



TRECA DIGITAL ACADEMY
(COMPONENT UNIT OF METROPOLITAN EDUCATIONAL TECHNOLOGY ASSOCIATION)
MARION COUNTY
SINGLE AUDIT
FOR THE YEAR ENDED JUNE 30, 2017



Dave Yost • Auditor of State

TRECA DIGITAL ACADEMY
MARION COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

TRECA Digital Academy
Marion County
100 Executive Drive
Marion, OH 43302

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of TRECA Digital Academy, Marion County, Ohio (TDA), a component unit of the Metropolitan Educational Technology Association (META), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise TDA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to TDA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of TDA's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TRECA Digital Academy, Marion County, Ohio, a component unit of Metropolitan Educational Technology Association, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the fiscal year 2016 and 2017 full-time equivalency reviews performed by the Ohio Department of Education resulted in claw backs of foundation funding in the amounts of \$5,011,900 and \$3,291,067, respectively. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on TDA's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018, on our consideration of TDA'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TDA's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

October 2, 2018

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TRECA Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The discussion and analysis of TRECA Digital Academy's (TDA) financial performance provides an overall review of TDA's financial activities for the fiscal year ended June 30, 2017. Readers should also review the basic financial statements and notes to enhance their understanding of TDA's financial performance.

Highlights

TRECA Digital Academy (TDA) was established and began its first year of operations in fiscal year 2002. TDA is an online internet school. TDA served 644 students in its first year of operation and has grown to a student enrollment of 1,956 students in fiscal year 2017.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and change in net position reflect how TDA did financially during fiscal year 2017. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report TDA's net position and the change in net position. This change in net position is important because it tells the reader whether the financial position of TDA has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of TDA's net position for fiscal year 2017 and fiscal year 2016:

Table 1 Net Position			
	2017	2016	Change
<u>Assets:</u>			
Current and Other Assets	\$8,619,086	\$666,154	\$7,952,932
Capital Assets, Net	660,031	132,068	527,963
Total Assets	9,279,117	798,222	8,480,895
 <u>Deferred Inflows of Resources</u>	420,893	0	420,893
 <u>Liabilities:</u>			
Current and Other Liabilities	2,915,300	0	(2,915,300)
Long Term Liabilities			
Other Amounts	6,163,941	0	(6,163,941)
Total Liabilities	9,079,241	0	(9,079,241)
			(continued)

TRECA Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 1
Net Position
(continued)

	2017	2016	Change
<u>Net Position:</u>			
Net Investment in Capital Assets	660,031	132,068	527,963
Unrestricted (Deficit)	(39,262)	666,154	(705,416)
Total Net Position (Deficit)	<u>\$620,769</u>	<u>\$798,222</u>	<u>(\$177,453)</u>

The changes in TDA's assets and liabilities from the prior fiscal year are the result of the change in operations that occurred on January 1, 2017. Prior to January 1, TDA contracted with META for operational and fiscal services. TDA paid META an annual fee for curriculum and program development, teacher training, etc. META received 100 percent of TDA's funding received from the Ohio Department of Education as well as grants or other revenue sources to carry out TDA's educational and operational plan. In addition, there is an increase in liabilities of \$8,301,822 which represents overpayments in State foundation resources to TDA by the Ohio Department of Education. A substantial portion of this is offset by a receivable from META, in the amount of \$5,555,532, for resources TDA provided to META per the contract.

The increase in net capital assets and the investment in capital assets represents current year asset additions as additional assets were needed now that TDA is operating independently.

Table 2 reflects the change in net position for fiscal year 2017 and fiscal year 2016.

Table 2
Change in Net Position

	2017	2016	Change
<u>Operating Revenues:</u>			
Foundation	\$5,406,543	\$13,250,567	(\$7,844,024)
Tuition and Fees	447,849	0	447,849
Intergovernmental	5,694,050	0	5,694,050
Other Operating Revenues	110,668	0	110,668
Total Operating Revenues	<u>11,659,110</u>	<u>13,250,567</u>	<u>(1,591,457)</u>
<u>Non-Operating Revenues:</u>			
Grants	1,259,206	1,245,010	14,196
Interest Revenue	2,929	427	2,502
Total Non-Operating Revenues	<u>1,262,135</u>	<u>1,245,437</u>	<u>16,698</u>
Total Revenues	<u>12,921,245</u>	<u>14,496,004</u>	<u>(1,574,759)</u>

(continued)

TRECA Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 2
Change in Net Position
(continued)

	2017	2016	Change
<u>Operating Expenses:</u>			
Salaries	\$3,284,209	\$0	(\$3,284,209)
Fringe Benefits	974,704	0	(974,704)
Purchased Services	6,559,904	14,430,537	7,870,633
Materials and Supplies	1,845,631	0	(1,845,631)
Depreciation	126,017	17,041	(108,976)
Other Operating Expenses	308,233	0	(308,233)
Total Operating Expenses	<u>13,098,698</u>	<u>14,447,578</u>	<u>1,348,880</u>
Increase (Decrease) in Net Position	(177,453)	48,426	(225,879)
Net Position at Beginning of Year	<u>798,222</u>	<u>749,796</u>	48,426
Net Position at End of Year	<u><u>\$620,769</u></u>	<u><u>\$798,222</u></u>	<u><u>(\$177,453)</u></u>

Note the significant reduction in Foundation revenue as a result of the overpayment to TDA by the Ohio Department of Education. TDA will realize a reduction in its State foundation resources through fiscal year 2023 as a result of these payments. The reduction in purchased services expenses and the increase in all other expense categories represents the change made on January 1, 2017, when TDA no longer purchased its educational and operational services from META.

