipients currently receiving health care benefits is approximately 62,000.

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund.

For the Academy, this amount equaled \$2,542 for the fiscal year ended June 30, 2005. For the fiscal year ended June 30, 2004 (the latest information available) net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

9. 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, 2005.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

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

9. CONTINGENCIES (Continued)

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 was heard on November 18th, 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 arguments occurred on November 29, 2005. 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 Academy. These reviews are conducted to ensure the Academy is 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. For fiscal year 2005, there were no material adjustments to state funding.

10. SUBSEQUENT EVENT

Effective July 1, 2005, the Academy changed its name and sponsor. Lima City Schools currently sponsors the West Central Learning Academy II as a start-up school.



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*

West Central Learning Academy Community School
Allen County
650 East Edwards Street
Lima, Ohio 45801

To the Board of Directors:

We have audited the financial statements of the business-type activities of the West Central Learning Academy, Allen County, (the Academy), as of and for the year ended June 30, 2005, which comprise the Academy's basic financial statements and have issued our report thereon dated January 17, 2006, wherein, we noted the Academy uses a comprehensive basis of accounting other than generally accepted accounting principles. 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 January 17, 2006, 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 instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

We intend this report solely for the information and use of 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

January 17, 2006

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Finding For Recovery Repaid Under Audit

The West Central Learning Academy approved the hiring of Todd Hanes as superintendent effective September 1, 2004. However, through an oversight, the Academy paid Mr. Hanes for the month of August 2004. Since his contract with the Academy was not effective until September 1, 2004, he should not have received compensation for the month of August from the Academy. The compensation drawn from the Academy for the month of August was as follows:

Base Salary	\$ 6,923.00
Medicare	\$ 100.29
Employer Paid Medical and Dental Benefits	<u>427.42</u>
Total	<u><u>\$ 7,450.71</u></u>

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Todd Hanes in favor of the West Central Learning Academy Community School. The finding was repaid by Todd Hanes on December 14, 2005, check number 136, in the amount of \$7,450.71 and deposited into the Academy treasury on December 22, 2005.

FINDING NUMBER 2005-002

Reportable Condition

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 West Central Learning Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, the West Central Learning Academy prepares their financial statements and notes following the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time. Pursuant to Ohio Rev. Code Section 117.38, the West Central Learning 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.

**WEST CENTRAL LEARNING ACADEMY COMMUNITY SCHOOL
ALLEN 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	Ohio Rev. Code Section 117.38 Ohio Admin. Code 117-2-03(B), preparation of financial statements in accordance with generally accepted accounting principles.	No	Repeated as Finding 2005-002
2004-002	Ohio Rev. Code Section 3314.03 (A)(11)(b) No liability insurance	Yes	



**Auditor of State
Betty Montgomery**

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WEST CENTRAL LEARNING 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
FEBRUARY 14, 2006**