



**Auditor of State
Betty Montgomery**

**TRECA DIGITAL ACADEMY
MARION COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

TRECA Digital Academy
Marion County
2222 Marion-Mt. Gilead Road
Marion, Ohio 43302

To the Board of Directors:

We have audited the accompanying basic financial statements of the TRECA Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Tri-Rivers Educational Computer Association, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TRECA Digital Academy, Marion County, Ohio, as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2003, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form an opinion on the Academy's basic financial statements. The federal awards receipts and expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the federal awards receipts and expenditures schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

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

BETTY MONTGOMERY
Auditor of State

March 7, 2003

TRECA Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
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, 2002. Readers should also review the basic financial statements and notes to enhance their understanding of TDA's financial performance.

Highlights

TDA began its first year of operation in fiscal year 2002. We are very proud that in our first year of operation we had six hundred forty-four students complete the program. TDA is an Online Internet School; therefore, it requires each student to have a computer, printer, and scanner to participate in TDA's curriculum. TDA's charter has provisions for TDA to provide this equipment to students. As a result, TDA found it necessary to enter into a multi-year lease in order fulfill student equipment needs.

Using the Basic Financial Statements

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

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how TDA did financially during fiscal year 2002. 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 assets and changes in those assets. This change in net assets 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.

TRECA Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Table 1 provides a summary of TDA's net assets for fiscal year 2002:

Table 1
Net Assets
(In Thousands)

<u>Assets:</u>	
Current and Other Assets	\$309
Capital Assets, Net	670
Total Assets	<u>979</u>
 <u>Liabilities:</u>	
Current Liabilities	1,446
Long-Term Liabilities	121
Total Liabilities	<u>1,567</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	92
Unrestricted	<u>(680)</u>
Total Net Assets	<u><u>(\$588)</u></u>

TDA had deficit net assets of \$588 thousand as a result of its first year of operations. TDA receives Foundation payments from the State based on the number of full-time equivalency students. As a result of estimating qualifying students for the first year of operations, TDA received unearned revenue, in the amount of \$492 thousand, which is reflected as deferred revenue. The Foundation payments to TDA will be reduced through fiscal year 2006 to offset this overpayment.

TRECA Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Table 2 reflects the changes in net assets for fiscal year 2002.

Table 2
Change in Net Assets
(In Thousands)

<u>Operating Revenues</u>	
Foundation	\$3,255
<u>Non-Operating Revenues</u>	
Operating Grants	472
Interest Revenue	2
Total Revenues	3,729
 <u>Operating Expenses</u>	
Fringe Benefits	609
Purchased Services	3,067
Materials and Supplies	338
Depreciation	251
Other Operating Expenses	3
<u>Non-Operating Expenses</u>	
Interest Expense	49
Total Expenses	4,317
Total Decrease in Net Assets	(\$588)

The TDA had deficit net assets at June 30, 2002, of \$588 thousand. Revenue for fiscal year 2003 will increase approximately \$1.25 million since the TDA has enrolled an additional two hundred fifty students for fiscal year 2003. (The State funding amount paid to a community school for one student is \$4,949.) In addition to the increased revenue in fiscal year 2003, the TDA has not incurred legal expenses incurred in fiscal year 2002 relating to the start up of the TDA and the TDA will not have additional computer expenses for the new students enrolled in fiscal year 2003 because enough computers were purchased in fiscal year 2002.

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2002, TDA had \$670 thousand invested in capital assets (net of accumulated depreciation). Capital assets consist principally of computers TDA provides to its students for instructional purposes. For further information regarding TDA's capital assets, refer to Note 5 to the basic financial statements.

Debt

At June 30, 2002, TDA had an outstanding capital lease, in the amount of \$578 thousand, to finance computers. The lease is being paid monthly, with final maturity in fiscal year 2004. For further information regarding TDA's debt, refer to Notes 9 and 10 to the basic financial statements.