Budgeting

TDA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets

At the end of fiscal year 2017, TDA had \$660,031 invested in capital assets (net of accumulated depreciation). The additions consisted of computers and software. There were no disposals. For further information regarding TDA's capital assets, refer to Note 5 to the basic financial statements.

Current Issues

TDA has completed the sixteenth year of operation. We continue to grow in our understanding of the issues of online education. Our student population remains very diverse, creating the challenge of providing a quality education for each individual. Our focus remains on working with students to progress through their assigned curriculum at an appropriate pace, which includes the necessary support structures to allow for academic success. To do this we continue to refine our continuous progress model as well as the opportunity for students to customize their school calendars. This continues to be well received by our students and parents.

TRECA Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

In fiscal year 2017, we continued to be an attractive alternative for students/families looking for educational opportunity. The flexibility of our year-round calendar, continuous progress model, and use of cutting edge technology remain important aspects of the program to parents and students.

As a dropout prevention school we recognize the at-risk needs of our students. We continue to address these needs through the services of our SAFE program and support through our advisors. Together the positions support students by providing assistance for non-academic issues that may prevent them from reaching their potential. These efforts have contributed greatly to our increased retention, attendance, and graduation rates during the school year.

Contacting TDA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of TDA's finances and to reflect TDA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jessica Wake, Treasurer, TRECA Digital Academy, 100 Executive Drive, Marion, Ohio 43302.

TRECA Digital Academy
Statement of Net Position
June 30, 2017

Assets:

Current Assets:

Cash and Cash Equivalents	\$2,048,639
Accounts Receivable	2,729
Intergovernmental Receivable	6,567,718
Total Current Assets	<u>8,619,086</u>

Non-Current Assets:

Depreciable Capital Assets, Net	660,031
Total Assets	<u>9,279,117</u>

Deferred Outflows of Resources:

Pension	<u>420,893</u>
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Current Liabilities:

Accounts Payable	183,114
Accrued Wages and Benefits Payable	292,329
Intergovernmental Payable	2,377,832
Compensated Absences Payable	62,025
Total Current Liabilities	<u>2,915,300</u>

Non-Current Liabilities:

Intergovernmental Payable	5,971,086
Compensated Absences Payable	192,855
Total Non-Current Liabilities	<u>6,163,941</u>
Total Liabilities	<u>9,079,241</u>

Net Position:

Net Investment in Capital Assets	660,031
Unrestricted (Deficit)	(39,262)
Total Net Position (Deficit)	<u><u>\$620,769</u></u>

See Accompanying Notes to Basic Financial Statements

TRECA Digital Academy
Statement of Revenues, Expenses, and Change in Net Position
For the Fiscal Year Ended June 30, 2017

<u>Operating Revenues:</u>	
Foundation	\$5,406,543
Tuition and Fees	447,849
Intergovernmental	5,694,050
Other Operating Revenues	110,668
Total Operating Revenues	<u>11,659,110</u>
 <u>Operating Expenses:</u>	
Salaries	3,284,209
Fringe Benefits	974,704
Purchased Services	6,559,904
Materials and Supplies	1,845,631
Depreciation	126,017
Other Operating Expenses	308,233
Total Operating Expenses	<u>13,098,698</u>
 Operating Loss	 <u>(1,439,588)</u>
 <u>Non-Operating Revenues:</u>	
Grants	1,259,206
Interest Revenue	2,929
Total Non-Operating Revenues	<u>1,262,135</u>
 Change in Net Position	 (177,453)
 Net Position at Beginning of Year	 798,222
Net Position (Deficit) at End of Year	<u><u>\$620,769</u></u>

See Accompanying Notes to the Basic Financial Statements

TRECA Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Increase in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$13,708,365
Cash Received from Tuition and Fees	446,999
Cash Received from Intergovernmental Revenues	129,672
Cash Received from Other Operating Revenues	2,840
Cash Payments for Salaries	(2,773,613)
Cash Payments for Fringe Benefits	(1,312,057)
Cash Payments for Goods and Services	(8,223,008)
Cash Payments for Other Operating Expenses	(307,477)
Net Cash Provided by Operating Activities	<u>1,671,721</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Grants	<u>957,654</u>
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Cash Flows from Capital Financing Activities:

Acquisition of Capital Assets	<u>(653,980)</u>
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Cash Flows from Investing Activities:

Cash Received from Interest	<u>2,929</u>
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Net Increase in Cash and Cash Equivalents	1,978,324
Cash and Cash Equivalents at Beginning of Year	70,315
Cash and Cash Equivalents at End of Year	<u><u>\$2,048,639</u></u>

Reconciliation of Operating Loss

to Net Cash Provided by Operating Activities:

Operating Loss	(\$1,439,588)
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Adjustments to Reconcile Operating Loss

to Net Cash Provided by Operating Activities:

Depreciation	126,017
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(2,729)
Increase in Intergovernmental Receivable	(5,670,327)
Increase in Accounts Payable	183,114
Increase in Accrued Wages and Benefits Payable	292,329
Increase in Intergovernmental Payable	8,348,918
Increase in Compensated Absences Payable	254,880
Increase in Deferred Outflows of Resources - Pension	(420,893)
Net Cash Provided by Operating Activities	<u><u>\$1,671,721</u></u>

See Accompanying Notes to the Basic Financial Statements

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 1 - Description of the School

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

TDA was approved for operation under a contract with the Tri-Rivers Joint Vocational School (the Sponsor), commencing on July 30, 2001. A successor contract was entered into on January 26, 2016, effective through fiscal year 2020. The Sponsor is responsible for evaluating the performance of TDA and has the authority to deny renewal of the contract at its expiration. The Board of Directors is responsible for the operations of TDA.

