

Findlay Digital Academy

Hancock County, Ohio

Regular Audit

July 1, 2005 Through June 30, 2006
Fiscal Year Audited Under GAGAS: 2006



BALESTRA, HARR & SCHERER
CERTIFIED PUBLIC ACCOUNTANTS
528 S. WEST STREET, P.O. Box 687
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

www.bhscpas.com



Mary Taylor, CPA

Auditor of State

Board of Directors
Findlay Digital Academy
227 South West Street
Findlay, Ohio 45840

We have reviewed the *Independent Auditor's Report* of the Findlay Digital Academy, Hancock County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Findlay Digital Academy is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 28, 2007

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Findlay Digital Academy
Findlay, Ohio
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For the Fiscal Year Ended June 30, 2006

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BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Findlay Digital Academy
227 South West Street
Findlay, Ohio 45840

We have audited the accompanying financial statements of the business-type activities of the Findlay Digital Academy, Hancock County, Ohio, (the Academy), a component unit of the Findlay City School District, as of and for the year ended June 30, 2006, 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 *Governmental 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Findlay Digital Academy, Hancock County, Ohio, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, 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 December 7, 2006, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
December 7, 2006

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The discussion and analysis of the Findlay Digital Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Government issued June, 1999. Certain comparative information between current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2006, which was the second year of operation for the Academy, are as follows:

- The assets of the Academy exceeded its liabilities at year-end by \$275,259. Of this amount \$215,913 may be used to meet the Academy's ongoing obligations to citizens and creditors.

- In total, net assets increased by \$132,371.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore, the entity wide and fund presentation information is the same.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2006?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when cash is received or paid.

This statement reports the Academy's net assets; however, in evaluating the overall position and financial viability of the Academy, non-financial information such as potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

Table 1 provides a comparison of the Academy's overall financial position at June 30th for fiscal years 2005 and 2006. It must be noted that the Academy opened its doors in the middle of fiscal year 2005. Fiscal year 2005 reflects 6 months of operations while fiscal year 2006 reflects 12 months, therefore a year to year comparison may be misleading:

(Table 1)
Net Assets

	2006	2005
Assets		
Current Assets	\$ 242,393	\$ 181,179
Capital Assets, Net	59,346	25,551
<i>Total Assets</i>	<u>301,739</u>	<u>206,730</u>
Liabilities		
Current Liabilities	26,480	63,842
<i>Total Liabilities</i>	<u>26,480</u>	<u>63,842</u>
Net Assets		
Invested in Capital Assets	59,346	25,551
Unrestricted	215,913	117,337
<i>Total Net Assets</i>	<u>\$ 275,259</u>	<u>\$ 142,888</u>

Table 2 shows the changes in net assets for fiscal year 2006 and 2005, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2006	2005
Operating Revenues		
Foundation Payments	\$ 380,241	\$ 216,258
Other Operating Revenue	6,592	10
Non-Operating Revenues		
Federal Grants	161,815	150,000
State Grants	3,000	-
<i>Total Revenues</i>	<u>551,648</u>	<u>366,268</u>
Operating Expenses		
Purchased Services	396,741	205,151
Materials & Supplies	7,500	3,683
Depreciation	10,362	2,519
Non-capitalized asset purchases	4,374	11,827
Other Expenses	300	200
<i>Total Operating Expenses</i>	<u>419,277</u>	<u>223,380</u>
<i>Increase in Net Assets</i>	<u>\$ 132,371</u>	<u>\$ 142,888</u>

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Continued)**

As noted above, 2005 was the initial year of operation for the Academy, so comparisons between fiscal year 2005 and 2006 must bear in mind that 2005 contains six (6) months of operations while 2006 contains twelve (12) months of operations. Additionally, the Academy operates as one business-type enterprise fund and therefore, no analysis of individual funds is included.

Capital Assets

At the end of fiscal year 2006, the Academy had \$59,346 invested in furniture and equipment. For more information on capital assets see Note 5 to the basic financial statements.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens 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 information contact Mike Barnhart, Treasurer at Findlay Digital Academy, 227 South West Street, Findlay, Ohio 45840 or call (419) 425-8237.

