



**Auditor of State
Betty Montgomery**

**MARION CITY SCHOOLS DIGITAL ACADEMY
MARION COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses, and Change in Net Assets	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17
Schedule of Prior Audit Findings.....	19

THIS PAGE INTENTIONALLY LEFT BLANK



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Marion City Schools Digital Academy
Marion County
910 East Church Street
Marion, Ohio 43302

To the Board of Directors:

We have audited the accompanying basic financial statements of the Marion City Schools Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Marion City School District, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion City Schools Digital Academy, Marion County, Ohio, as of June 30, 2004, and the change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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, which consisted principally of inquiries of management regarding the 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 black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 17, 2004

Marion City Schools Digital Academy
Marion County

Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

The discussion and analysis of the Marion City Schools Digital Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Net assets decreased \$45,763.
- Operating revenues accounted for \$460,946 in revenue or 98.6% of all revenues.
- Capital outlay additions of \$29,699 consisted of furniture and equipment.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a financial whole, an entire operating entity. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for the Academy. The statement of revenues, expenses, and change in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. In the case of the Academy, there is only one fund presented. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Reporting the Academy as a Whole

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2004?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and change in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Financial Analysis

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis. The following tables represent the Academy's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and change in net assets.

Marion City Schools Digital Academy
Marion County

Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

Table 1 provides a summary of the Academy's net assets for 2004 compared to 2003:

Table 1 Net Assets		
	<u>2004</u>	<u>2003</u>
Assets		
Current Assets	\$ 66,549	\$196,171
Capital Assets, Net of Depreciation	23,759	-
Total Assets	\$ 90,308	\$196,171
Liabilities		
Current Liabilities	\$ 48,266	\$108,366
Total Liabilities	48,266	108,366
Net Assets		
Invested in Capital Assets	23,759	-
Unrestricted	18,283	87,805
Total Net Assets	\$ 42,042	\$ 87,805

The Academy's net assets decreased by \$45,763. An analysis of cash flows for operating activities in 2004 demonstrates cash payments for activities exceeding unrestricted cash receipts by \$106,655. The net cash provided by noncapital financing activities covers the net cash decrease in operating activities.

Operating Activities

Purchased services, made up of mainly professional and technical services, comprise 96.5 percent of operating expenses. 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 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.

Table 2 Change in Net Assets		
	<u>2004</u>	<u>2003</u>
<i>Operating Revenue</i>		
Foundation Payments	\$ 418,907	\$ 190,490
Disadvantaged Pupil Impact Aid	1,587	-
Special Education	40,452	-
<i>Total Operating Revenues</i>	460,946	190,490
<i>Operating Expenses</i>		
Purchased Services	495,166	278,542
Materials and Supplies	9,114	-
Depreciation Expense	5,940	-
Other Operating Expenses	3,050	-
<i>Total Operating Expenses</i>	513,270	278,542
<i>Non-Operating Revenues</i>		
State Grants	6,066	25,700
Federal Grants	-	150,000
Interest Income	495	157
	6,561	175,857

Marion City Schools Digital Academy
Marion County

Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

Total Non-Operating Revenues	6,561	175,857
Change in Net Assets	\$ (45,763)	\$ 87,805

The dependence upon state foundation revenues for operating activities is apparent. Foundation payments represented all of the operating revenue of the Academy. The state foundation community, as a whole, is by far the primary support for the Academy.

The Academy's Funds

The Academy had total revenues of \$467,507 and expenses of \$513,270. The change in net assets for the year was a decrease of \$45,763. This decrease may be eliminated as enrollment increases.

Budget

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the Academy had \$23,759 (net of \$5,940 in accumulated depreciation) invested in furniture and equipment. Table 3 shows 2004 balances compared to 2003:

Table 3
Capital Assets at June 30
(Net of Depreciation)

	<u>2004</u>	<u>2003</u>
Furniture and Equipment	\$23,759	\$ -
Totals	\$ 23,759	\$ -

Acquisitions exceeded depreciation in the current year by \$23,759. The increase in the furniture and equipment account is a result of the Academy buying \$29,699 in furniture and equipment.

Debt

At June 30, 2004, the Academy had no debt.

Other Information

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

Marion City Schools Digital Academy
Marion County

Management's Discussion and Analysis
For the Year Ended June 30, 2004
Unaudited

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Mr. Robert Wood, Treasurer of Marion City Schools Digital Academy, 910 East Church Street, Marion, Ohio 43302.