TDA operates under the direction of a five-member Board of Directors appointed by majority vote of active directors with approval from the Sponsor. The Board of Directors is responsible for carrying out provisions of the contract which include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admissions standards, and qualification of teachers. For the first half of the 2016-2017 school year, META, under a contractual agreement, provided instructional staff and support faculty to TDA. For the second half of the 2016-2017 school year, TDA employed its own instructional staff and support faculty. TDA provides services to 1,956 students. Due to the relationship with META during fiscal year 2017, it would be misleading to exclude TDA from META's financial statements; therefore, TDA is considered a component unit of META for fiscal year 2017.

META is an association of public school districts within multiple counties of Ohio. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of META consists of one representative from each county elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School.

TDA participates in one insurance pool, the Ohio School Plan, which is presented in Note 13 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of TDA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the TDA's accounting policies.

A. Basis of Presentation

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

TDA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus

TDA is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of TDA are included on the statement of net position. The statement of revenues, expenses, and change in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows reflects how TDA finances and meets its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. TDA'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, are recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which TDA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which TDA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to TDA on a reimbursement basis.

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 7 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For fiscal year 2017, TDA did not have any deferred inflows of resources.

Note 2 - Summary of Significant Accounting Policies (continued)

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 the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by TDA's contract with its Sponsor. The contract between TDA and its Sponsor does prescribe an annual budget requirement in addition to preparing a 5-year forecast, which is updated on an annual basis.

E. Cash and Cash Equivalents

Cash held by TDA is reflected as "Cash and Cash Equivalents" on the statement of net position. 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 2017, TDA had no investments.

F. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. TDA maintains a capitalization threshold of five hundred dollars. TDA does not have 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 capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Lives</u>
Furniture, Fixtures, and Equipment	3 - 5 years
Software	3 years
Vehicles	10 years

G. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. TDA first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. TDA did not have any restricted net position at fiscal year end.

Note 2 - Summary of Significant Accounting Policies (continued)

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of TDA. For TDA, these revenues are primarily foundation payments from the State and tuition and fees. Operating expenses are necessary costs incurred to provide the service that is the primary activity of TDA. All revenues and expenses not meeting this definition are reported as non-operating.

I. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the pension plans, and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

J. 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

At fiscal year end, the carrying amount of TDA's deposits was \$2,048,639 and the bank balance was \$2,475,356; of which \$2,225,356 was exposed to custodial credit risk because it was uninsured and uncollateralized. Noncompliance with federal requirements could potentially subject TDA to a successful claim by the FDIC.

Note 4 - Receivables

Receivables at June 30, 2017, consisted of accounts (student fees and billings for user charged services) and intergovernmental receivables. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. All receivables with the exception of amounts due to TDA from META are expected to be collected within one year. The amount due from META is expected to be received as follows.

<u>Year</u>	<u>Amount</u>
2018	63,624
2019-2020	680,000
2026	4,811,908

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 4 - Receivables (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
State of Ohio	\$8,846
School Employees Retirement System	105,949
Idea Part - B	317,432
Title I	415,998
Early Childhood	629
Title II-A	163,332
META	5,555,532
Total Intergovernmental Receivables	\$6,567,718

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance at 6/30/16	Additions	Reductions	Balance at 6/30/17
Depreciable Capital Assets				
Furniture, Fixtures, and Equipment	\$0	\$53,980	\$0	\$53,980
Software	0	600,000	0	600,000
Vehicles	170,410	0	0	170,410
Total Depreciable Capital Assets	170,410	653,980	0	824,390
Less Accumulated Depreciation for				
Furniture, Fixtures, and Equipment	0	(8,972)	0	(8,972)
Software	0	(100,003)	0	(100,003)
Vehicles	(38,342)	(17,042)	0	(55,384)
Total Accumulated Depreciation	(38,342)	(126,017)	0	(164,359)
Capital Assets, Net	\$132,068	\$527,963	\$0	\$660,031

Note 6 - Risk Management

TDA 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. During fiscal year 2017, TDA contracted for the following insurance coverage.

Coverage provided by the Ohio School Plan is as follows:

General Liability	
Per Occurrence	\$5,000,000
General Aggregate	7,000,000
Property	1,415,000
Vehicle Liability	5,000,000

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 6 - Risk Management (continued)

In prior fiscal years, TDA was covered by insurance purchased by META.

For the fiscal year 2017, the TDA participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

Note 7 - Defined Benefit Pension Plans

Plan Description - School Employees Retirement System (SERS)

Plan Description - TDA classified employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about SERS' fiduciary net position. The report can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Age and service requirements for retirement are as follows.

	Eligible to retire on or before August 1, 2017 *	Eligible to retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit; Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over thirty years. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Note 7 - Defined Benefit Pension Plans (continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and TDA is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

TDA's contractually required contribution to SERS was \$129,884 for fiscal year 2017. Of this amount, \$952 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - TDA licensed teachers and other certified faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. The report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307.

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-six years of service credit, or thirty-one years of service credit regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age sixty-five or thirty-five years of service credit and at least age sixty.