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets

Current Assets

Cash	\$ 236,289
Intergovernmental Receivables	6,104
Prepaid Items	-
<i>Total Current Assets</i>	<u>242,393</u>

Non-Current Assets

Capital Assets, Net of Accumulated Depreciation	<u>59,346</u>
<i>Total Non-Current Assets</i>	<u>59,346</u>

<i>Total Assets</i>	<u>301,739</u>
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Liabilities

Current Liabilities

Accounts Payable	17,789
Intergovernmental Payable	8,691
<i>Total Current Liabilities</i>	<u>26,480</u>

Net Assets

Invested in Capital Assets	59,346
Unrestricted	<u>215,913</u>
<i>Total Net Assets</i>	<u>\$ 275,259</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Enterprise</u>
Operating Revenues	
Foundation Payments	\$ 380,241
Other Revenue	<u>6,592</u>
<i>Total Operating Revenues</i>	<u>386,833</u>
Operating Expenses	
Purchased Services	396,741
Materials & Supplies	7,500
Depreciation	10,362
Non-capitalized asset purchases	4,374
Other Expenses	<u>300</u>
<i>Total Operating Expenses</i>	<u>419,277</u>
<i>Operating Profit (Loss)</i>	<u>(32,444)</u>
Non-Operating Revenues	
Federal Grants	161,815
State Grants	<u>3,000</u>
<i>Total Non-Operating Revenues</i>	<u>164,815</u>
<i>Change in Net Assets</i>	132,371
Net Assets Beginning of Year	<u>142,888</u>
<i>Net Assets End of Year</i>	<u><u>\$ 275,259</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities</u>	
Cash Received from Foundation Payments	381,497
Cash Received from Other Sources	19,092
Cash Payments for Purchased Services	(438,263)
Cash Payments to Suppliers for Goods & Services	(7,465)
Cash Payments to Suppliers for Non-capitalized Assets	(4,005)
Cash Payments to Others	(300)
	<hr/>
<i>Net Cash Used for Operating Activities</i>	<i>(49,444)</i>
 <u>Cash Flows from Noncapital Financing Activities</u>	
Federal and State Grants Received	158,711
	<hr/>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<i>158,711</i>
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	(44,157)
	<hr/>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<i>(44,157)</i>
 <i>Net Increase in Cash and Cash Equivalents</i>	 <i>65,110</i>
Cash and Cash Equivalents at Beginning of Year	171,179
	<hr/>
<i>Cash and Cash Equivalents at End of Year</i>	<i>236,289</i>
	<hr/> <hr/>
 Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(32,444)
 Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	10,362
Changes in Assets and Liabilities:	
Increase in Prepaid Items	-
Increase in Accounts Payable	(41,118)
Increase in Intergovernmental Receivable	10,000
Increase in Intergovernmental Payable	3,756
	<hr/>
<i>Total Adjustments</i>	<i>(17,000)</i>
	<hr/>
<i>Net Cash Used for Operating Activities</i>	<i>(49,444)</i>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Findlay Digital Academy (the Academy) is a Conversion Community School established pursuant to Ohio Revised Code Chapter 3314, and sponsored by the Findlay City Schools (FCS) to serve ninth through twelfth grade students living in the Findlay City School District. The Academy's mission is to enhance and facilitate student learning by combining state-of-the-art digital curriculum with access to local school resources to complement that instruction and prepare students to become lifelong learners and productive citizens.

The Academy is an innovative program operated as a cooperative effort between the Digital Academy Board of Directors and the Findlay City School District. The Academy was approved for operation under a contract with the Findlay City School District (the Sponsor) commencing on April 1, 2004 and expiring on June 30, 2008. The Academy enrolled its first students in January 2005. 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 governed by a seven-member Board of Directors. The Board is composed of the FCS Superintendent, the Findlay High School Principal, and one (1) other licensed administrator who is employed by the FCS. The Board also includes three (3) other persons who are neither officers nor employees of the Academy who serve as voting members. Those three may include a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy, one parent of a student enrolled in the Academy, and a representative from the Tri Rivers Educational Computer Association (TRECA) who within one year following the Academy's incorporation may be replaced by a FCS administrator. The FCS Treasurer serves as a nonvoting ex officio member of the Board.

The Findlay Digital Academy uses distance-learning technology to deliver instruction via computers to students, either in their homes or a group-learning environment such as a computer classroom at school. Although the Academy cannot exercise control over the home environments in which instruction will be received, it attempts to take reasonable steps to ensure compliance with health and safety standards deemed available to its students and within the Academy's control.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Findlay Digital Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied 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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The Academy's significant accounting policies are described below.

A. Basis of Presentation

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

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus

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 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.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when 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.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore no budgetary information is presented in the financial statements.

