



**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

FINDLAY DIGITAL ACADEMY
HANCOCK 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 Changes in Net Assets	8
Statement of Cash Flows.....	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Findlay Digital Academy
Hancock County
227 South West Street
Findlay, Ohio 45840-3377

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the Findlay Digital Academy, Hancock County, (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.

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 Findlay Digital Academy, Hancock County, Ohio, as of June 30, 2005, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 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 accounting principles generally accepted in the United States of America 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

April 6, 2006

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

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

The discussion and analysis of the Findlay Digital Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the 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. Fiscal year 2005 is the Academy's first year of operations, as a result there is no prior year information available.

Financial Highlights

Key financial highlights for fiscal year 2005, which was the initial year of operation for the Academy, are as follows:

- The assets of the Academy exceeded its liabilities at year-end by \$142,888. Of this amount \$117,337 may be used to meet the Academy's ongoing obligations to citizens and creditors.
- In total, net assets increased by \$142,888.

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 the fund presentations information is the same.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2005?" 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 the 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, 2005
UNAUDITED
(Continued)**

Table 1 provides a summary of the Academy's overall financial position at June 30, 2005:

Table 1	
Net Assets	
Assets	
Current Assets	\$ 181,179
Capital Assets, Net	25,551
<i>Total Assets</i>	206,730
 Liabilities	
Current Liabilities	63,842
<i>Total Liabilities</i>	63,842
 Net Assets	
Invested in Capital Assets	25,551
Unrestricted	117,337
<i>Total Net Assets</i>	\$ 142,888

As noted above, this is the initial year of operation for the Academy, so fiscal year 2004 information is not available for comparison and discussion.

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

Table 2	
Changes in Net Assets	
Operating Revenues	
Foundation Payments	\$ 216,258
Other Operating Revenue	10
 Non-Operating Revenues	
Federal Grants	150,000
<i>Total Revenues</i>	366,268
 Operating Expenses	
Purchased Services	205,151
Materials & Supplies	3,683
Depreciation	2,519
Non-capitalized asset purchases	11,827
Other Expenses	200
<i>Total Operating Expenses</i>	223,380
<i>Increase in Net Assets</i>	\$ 142,888

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

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

As noted above, this is the initial year of operation for the Academy, so fiscal year 2004 financial information is not available for analysis and discussion and no comparison between current and prior year can be analyzed. 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 2005, the Academy had \$25,551 invested in furniture and equipment, net of accumulated depreciation. 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 45840-3377 or call (419) 425-8237.

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**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets

Current Assets

Cash	\$ 171,179
Intergovernmental Receivables	10,000
<i>Total Current Assets</i>	<u>181,179</u>

Non-Current Assests

Capital Assets, Net of Accumulated Depreciation	25,551
<i>Total Non-Current Assets</i>	<u>25,551</u>

<i>Total Assets</i>	<u>206,730</u>
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Liabilities

Current Liabilities

Accounts Payable	58,907
Intergovernmental Payable	4,935
<i>Total Current Liabilities</i>	<u>63,842</u>

Net Assets

Invested in Capital Assets	25,551
Unrestricted	117,337
<i>Total Net Assets</i>	<u>\$ 142,888</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, 2005

	<u>Enterprise</u>
Operating Revenues	
Foundation Payments	\$ 216,258
Other Revenue	<u>10</u>
<i>Total Operating Revenues</i>	<u>216,268</u>
Operating Expenses	
Purchased Services	205,151
Materials & Supplies	3,683
Depreciation	2,519
Non-capitalized asset purchases	11,827
Other Expenses	<u>200</u>
<i>Total Operating Expenses</i>	<u>223,380</u>
<i>Operating Loss</i>	<u>(7,112)</u>
Non-Operating Revenues	
Federal Grants	<u>150,000</u>
<i>Total Non-Operating Revenues</i>	<u>150,000</u>
<i>Change in Net Assets</i>	142,888
Net Assets Beginning of Year	<u> </u>
<i>Net Assets End of Year</i>	<u><u>\$ 142,888</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, 2005

Increase (Decrease) in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities</u>	
Cash Received from Foundation Payments	\$ 211,193
Cash Received from Other Sources	10
Cash Payments for Purchased Services	(146,244)
Cash Payments to Suppliers for Goods & Services	(3,683)
Cash Payments to Suppliers for Non-capitalized Assets	(11,827)
Cash Payments to Others	<u>(200)</u>
<i>Net Cash Provided By Operating Activities</i>	<u>49,249</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Federal Grants Received	<u>150,000</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	<u>(28,070)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	171,179
Cash and Cash Equivalents at Beginning of Year	<u> </u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 171,179</u></u>

**Reconciliation of Operating Loss to
Net Cash Provided By Operating Activities**

Operating Loss	\$ (7,112)
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**Adjustments to Reconcile Operating Loss to
Net Cash Provided By Operating Activities**

Depreciation	2,519
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(10,000)
Increase in Accounts Payable	58,907
Increase in Intergovernmental Payable	<u>4,935</u>

<i>Total Adjustments</i>	<u>56,361</u>
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<i>Net Cash Provided By Operating Activities</i>	<u><u>\$ 49,249</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

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

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.