The DCP allows members to place all their member contributions and 9.5 percent of the 14 percent employer contribution into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)

The CP offers features of both the DBP and the DCP. In the CP, 12 percent of the 14 percent member rate goes to the DCP and the remaining 2 percent is applied to the DBP. Member contributions to the DCP are allocated among investment choices by the member and contributions to the DBP from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age fifty or later.

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

A DBP or CP member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased 1 percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

TDA's contractually required contribution to STRS was \$291,009 for fiscal year 2017. Of this amount, \$33,264 is reported as an intergovernmental payable.

In prior years of operation, TDA had contracted with another agency for personnel services, (i.e., all teaching and support staff). Therefore, TDA made no contributions to the pension system and has no proportionate share of the pension liability to report.

At June 30, 2017, TDA's only deferred outflows to report is the amount subsequent to the measurement date. There were no deferred inflows.

	SERS	STRS	Total
TDA Contributions Subsequent to the Measurement Date	\$129,884	\$291,009	\$420,893

\$420,893 reported as deferred outflows of resources related to pension resulting from TDA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of the annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of June 30, 2016, compared with June 30, 2015, are presented below.

	June 30, 2016	June 30, 2015
Wage Inflation	3 percent	3.25 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent	3 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal	entry age normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both males and females. Special mortality tables were used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)

The long-term return expectation for the pension plan investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00%	0.50%
U.S. Stocks	22.50	4.75
Non-U.S. Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00%</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Changes Between Measurement Date and Report Date

In October 2017, the SERS Board voted to suspend cost of living adjustments granted on January 1, 2018. Although the exact amount of these changes is not known, the overall decrease to the School District's net pension liability is expected to be significant.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 7 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - STRS

STRS' total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Inflation	2.75 percent
Projected Salary Increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost of Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages are set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the retirement board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows.

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	31.00%	8.00%
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
	<u>100.00%</u>	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.25 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and, therefore, is not a weighted average return of the individual asset classes.

Note 7 - Defined Benefit Pension Plans (continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are excluded. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Changes Between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2017, all members of the Board of Directors have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 8 - Postemployment Benefits

School Employees Retirement System (SERS)

Health Care Plan Description - TDA contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health care plans from various vendors including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health care coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 8 - Postemployment Benefits (continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). The SERS Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount; prorated if less than a full year of service credit was earned. For fiscal year 2017, this amount was \$23,500. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2017, TDA's surcharge obligation was \$7,083.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the amount assigned to the Health Care Fund. TDA made no contribution for health care in prior fiscal years as they contracted for support staff with META.

State Teachers Retirement System (STRS)

Plan Description - TDA participates in a cost-sharing multiple-employer defined benefit health care plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer the plan. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. The Plan is included in the STRS financial report which can be obtained by visiting the STRS website at www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal years ended June 30, 2017, 2016, and 2015, STRS did not allocate any employer contributions to postemployment health care.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 9 - Other Employee Benefits

A. Compensated Absences

Vacation and sick leave benefits for TDA employees are outlined in TDA's personnel policy. Employees earn twelve to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to employees upon termination of employment.

Employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred fifty days. Upon retirement, eligible employees may be paid 25-35 percent of accrued but unused sick leave to a maximum of forty-five or fifty-six and one-fourth days as detailed in the personnel policy.

B. Health Care Benefits

TDA provides medical, dental, vision, and life insurance to employees through United Health Care, Lincoln Financial Group, Vision Service Plan, and AXA Equitable, respectively. The employees share the cost of monthly premium with the Board for medical, dental, and vision coverage.

Note 10 - Long-Term Obligations

Changes in TDA's long-term obligations during fiscal year 2017 were as follows:

	Balance at 6/30/16	Additions	Reductions	Balance at 6/30/17	Amounts Due Within One Year
Compensated Absences Payable	\$0	\$254,880	\$0	\$254,880	\$62,025

Note 11 - Contract with META

Prior to January 1, 2017, TDA's contract with META provided for the following services to be provided by META:

1. META provided instructional, supervisory/administrative, and technical services sufficient to effectively implement TDA's educational plan and TDA's assessment and accountability plan.
2. All personnel providing services to TDA on behalf of META under the agreement were employees of META and META was 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 personnel had to possess any certification or licensure which may be required by law.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 11 - Contract with META (continued)

3. The technical services provided by META to TDA included 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.

To obtain META's June 30, 2017, audited financial statements, contact David Varda, Treasurer, at dvarda@metasolutions.net.

On September 1, 2016, TDA entered into a contract with META for various services. Those services include network hosting services; EMIS support; telephony/VOIP; various human resources services including new employee recruitment, payroll processing, benefits consultation and procurement, and other human resources services; fiscal services; software development and support/maintenance; and document storage. The cost of these services through June 30, 2017, was \$347,680 as outlined in the Master Service Agreement.

Note 12 - Related Party Transactions

As part of TDA's contractual agreement for the period prior to January 1, 2017, TDA was required to pay META the following fees:

1. Annual Fee - An annual fee to META for curriculum and program development, teacher training, and marketing services associated with TDA.
2. Ongoing Fees - META received 100 percent of the funding received by TDA from the Ohio Department of Education pursuant to section 3314.08 of the Ohio Revised Code.
3. Other Payments - As permitted by law, TDA additionally paid META funds received by TDA from grants or other sources for services provided by META, provided META's provision of such services was consistent with the terms of, and fulfilled TDA's obligations pursuant to, such grants and other funding.