**MARION CITY SCHOOLS DIGITAL ACADEMY
MARION COUNTY**

**Statement of Net Assets
As of June 30, 2004**

Assets:

Current Assets:

Cash and Cash Equivalents	\$ 66,378
Inventory Held for Resale	171
Total Current Assets	<u>66,549</u>

Non-Current Assets:

Capital Assets, Net of Accumulated Depreciation	<u>23,759</u>
---	---------------

Total Assets	<u><u>\$ 90,308</u></u>
--------------	-------------------------

Liabilities:

Current Liabilities:

Due to Other Governments	<u>\$ 48,266</u>
--------------------------	------------------

Net Assets:

Investment in Capital Assets	23,759
Unrestricted	<u>18,283</u>

Total Net Assets	<u><u>\$ 42,042</u></u>
------------------	-------------------------

See Accompanying Notes to the Basic Financial Statements.

**MARION CITY SCHOOLS DIGITAL ACADEMY
MARION ACADEMY**

**Statement of Revenues, Expenses and Change in Net Assets
For the Year Ended June 30, 2004**

<u>Operating Revenues:</u>	
Foundation Payments	\$ 418,907
Disadvantaged Pupil Impact Aid	1,587
Special Education	<u>40,452</u>
 Total Operating Revenues	 460,946
 <u>Operating Expenses:</u>	
Purchased Services	495,166
Materials and Supplies	9,114
Depreciation	5,940
Other Operating Expenses	<u>3,050</u>
 Total Operating Expenses	 513,270
 Operating Loss	 (52,324)
 <u>Non-Operating Revenues:</u>	
State Grants	6,066
Interest Income	<u>495</u>
 Total Non-Operating Revenues	 <u>6,561</u>
 Change in Net Assets	 (45,763)
 Net Assets at Beginning of Year	 <u>87,805</u>
Net Assets at End of Year	<u><u>\$ 42,042</u></u>

See Accompanying Notes to the Basic Financial Statements.

**MARION CITY SCHOOLS DIGITAL ACADEMY
MARION COUNTY**

**Statement of Cash Flows
For the Year Ended June 30, 2004**

Increase (Decrease) in Cash

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 460,946
Cash Payments to Suppliers for Goods and Services	<u>(567,601)</u>

Net Cash Used by Operating Activities	<u>(106,655)</u>
---------------------------------------	------------------

Cash Flows from Noncapital Financing Activities:

Federal Grants Received	105,000
State Grants Received	<u>6,066</u>

Net Cash Provided by Noncapital Financing Activities	<u>111,066</u>
--	----------------

Cash Flows from Capital and Related Financing Activities:

Cash Payments for Capital Acquisitions	<u>(29,699)</u>
--	-----------------

Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>495</u>
--	------------

Net Decrease in Cash	(24,793)
----------------------	----------

Cash and Cash Equivalents at Beginning of Year	<u>91,171</u>
--	---------------

Cash and Cash Equivalents at End of Year	<u><u>\$ 66,378</u></u>
--	-------------------------

**Reconciliation of Operating Loss to Net
Cash Used by Operating Activities**

Operating Loss	\$ (52,324)
----------------	-------------

Adjustments to Reconcile Operating Loss
to Net Cash Used by Operating Activities:

Depreciation	5,940
Changes in Assets and Liabilities:	
Increase in Inventory Held for Resale	(171)
Decrease in Due to Other Governments	<u>(60,100)</u>

Total Adjustments	<u>(54,331)</u>
-------------------	-----------------

Net Cash Used by Operating Activities	<u><u>\$ (106,655)</u></u>
---------------------------------------	----------------------------

See Accompanying Notes to the Basic Financial Statements.

THIS PAGE INTENTIONALLY LEFT BLANK

Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

NOTE 1 - DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Marion City Schools Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

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

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

- (a) Three persons employed and serving in administrator positions within the Sponsor's District, which positions have been identified by the Sponsor's Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the Sponsor's Board of Education and its interests.
- (b) One person who is neither an officer nor employee of the Sponsor's District who shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. Such person has been elected by the Sponsor's Board of Education.
- (c) One person who is neither an officer nor employee of the Sponsor who is a representative initially appointed by the Tri-Rivers Educational Computer Association (TRECA), and who serves on the Board in his official capacity as a representative of TRECA and TRECA's interests. However, the TRECA representative shall within one year following the incorporation of the Academy, be replaced by a person appointed to represent the interests of parents and students served by the conversion school to be operated by the Academy. Such person must be the parent or legal guardian of a student who is enrolled in the conversion school. Such person shall be elected by the Sponsor's Board of Education.
- (d) The Academy's Treasurer as a non-voting ex officio member who is also the Sponsor's Treasurer and serves the Board of Directors in his official capacity as a representative of the Sponsor's Board of Education and its interests.