TRECA Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Current Issues

Enrollment has increased by approximately 250 students in fiscal year 2003 due to greater knowledge of TDA's existence throughout the State of Ohio and our reputation of being a good alternative for educational opportunities for Ohio students.

As previously mentioned, TDA received an overpayment of Foundation during fiscal year 2002, in the amount of \$492,138. As a result, TDA will receive reduced payments through fiscal year 2006 to offset this overpayment.

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 Linda Phillips, Treasurer, TRECA Digital Academy, 2222 Marion-Mt. Gilead Road, Marion, Ohio 43302.

TRECA Digital Academy
Statement of Net Assets
June 30, 2002

Assets:

Current Assets:

Cash and Cash Equivalents	\$194,540
Intergovernmental Receivable	114,672
Total Current Assets	<u>309,212</u>

Non-Current Assets:

Depreciable Capital Assets, Net	670,071
Total Assets	<u>979,283</u>

Liabilities:

Current Liabilities:

Accounts Payable	232,334
Due to TRECA	185,654
Fringe Benefits Payable	26,228
Intergovernmental Payable	52,722
Deferred Revenue	492,138
Capital Leases Payable	457,610
Total Current Liabilities	<u>1,446,686</u>

Long-Term Liabilities:

Capital Leases Payable	120,707
Total Liabilities	<u>1,567,393</u>

Net Assets:

Invested in Capital Assets, Net of Related Debt	91,754
Unrestricted (Deficit)	(679,864)
Total Net Assets (Deficit)	<u><u>(\$588,110)</u></u>

See Accompanying Notes to Basic Financial Statements

TRECA Digital Academy
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002

<u>Operating Revenues:</u>	
Foundation	<u>\$3,254,602</u>
 <u>Operating Expenses:</u>	
Fringe Benefits	609,452
Purchased Services	3,066,538
Materials and Supplies	338,303
Depreciation	250,695
Other Operating Expenses	2,862
Total Operating Expenses	<u>4,267,850</u>
 Operating Loss	 <u>(1,013,248)</u>
 <u>Non-Operating Revenues (Expenses):</u>	
Operating Grants	472,347
Interest Revenue	1,945
Interest Expense	(49,154)
Total Non-Operating Revenues (Expenses)	<u>425,138</u>
 Change in Net Assets	 (588,110)
 Net Assets at Beginning of Year	 <u>0</u>
Net Assets (Deficit) at End of Year	<u><u>(\$588,110)</u></u>

See Accompanying Notes to the Basic Financial Statements

TRECA Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$3,746,740
Cash Payments for Fringe Benefits	(536,481)
Cash Payments for Goods and Services	(2,980,874)
Cash Payments for Other Operating Expenses	(2,862)
Net Cash Provided by Operating Activities	<u>226,523</u>

Cash Flows from Noncapital Financing Activities:

Cash Received from Operating Grants	<u>357,675</u>
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Cash Flows from Capital and Related Financing Activities:

Cash Payments for Capital Assets	(24,244)
Cash Payments for Lease Principal	(318,205)
Cash Payments for Lease Interest	(49,154)
Net Cash Used for Capital and Related Financing Activities	<u>(391,603)</u>

Cash Flows from Investing Activities:

Cash Received from Interest	<u>1,945</u>
-----------------------------	--------------

Net Increase in Cash and Cash Equivalents	194,540
Cash and Cash Equivalents at Beginning of Year	<u>0</u>
Cash and Cash Equivalents at End of Year	<u><u>\$194,540</u></u>

Reconciliation of Operating Loss

to Net Cash Used for Operating Activities:

Operating Loss	(\$1,013,248)
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Adjustments to Reconcile Operating Loss

to Net Cash Provided by Operating Activities:

Depreciation	250,695
Changes in Assets and Liabilities:	
Increase in Accounts Payable	232,334
Increase in Due to TRECA	185,654
Increase in Fringe Benefits Payable	26,228
Increase in Intergovernmental Payable	52,722
Increase in Deferred Revenue	492,138
Net Cash Provided by Operating Activities	<u><u>\$226,523</u></u>

Non-Cash Transactions

During the fiscal year, the TDA acquired \$896,522 of capital assets under a capital lease.