Payments made by TDA to META in fiscal year 2017 were \$6,203,196. This consists of the \$6,000,255 in base formula funds and \$202,941 in fees for which TDA obtained grant monies.

Note 13 - Insurance Pool

TDA participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Shuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Shuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Shuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

Note 14 - Contingencies

A. Grants

TDA received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of TDA at June 30, 2017.

B. Litigation

There are currently no matters in litigation with the TDA as defendant.

C. Full Time Equivalency

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Revised Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in additional adjustments to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on TDA for fiscal year 2016 and 2017.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 14 - Contingencies (continued)

As a result of the fiscal year 2016 and 2017 FTE Reviews, TDA owes ODE \$5,011,900 and \$3,289,922, respectively. An additional FTE Adjustment of \$1,145 is due to ODE. This amount was not included in the financial statements.

In addition, TDA's contract with its Sponsor requires payment based on revenues received from the State. As discussed above, the FTE adjustments resulted in \$49,349 due back to TDA from its Sponsor. This is in the process of being paid back and is not included in the financial statements.

Lastly, TDA's fiscal year 2016 contract and 2017 contract through August 31, 2016 with META required payment based on revenues received from the State. As discussed above, the FTE adjustments resulted in \$5,555,532 due back to TDA from META. On July 1, 2018, the TDA Board of Directors entered into a settlement agreement with META, whereby META will make installment payments through July 1, 2020, and the remaining balance will be paid on or before July 1, 2025.

Note 15 - Subsequent Events

On August 11, 2017, TDA renewed the Master Service Agreement with META for fiscal year 2018.

On June 18, 2018, TDA renewed the Master Service Agreement with META for fiscal year 2019.

As indicated in Note 14, the TDA Board of Directors entered into a settlement agreement with META on July 1, 2018 in the amount of \$5,555,532.

TRECA Digital Academy
Required Supplementary Information
Schedule of TDA's Contributions
School Employees Retirement System of Ohio
Current Fiscal Year

	<u>2017</u>
Contractually Required Contribution	\$129,884
Contributions in Relation to the Contractually Required Contribution	<u>(129,884)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>
TDA Employee Payroll	\$927,743
Contributions as a Percentage of Employee Payroll	14.00%

TRECA Digital Academy
Required Supplementary Information
Schedule of TDA's Contributions
State Teachers Retirement System of Ohio
Current Fiscal Year

	<u>2017</u>
Contractually Required Contribution	\$291,009
Contributions in Relation to the Contractually Required Contribution	<u>(291,009)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>
TDA Employee Payroll	\$2,078,636
Contributions as a Percentage of Employee Payroll	14.00%

TRECA Digital Academy
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below.

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3 percent	3.25 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent	4 percent to 22 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation

Amounts reported for fiscal year 2017 use morality assumptions that are based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. Amounts reported for fiscal year 2016 and prior use mortality assumptions based on the 1994 Group Annuity Mortality Table set back one year for both males and females. Special mortality tables were used for the period after disability retirement.

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**TRECA DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	<u>Disbursements</u>
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>		
Title I Grants to Local Educational Agencies	84.010	\$ 744,138
Special Education Cluster (IDEA): Special Education-Grants to States	84.027	393,405
Supporting Effective Instruction State Grant	84.367	<u>66,210</u>
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>1,203,753</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 1,203,753</u>

The accompanying notes are an integral part of this schedule.

**TRECA DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of TRECA Digital Academy (TDA) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of TDA, it is not intended to and does not present the financial position, changes in net position, or cash flows of TDA.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. TDA has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.



Dave Yost • Auditor of State

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

TRECA Digital Academy
Marion County
100 Executive Drive
Marion, Ohio 43302

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of TRECA Digital Academy, Marion County, Ohio, (TDA), a component unit of the Metropolitan Educational Technology Association (META), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise TDA's basic financial statements and have issued our report thereon dated October 2, 2018, wherein we noted the fiscal year 2016 and 2017 full-time equivalency reviews performed by the Ohio Department of Education resulted in claw backs of foundation funding in the amounts of \$5,011,900 and \$3,291,067, respectively.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered TDA's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of TDA's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of TDA's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weakness. We consider findings 2017-002 and 2017-003 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether TDA'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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2017-001 and 2017-002.

TDA's Response to Findings

TDA's responses to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. We did not subject TDA's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of TDA's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering TDA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

October 2, 2018



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

TRECA Digital Academy
Marion County
100 Executive Drive
Marion, Ohio 43302

To the Board of Directors:

Report on Compliance for the Major Federal Program

We have audited TRECA Digital Academy's, Marion County, Ohio, (TDA), a component unit of the Metropolitan Educational Technology Association (META), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect TRECA Digital Academy's major federal program for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies TDA's major federal program.

Management's Responsibility

TDA's management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on TDA's compliance for TDA's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about TDA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on TDA's major program. However, our audit does not provide a legal determination on TDA's compliance.

Opinion on the Major Federal Program

In our opinion, TRECA Digital Academy complied, in all material respects with the requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2017.

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Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings as item 2017-004. Our opinion on the major federal program is not modified with respect to this matter.