Therefore, the Academy is a component unit of the Sponsor. Additionally, the Academy entered into a two-year contract on September 10, 2002, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services (See Note 8).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

A. Basis of Presentation

Enterprise Accounting

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

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or changes in net assets is appropriate for public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

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 revenues, expenses, and change in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

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. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

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 Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

D. Cash and Cash Equivalents

Cash held by the Academy is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2004, the Academy had no investments.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

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 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.

Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

F. Capital Assets and Depreciation

All 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 values as of the date received. The Academy maintains a capitalization threshold of \$500 dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over an estimated useful life of five years.

A summary of capital assets at June 30, 2004 follows:

Furniture and equipment	\$ 29,699
Less: accumulated depreciation	(5,940)
Net capital assets	<u>\$ 23,759</u>

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy did not have any restricted net assets at fiscal year end.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

I. 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.

NOTE 3 - DEPOSITS

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".

At fiscal year end, the carrying amount and bank balance of the Academy's deposits was \$66,378. The bank balance was covered entirely by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

NOTE 4 - RECEIVABLES

There were no receivables at June 30, 2004.

Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

NOTE 5 – FISCAL AGENT

The sponsorship agreement states the Treasurer of the Sponsor shall serve as the Chief Financial Officer (Treasurer) of the Academy.

The Treasurer of the Sponsor shall perform the following functions while serving as the Treasurer of the Academy:

- A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of the Academy;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

NOTE 6 - 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.

NOTE 7 - RELATED PARTY TRANSACTION

The Academy is a component unit of the Sponsor. The Academy and the Sponsor entered into a 5-year sponsorship agreement on August 26, 2002 whereby terms of the sponsorship were established. Pursuant to this agreement, the Sponsor's treasurer serves as the Academy's fiscal officer. Also, the Academy is required annually to pay to the Sponsor, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code, \$150 per student per year. This amounted to \$12,900 for fiscal year 2004 and is reported in "Purchased Services" in the accompanying financial statements.

In fiscal year 2004, other payments were made by the Academy to the Sponsor totaling \$206,060. These represent payments of \$167,076 for administrative services provided by the Sponsor to the Academy and \$38,984 of reimbursements for supplies and equipment purchases made by the Sponsor for the Academy.

The Executive Director of TRECA serves as a member of the Academy's Board of Directors. Payments made by the Academy to TRECA in fiscal year 2004 totaled \$362,390.

NOTE 8 - MANAGEMENT CONSULTING CONTRACT

The Academy entered into a two-year contract on September 10, 2002, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

1. TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
2. All personnel providing services to the Academy on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
3. The technical services provided by TRECA to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.

Marion City Schools Digital Academy
Marion County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

4. In exchange for the services and support (including equipment) provided by TRECA, the Academy shall pay to TRECA a fee of \$25,000 for fiscal year 2004.
5. The Academy shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K – 8 student enrolled in the Academy per year. This amounted to \$269,194 for fiscal year 2004. Part-time students may be enrolled on such terms as are agreed to by the parties.

NOTE 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 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, 2004.

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 for oral arguments was heard. The effect, if any, on the Academy is not presently determinable.

C. Full Time Equivalency

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

NOTE 10 – PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased services expenses were payments for professional and technical services to TRECA in the amount of \$315,190. Of this amount, \$266,924 was paid during fiscal year 2004; the remaining \$48,266 represents a payable at June 30, 2004. Purchased services also includes payments to the Sponsor in the amount of \$167,076 for administrative services provided by the Sponsor to the Academy, and \$12,900 related to the \$150 per student fee payable to the Sponsor, as described in Note 7.

THIS PAGE INTENTIONALLY LEFT BLANK



Auditor of State Betty Montgomery

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

Marion City Schools Digital Academy
Marion County
910 East Church Street
Marion, Ohio 43302

To the Board of Directors:

We have audited the basic financial statements of the Marion City Schools Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Marion City School District, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the Academy's management in a separate letter dated December 17, 2004.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

This report is intended solely for the information and use of management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 17, 2004

**MARION CITY SCHOOLS DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Finding Repaid Under Audit – a federal grant receipt was deposited into the Marion City School District’s bank account and posted to its accounting records.	Yes	
2003-002	The Academy did not obtain formal approval to allow for payments to the Marion City School District for services provided by the District on behalf of the Academy.	No	Partially Corrected. This matter is being reported in the current audit management letter.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

MARION CITY SCHOOLS DIGITAL ACADEMY

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 20, 2005**