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the School's fiscal agent, the Findlay City School District. All cash received by the fiscal agent is maintained in separate accounts in the Academy's name. For purposes of the Statement of Cash Flows and presentation on the Statement of Net Assets, investments with original maturities of three months or less at the time they are purchased by the Academy, are considered to be cash equivalents. The Academy had no investments during the fiscal year.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed. The Academy had no prepaid items this fiscal year.

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

H. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, 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.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the State. Operating expenses are necessary costs which are incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

J. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. 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.

The Academy participates in various programs through the Ohio Department of Education. These include the Federal Charter School Grant Program, Title VI-B, and an EMIS subsidy grant.

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 3 – DEPOSITS AND INVESTMENTS

State statutes require the classification of 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two 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 may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or 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;
4. Bond and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. 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; and
7. The State Treasurer's investment pool (STAR Ohio).

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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 School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

Deposits: The Academy's deposits are required to be categorized to give an indication of the level of risk assumed by the Academy at fiscal year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered deposits which are held by the counterparty's trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

At fiscal year end, the carrying amount of the Academy's deposits was (\$33,103) and the bank balance was \$33,616. Of the bank balance, \$33,616 was covered by federal depository insurance (Category 1).

Investments: The Academy's investments are required to be categorized to give an indication of the level of risk assumed by the Academy at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Academy or its agent in the Academy's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Academy's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy's name. The Academy's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$269,392	0
Total Fair Value	\$269,392	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

In accordance with the investment policy, the Academy manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Academy limits their investments to STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Academy's investment policy allows investments in Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The Academy has invested 100% in investments with no weighted maturity. All of the Academy's investments are in Star Ohio.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy does not have a policy for custodial credit risk. All of the Academy's investments are held in the name of the Academy.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
<i>GASB Statement No. 9</i>	\$236,289	\$0
Investments:		
STAR Ohio	(269,392)	269,392
<i>GASB Statement No. 3</i>	\$ (33,103)	\$269,392

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 – INTERGOVERNMENTAL RECEIVABLES/PAYABLES

Intergovernmental receivables at June 30, 2006 consisted of \$6,104 that was owed to the Academy on phase II of its \$150,000 federal grant. There were no intergovernmental payables at June 30, 2006.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006:

	Balance <u>07/01/05</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>06/30/06</u>
Furniture and Equipment	\$ 28,070	\$ 44,157	\$ -	\$ 72,227
Less: Accumulated Depreciation	<u>2,519</u>	<u>10,362</u>	<u>-</u>	<u>12,881</u>
Capital Assets, Net	<u>\$ 25,551</u>	<u>\$ 33,795</u>	<u>-</u>	<u>\$ 59,346</u>

NOTE 6 – 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. The Academy is covered under the liability and property policies of the Findlay City Schools. There has been no significant change in coverages for the past three years.

Coverages are as follows:

General Liability:	
Per Occurrence	\$ 1,000,000
Aggregate	3,000,000
Personal and Advertising Injury	1,000,000
Property:	125,247,842

There have been no claims filed against or on behalf of the Academy.

NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR

The Sponsorship Contract states that the Findlay City Schools may direct its treasurer to serve as the Academy's fiscal officer. The treasurer performs the following functions for the Academy:

- A. Assumes responsibility for receipt, safekeeping and disbursement of all Academy funds;
- B. Directs and manages all financial accounting programs and systems;
- C. Completes and files all forms, reports, papers and other requirements as prescribed by the Auditor of State, Department of Education, or other state or local agencies.

In addition, the Sponsorship Contract states that the Academy shall secure the services of an Executive Director who shall be the chief operating officer of the Academy. This position is filled by the Secondary Curriculum Director of the Academy's Sponsor, the Findlay City School District.

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR (Continued)

The Sponsorship Contract also states that the Academy shall pay the Sponsor \$25,000 for planning, design, and initial implementation services acquired by the Sponsor on behalf of the Academy from Tri-Rivers Educational Computer Consortium (TRECA). Instead of having the Sponsor pay TRECA and then have the Academy reimburse the Sponsor, it was mutually agreed that the Academy would pay \$25,000 to TRECA directly.

The Sponsor contracts out all employees to the Academy including the Executive Director, Treasurer, EMIS Coordinator, Academy Coordinator, and Teachers.