TDA's response to our noncompliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit TDA's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

TDA's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered TDA's internal control over compliance with the applicable requirements that could directly and materially affect the major federal program, to determine our auditing procedures appropriate for opining on the major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of TDA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

October 2, 2018

**TRECA DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017**

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #84.010 – Title I Grants to Local Educational Agencies
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	No

**TRECA DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2017-001

**Noncompliance
Finding for Recovery – Resolved**

Section 5 “Ongoing Fees” of the Comprehensive Services/Operating Agreement (the Agreement) between the TRECA Digital Academy (TDA) and the Metropolitan Educational Technology Association (formerly Tri-Rivers Educational Computer Association (TRECA)) in effect during fiscal year 2016 and the first two months of fiscal year 2017 provides that in exchange for the services and support (including equipment) provided by META pursuant to this Agreement, TDA shall pay to META, on an ongoing basis, 100% of the funding received by TDA from the Ohio Department of Education (ODE) pursuant to section 3314.08 of the Ohio Revised Code.

Furthermore, **Ohio Rev. Code § 3314.08(H)** provides that ODE adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full year. The state board of education within ninety days after April 8, 2003, was obligated to act under Chapter 119 of the Revised Code to adopt rules governing the payments to community schools under this section including initial payments in a school year and adjustments and reductions made in subsequent periodic payments to community schools and corresponding deductions from school district accounts as provided under division (C) of this section.

Lastly, **ODE’s fiscal year 2017 Full-Time Equivalency (FTE) Review Manual** provides that in order to avoid significant adjustments at the end of the year or during FTE Review, schools should estimate the student’s “percent of time attended” upon enrollment, and document and follow a procedure to update the percent of time attended periodically. E-schools only receive credit for documented learning opportunities; missed days (both excused and unexcused absences) or assignments do not count as funded hours. A final adjustment will be made at the end of the school year to precisely reflect the student’s documented hours of participation in learning opportunities. ODE will continue to adjust the FTE used for the funding formula as the school updates its information throughout the year. At the close of the school’s fiscal year end, ODE will reconcile the Final FTE Foundation payments and determine whether the school has a corresponding receivable from or payable due to ODE based upon the accumulation of student FTE’s throughout the year.

For fiscal years 2016 and 2017, the results of the FTE reviews performed by ODE (and other enrollment adjustments made by ODE) resulted in foundation reductions in the amounts of \$5,011,900 and \$3,291,067 (of which, \$543,632 is attributable to July/August 2016, the period in which the above mentioned agreement with META was in effect) in 2016 and 2017, respectively. The above noted 2016 and 2017 FTE reviews were completed and/or communicated to the Academy on August 7, 2017 and August 23, 2017, respectively.

As a result of the fiscal year 2016 and 2017 foundation reductions and the terms of the Agreement between TDA and META, TDA overpaid META for services provided in the amount of \$5,555,532.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies due but not collected is hereby issued against the Metropolitan Educational Technology Association in the amount of \$5,555,532, in favor of TRECA Digital Academy’s General Fund.

Adjustments have been made to the financial statements to record this amount owed to TDA by META (refer to Finding 2017-003).

TRECA DIGITAL ACADEMY
MARION COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017
(Continued)

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2017-001 (Continued)

Noncompliance

Finding for Recovery – Resolved (Continued)

On July 1, 2018, the TDA Board of Directors entered into a settlement agreement with META. The terms of the settlement agreement and related promissory notes require that:

- On or before June 30, 2018, META shall pay TDA a lump sum payment of \$63,623.53;
- META shall then pay TDA \$680,000 in 23 monthly installments of \$28,000 and one monthly installment of \$36,000 with the first such monthly payment being due on or before August 1, 2018 and continuing on the first of each month thereafter until July 1, 2020;
- META will finally pay TDA a balloon payment in the amount of \$4,811,908.47 that shall be due on or before July 1, 2025;
- TDA will pay META a single lump sum payment in the amount of \$4,811,908.47 due on or before July 1, 2025.

Officials' Response

See Corrective Action Plan

FINDING NUMBER 2017-002

Noncompliance / Material Weakness

Controls for Identifying and Removing Duplicative Time

Ohio Rev. Code § 3314.08(C) provides the formula upon which community schools are funded on a full-time equivalency basis. In addition, § 3314.08(H) requires the department of education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. The processes for calculating full-time equivalency and any enrollment for less than the equivalent of a full school year used by the Ohio Department of Education (ODE) under Ohio Rev. Code § 3314.08(H) are reflected in its 2017 FTE Review Manual available on its website. In order for the school to receive accurate funding under Ohio Rev. Code § 3314.08(C), the school should follow the procedures outlined in this 2017 FTE Review Manual.

Ohio Rev. Code § 3314.08(H)(3) states, in part, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours.

In the case, *Electronic Classroom of Tomorrow v. Ohio Dept. of Edn.*, Slip Opinion No. 2018-Ohio-3126, the Ohio Supreme Court ruled "Ohio Department of Education has authority under R.C. 3314.08 to base funding of an e-school on the duration of student participation." ODE has established student participation criteria and documentation requirements for electronic community schools in their FTE Review Manual.

**TRECA DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2017-002 (Continued)

**Noncompliance / Material Weakness
Controls for Identifying and Removing Duplicative Time (Continued)**

Furthermore, **Ohio Rev. Code § 3314.27** states each internet- or computer-based community school shall keep an accurate record of each individual student's participation in learning opportunities each day. The record shall be kept in such a manner that the information contained within it easily can be submitted to the department of education, upon request by the department or the auditor of state.