The Academy is a component unit of the Findlay City Schools.

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, 2005
(Continued)**

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, 2005, 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, 2005
(Continued)**

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 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. The only grant in these financial statements comes from the Federal Charter School Grant Program.

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, 2005
(Continued)**

NOTE 3 – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$100,000 of the Academy's bank balance of \$183,192 covered by Federal Depository Insurance and \$83,192 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial 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.

NOTE 4 – INTERGOVERNMENTAL RECEIVABLES/PAYABLES

Intergovernmental receivables at June 30, 2005, consisted of \$10,000 that was owed to the Academy by the State Teachers Retirement System (STRS) for deductions that were mistakenly taken from the Academy's foundation payments.

Intergovernmental payables at June 30, 2005, consisted of \$4,935 owed to the Ohio Department of Education (ODE) due to a final full time equivalency recalculation of the school foundation program. The ODE will recover this overpayment through deductions from future foundation payments.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005:

	Balance 7/1/2004	Additions	Deletions	Balance 6/30/2005
Furniture and Equipment	\$ -	\$ 28,070	\$ -	\$ 28,070
Less: Accumulated Depreciation	-	2,519	-	2,519
Capital Assets, Net	<u>\$ -</u>	<u>\$ 25,551</u>	<u>\$ -</u>	<u>\$ 25,551</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.

Coverages are as follows:

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

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

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

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

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.

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, 2005, the Academy incurred \$50,306 in expenses payable to its Sponsor, Findlay City School District, for:

Salaries and benefits	\$ 33,910
Fiscal Services	4,673
EMIS Services	2,683
Legal Services	8,170
Supplies and equipment	870
Total	<u>\$ 50,306</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 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, 2005.

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

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

NOTE 8 – CONTINGENCIES – (Continued)

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 2005, the review was completed in September 2005. As a result of said review, the Academy's state foundation funding will be decreased by \$4,935 for fiscal year 2006.

C. Litigation

A suit was filed in Franklin County Common Pleas court on May 14, 2001 alleging Ohio's Community (i.e. Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Findlay Digital Academy is not presently determinable.

NOTE 9 – PURCHASED SERVICE EXPENSES

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

Sponsor, Management Fees and Expenses	\$ 49,436
Fees to Tri-Rivers Educational	152,251
Community Foundation	1,250
CCV Software	1,200
Meeting Expenses	428
Other	586
Total	<u>\$ 205,151</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 that is an employee of Tri-Rivers Educational Computer Association (TRECA), which provides the Academy's on-line educational program. 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)	\$ 50,306
Tri-Rivers Educational Computer Association	152,251
Jon Thomas (Employee of Sponsor)	70
Total	<u>\$ 202,627</u>

**FINDLAY DIGITAL ACADEMY
HANCOCK COUNTY**

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

NOTE 11 – CONTRACT WITH TRECA

The Academy entered into a contract on January 13, 2005, for fiscal year 2005, 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 operations 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.
- In exchange for the services and support (including equipment) provided by TRECA, the Academy shall pay to TRECA a fee of \$60,000 for the 2004-2005 school year.
- The Academy shall pay TRECA \$3,550 per full-time high school student and \$2,550 per full-time K-8 student enrolled in the Academy per school year. Part-time students may be enrolled on such terms as are 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 2005, \$93,507 was paid to TRECA and \$58,744 was a payable to TRECA at June 30, 2005.

To obtain TRECA's audited June 30, 2005, 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.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Findlay Digital Academy
Hancock County
227 South West Street
Findlay, Ohio 45840-3377

To the Board of Directors:

We have audited the financial statements of the business-type activities, of Findlay Digital Academy, Hancock 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 April 6, 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 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 opinions 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 April 6, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated April 6, 2006, we reported another matter related to noncompliance we deemed immaterial.

Findlay Digital Academy
Hancock County
Independent Accountants' Report on Internal Control
Over Financial Reporting and on compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management, the Board of Directors, and the Sponsor. 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

April 6, 2006



**Auditor of State
Betty Montgomery**

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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
MAY 4, 2006**