During the year ended June 30, 2006, the Academy incurred \$75,173 in expenses payable to its Sponsor, Findlay City School District, for:

Salaries and benefits	\$63,083
Fiscal Services	5,900
EMIS Services	5,900
Other	<u>290</u>
Total	<u>\$75,173</u>

NOTE 8 – 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 as 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 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, 2006.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. For fiscal year 2006, the review was completed in November 2006. As a result of said review, the Academy's state foundation funding will be decreased by \$8,691 for fiscal year 2007.

C. 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 its financial operations.

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 9 – PURCHASED SERVICE EXPENSES

For the year ended June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

Tri-Rivers Educational Computer Assn. (TRECA)	\$ 348,267
Sponsor, Management Fees and Expenses	75,173
Auditor of State	5,284
Community Foundation	3,300
Western Buckeye ESC	2,363
Meeting Expenses	1,910
Other	<u>1,966</u>
Total	<u>\$ 438,263</u>

NOTE 10 – RELATED PARTY TRANSACTIONS

The Academy's Board of Directors includes three members who are employees of the Academy's Sponsor, Findlay City School District, and one member who is an employee of the Hancock County Educational Service Center as contracted out by the Findlay City School District. In addition, other employees of the Sponsor provide additional services to the Academy. Payments to the following related parties (other than travel reimbursement) were as follows:

Findlay City School District (Sponsor)	\$ 75,173
Jon Thomas (Employee of Sponsor)	439
Tamara Wallace (Employee of Sponsor)	<u>235</u>
Total	<u>\$ 75,847</u>

NOTE 11 – CONTRACT WITH TRECA

The Academy entered into a contract on January 13, 2005, for fiscal year 2005 and 2006, with TRECA. Under the contract, the following terms were agreed upon:

- TRECA shall provide the Academy with startup, instructional, administrative, staff training, and technical services sufficient to substantially implement the Academy's educational plan and the Academy's assessment and accountability plan.
- 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.
- 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.
- The Academy shall secure the services of an Executive Director, who shall be the chief operating officer of the Academy, with primary responsibility for day-to-day operation of the Academy.
- Curricular services provided by TRECA shall be limited to the basic standardized curriculum developed by TRECA. Basic services do not include special education and related services.

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 11 – CONTRACT WITH TRECA (Continued)

- In exchange for the services and support (including equipment) provided by TRECA, the Academy shall pay to TRECA a fee of \$25,000 for the 2005-2006 school year.
- The Academy shall pay TRECA \$3,600 per full-time high school student and \$2,600 per full-time K-8 student enrolled in the Academy for the 2005-2006 school year. Part-time students may be enrolled on such terms as agreed to by the parties.
- In the case of students enrolled in the Academy who are Disabled or Suspected Disabled, as defined in the Exhibit entitled “TRECA Enhancement Services and Special Education Obligations of the Academy and TRECA,” the Academy shall additionally pay to TRECA the fees and costs described in Section II of such exhibit.

For fiscal year 2006, \$348,267 was paid to TRECA. \$58,744 was payable to TRECA at June 30, 2005. \$13,000 was payable to TRECA at June 30, 2006.

To obtain TRECA’s audited June 30, 2006 financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

NOTE 12 – TAX EXEMPT STATUS

The Academy’s legal counsel issued a tax opinion stating the Academy is not required to pay federal income tax or file federal tax returns because it qualifies as an integral part of the Findlay City Schools which is a political subdivision of the State of Ohio. The tax opinion also indicates that as a further protection, they structured the Academy’s incorporation documents in such a way that, in the unlikely event the Internal Revenue Service ever reaches a contrary conclusion regarding the Academy’s tax status, the Academy should qualify as a tax-exempt organization under either Section 501(c)(3) or 501(c)(4) of the Internal Revenue code, retroactive to the date of incorporation. Thus, the Academy should avoid liability for any taxes or penalties imposed by the Internal Revenue Code.

BALESTRA, HARR & SCHERER CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Board
Findlay Digital Academy
227 South West Street
Findlay, Ohio 45840

We have audited the accompanying financial statements of the business-type activities of the Findlay Digital Academy, Hancock County, Ohio, (the Academy), as of and for the year ended June 30, 2006, and have issued our report thereon dated December 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 basic financial statements and not to provide an opinion 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 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 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.

Compliance and Other Matters

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, contract and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members of the Board
Findlay Digital Academy
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the management and 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 cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored, slightly textured background.

Balestra, Harr & Scherer, CPAs, Inc.

December 7, 2006



Mary Taylor, CPA
Auditor of State

FINDLAY DIGITAL ACADEMY

HANCOCK COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 13, 2007**