Per the **Fiscal Year 2017 FTE Review Manual**, in order to avoid significant adjustments at the end of the year or during FTE Review, schools should estimate the student's "percent of time attended" upon enrollment, and document and follow a procedure to update the percent of time attended periodically. E-schools only receive credit for documented learning opportunities; missed days (both excused and unexcused absences) or assignments do not count as funded hours. A final adjustment will be made at the end of the school year to precisely reflect the student's documented hours of participation in learning opportunities. Ohio Department of Education (ODE) will continue to adjust the FTE used for the funding formula as the school updates its information throughout the year. At the close of the school's fiscal year end, ODE will reconcile the Final FTE Foundation payments and determine whether the school has a corresponding receivable from or payable due to ODE based upon the accumulation of student FTE's throughout the year. It is critical that schools accurately and timely report their student data to ODE in order for this reconciliation to be performed.

The **Fiscal Year 2017 FTE Review Manual** states that "eSchools may have systems that track learning opportunity participation that take place within the school's online system. If an eSchool's online system has this capability, then the school must produce Excel spreadsheets showing the daily/weekly/monthly accounting of learning opportunities and the final total of all online learning opportunities that the student participated in and were tracked by the eSchool's system."

TRECA Digital Academy (TDA) utilizes a Learning Management System (LMS), which captures the majority of student's on-line time, as well as student's documentation of any non-computer time to support the percent of time used to adjust the FTE reported in EMIS. TDA has established a "forced time out" function within the LMS that will force a student to log-out after 180 minutes of inactivity.

We selected five students to determine if the FTE reported matched the documented computer and non-computer time; as well as determine if the school reduced the documented computer time, if necessary, based on TDA's "forced time out" policy.

While TDA received an FTE review from ODE; in which there were no issues noted with the computer and non-computer time documented, we noted the following issues during our testing:

- Auditors determined that of the five students tested, the amount of idle time counted towards overall duration was 221,220 minutes out of a possible 320,869 minutes, or 68.94%. For the five students tested, the number of sessions in which a student was timed out by the LMS was 1,229 out of a possible 1,350 sessions, or 91.04%. Auditors noted that for two of the five students tested, they timed out of every recorded session in the LMS.

**TRECA DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2017-002 (Continued)

Noncompliance / Material Weakness

Controls for Identifying and Removing Duplicative Time (Continued)

- For the five students tested there were a total of 1,480 unique rows of data between three separate sources of duration. Of these 1,480 unique rows of data reviewed, 576 rows, or 38.92%, contained either overlapped or duplicated times.
- Several of the additional educational modules, outside the LMS, used to support time spent on the computer only showed the data in “aggregated” time and were not able to show the time each student spent on the computer in a manner to allow the school, ODE and the Auditor of State to determine if the time spent of these systems overlapped time documented in other on-line systems or documented off-line time.

If TDA does not properly reduce students’ FTE for the amount of time they are actively participating in educational activities, TDA may receive more funding than TDA is entitled to under State law.

We recommend TDA develop policies and implement procedures in order to identify, compile, and properly reduce durational data that is duplicative, non-educational, or excessively idle. Proper policies and procedures may help ensure that TDA reports the correct number of FTEs and that the State provides the correct amount of funding.

ODE receives a copy of this audit report. As a result of this issue, they may subsequently perform a FTE review over future years potentially impacting school funding.

Officials’ Response

See Corrective Action Plan

FINDING NUMBER 2017-003

Material Weakness

Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

**TRECA DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017
(Continued)**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2017-003 (Continued)

**Material Weakness
Financial Reporting (Continued)**

As noted in Finding 2017-001, there were discrepancies related to FTE reviews completed by ODE. As a result, adjustments were made to the June 30, 2017 financial statements to properly record an \$8,301,822 Intergovernmental Payable misclassified as Deferred Inflows of Resources and to record an \$5,555,532 Intergovernmental Receivable to report the amount owed to TDA by META. In addition to the adjustments listed above, we also identified additional misstatements ranging from \$49,349 to \$210,985 that we have brought to TDA's attention.

By not properly recording transactions, inaccurate financial reports could be disseminated to the governing board and management as well as financial statement readers.

We recommend TDA implement internal control procedures over financial reporting to help ensure the completeness and accuracy of financial information reported within TDA's financial report. The adjustments identified during the audit should be reviewed by the Treasurer to ensure that similar errors are not reported on the financial statements in subsequent years. In addition, the Board of Directors should review the financial statements and note disclosures to identify and correct errors and omissions.

Officials' Response
See Corrective Action Plan

**TRECA DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2017-004		
CFDA Title and Number	Title I Grants to Local Educational Agencies (#84.010)		
Federal Award Identification Number / Year	2017		
Federal Agency	Department of Education		
Compliance Requirement	Other		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number (if repeat)	N/A

Noncompliance

2 C.F.R. § 3474.1 gives regulatory effect to the Department of Education for 2 C.F.R. Part 200, which sets forth standards for the audit of non-Federal entities expending Federal awards. Furthermore, 2 C.F.R. Part 200.510(b) provides that the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502. At a minimum, the schedule must:

1. List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For Research and Development, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency.
2. For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
3. Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
4. Include the total amount provided to subrecipients from each Federal program.
5. For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
6. Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs.

TRECA DIGITAL ACADEMY
MARION COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017
(Continued)

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number	2017-004 (Continued)
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The original schedule of expenditures of federal awards prepared by TDA for fiscal year 2017 required the following modifications:

Grant	Expenditures Originally Reported	Expenditures after Adjustments
Title I Grants to Local Educational Agencies (#84.010)	\$628,675	\$744,138
IDEA-B Special Education-Grants to States (#84.027)	\$359,273	\$393,405

Failure to identify federal awards and accurately prepare a schedule of expenditures of federal awards may result in noncompliance with the 2 C.F.R. Part 200 and may compromise TDA's ability to obtain federal awards in the future.

We recommend TDA implement procedures to track and readily identify the disbursement of all federal awards. TDA should use this information to ensure accurate preparation of the schedule of expenditures of federal awards at year end.

Officials' Response

See Corrective Action Plan



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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
 2 CFR 200.511(b)
 JUNE 30, 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	Monitoring of Financial Transactions	Fully Corrected	The school corrected this finding prior to the release of the fiscal year 2016 audit.
2016-002	Full-Time Equivalent Reporting in EMIS	Partially Corrected	<p>Repeated as Finding 2017-002. The school has, in conjunction with legal counsel, reviewed the statutory requirements and ODE's most recent FTE Manual to determine what documentation is needed to support the FTE data reported for each student. The school, along with most other e-schools in the state, remains uncertain about what ODE considers necessary to support FTE. The FTE Manual fails to provide clear and sufficient explanations as to how e-schools can support FTE, particularly when reviewers have discretion in interpreting the sufficiency of support. Nonetheless, the school took immediate corrective actions that address the issues now identified in findings 2016-002 and 2017-002. As a result of fiscal years 2016 and 2017 FTE Reviews with the Ohio Department of Education, procedures were reviewed to examine how to more effectively monitor both computer-based and non-computer-based learning opportunities. Actions stemming from this examination led to the creation and implementation of a new documentation system to be internally used by teachers and school support staff to document learning opportunities on a regular basis. This additional documentation, in conjunction with existing computer-based tracking, will lead to more comprehensive analysis and collection of student learning time.</p> <p>As discussed in finding 2016-002, the school implemented new software on all assigned school computers to monitor learning opportunities in far greater detail. The school has taken corrective actions to reduce the amount of duplicative time reported. Such actions include working with the Learning Management System vendor to reduce idle time and prohibit simultaneous sessions. In addition, the school has allocated resources to pull the data weekly (rather than monthly) to reduce duplicative aggregate time reporting.</p> <p>The school will more clearly outline policies and procedures in regards to time documentation. Further steps will be taken to ensure that the most accurate and robust data is produced for identifying FTEs in compliance with the Ohio Department of Education requirements.</p>



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**CORRECTIVE ACTION PLAN
 2 CFR § 200.511(c)
 JUNE 30, 2017**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	<p>Currently, the contract between TRECA Digital Academy and its sponsor Tri-Rivers Career Center is the only agreement to which TRECA Digital Academy is a party where charges are based upon a percentage of FTEs. ORC 3314.029 states that a sponsor contract may provide for the school's governing authority to pay a fee for oversight and monitoring of the school that does not exceed three per cent of the total amount of payments for operating expenses that the school receives from the state. A new Sponsorship Agreement was entered into May 9, 2018, and includes a refund clause to ensure that any overpayments to Tri-Rivers Career Center based on an FTE adjustments by the Ohio Department of Education, are refunded to TRECA Digital Academy. TRECA Digital Academy did not pay fees to Tri-Rivers Career Center until January 1, 2017. Through deduction from the current sponsorship fee, TRECA Digital Academy is currently recovering overpaid fees made to Tri-Rivers Career Center from the overpayment period.</p> <p>Moving forward TRECA Digital Academy will include in any contract with payment based on FTE a method for reconciliation and repayment. Additionally, TRECA Digital Academy will adopt an FTE True-up Policy to address such situations.</p>	Already Completed	Adam Clark Jessica Wake
2017-002	The School will more clearly outline policies and procedures in regards to time documentation. We will continue to work with the Learning Management System provider to ensure that the most accurate and robust data is produced for identifying FTEs in compliance with the Ohio Department of Education requirements.	June 30, 2018	Adam Clark



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CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2017
 (Continued)

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-003	<p>TRECA Digital Academy's clawback deductions began September 2017. During this timeframe, the financial statements were in the beginning stages for the fiscal year ending June 30, 2017. Treatment of the clawback was a learning process for all involved, as it was a unique event in the history of TRECA Digital Academy's existence. At the time the financial statements were prepared, fall 2017, AOS guidance regarding recovering amounts owed from vendors was just released. After consulting with legal counsel about the appropriate interpretation and implementation, TRECA Digital Academy promptly began to follow the new procedures. On October 18, 2017 TRECA Digital Academy began invoicing META Solutions for \$5,555,532, with uncertainty that META Solutions would, in fact, pay. Thus at the time, it was unclear that the \$5,555,532 would be recognized and received. Over the following months TRECA Digital Academy continued to invoice META Solutions and engaged META in conversations regarding collecting the amount. Not until spring 2018, did TRECA Digital Academy get the impression that this amount could possibly be recovered from META Solutions. Spring 2018 META Solutions began discussions with TRECA Digital Academy about a settlement agreement in response to the continued invoices. On August 8, 2018 a settlement with META Solutions was reached.</p>	Already Completed	Jessica Wake
2017-004	<p>The school separated from its Operator on January 1, 2017. The Operator maintained fiscal operations of the school from the school's inception through June 30, 2017. Due to the separation of entities, expenditure data was pulled together from three accounting software systems, which were maintained by contracted treasurer services. The school now has one set of books, which accounts solely for the operation of TRECA Digital Academy. The school has employed a full-time treasurer as of July 1, 2018, to ensure that all transactions are recorded accurately, and to the appropriate funds.</p>	July 1, 2018	Jessica Wake

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Dave Yost • Auditor of State

TRECA 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
DECEMBER 11, 2018**