See Accompanying Notes to the Basic Financial Statements

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TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

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), with Tri-Rivers Educational Computer Association (TRECA) as the Governing Authority for a five year period commencing July 30, 2001. The Sponsor is responsible for evaluating the performance of TDA and has the authority to deny renewal of the contract at its expiration.

TDA operates under the direction of a seven-member (five voting member) Board of Directors made up of area school district superintendents. The Board of Directors is the same as that of the TRECA; therefore, TDA is a component unit of TRECA. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. TRECA, under a contractual agreement, provides instructional staff and support faculty to TDA. Thus, TDA does not have employees. TRECA currently pays the salaries for these individuals, but TDA is paying for fringe benefits and retirement. TDA provides services to six hundred forty-four students.

TRECA is an association of public school districts within the boundaries of Clark, Cuyahoga, Delaware, Hamilton, Knox, Mahoning, Marion, Morrow, Muskingum, Summit, Trumbull, Union, and Wyandot Counties. 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 TRECA 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.

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. TDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of TDA's accounting policies.

A. Basis of Presentation

TDA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; 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, changes in net assets, 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

The 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 assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. 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, is 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. 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.

Note 2 - Summary of Significant Accounting Policies (continued)

E. Cash

Cash received by TDA is reflected as “Cash and Cash Equivalents” on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2002, TDA had no investments.

F. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market 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. Furniture is depreciated over ten years, and computers are depreciated over three years.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by TDA or 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 which both restricted and unrestricted net assets are available. TDA did not have any restricted net assets at fiscal year end.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of TDA. 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. 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.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 3 - Deposits

At fiscal year end, TDA had \$1,675 in undeposited cash on hand which is included as part of “Cash and Cash Equivalents”.

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

At fiscal year end, the carrying amount of TDA’s deposits was \$192,865 and the bank balance was \$366,096. Of the bank balance, \$100,000 was covered by federal depository insurance and \$266,096 was uninsured and uncollateralized. Non-compliance with federal requirements could potentially subject TDA to a successful claim by the FDIC. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 4 - Receivables

All receivables at June 30, 2002, were intergovernmental receivables which are expected to be collected in full and within one year.

	Amount
Eisenhower	\$1,886
Title I	104,812
Title VI	3,490
Title VI R	4,484
Total	\$114,672

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02
Depreciable Capital Assets				
Furniture and Equipment	\$0	\$920,766	\$0	\$920,766
Less Accumulated Depreciation	0	(250,695)	0	(250,695)
Capital Assets, Net	\$0	\$670,071	\$0	\$670,071

Note 6 - Defined Benefit Pension Plans

A. State Teachers Retirement System

TDA contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and TDA is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. TDA's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2002, the first year of operation, was \$147,317; 83 percent has been contributed for fiscal year 2002. The unpaid contribution for fiscal year 2002, in the amount of \$24,389, is recorded as a liability.

B. School Employees Retirement System

TDA contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and TDA is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. TDA's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2002, the first year of operation, was \$5,588; 100 percent has been contributed for fiscal year 2002.

Note 7 - Postemployment Benefits

TDA provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 7 - Postemployment Benefits (continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For TDA, this amount was \$69,782.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit, must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For TDA, the amount to fund health care benefits, including surcharge, was \$8,740 for fiscal year 2002.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), was \$161,439,934, and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Note 8 - Other Benefits

TDA provides medical, dental, and vision insurance benefits through the Tri-Rivers Joint Vocational School Self Insurance program.

TDA also provides life insurance through the Union Central Life Insurance Company.

Note 9 - Long-Term Obligations

Changes in TDA's long-term obligations during fiscal year 2002 were as follows:

	Balance at 6/30/01	Additions	Reductions	Balance at 6/30/02	Amount Due Within One Year
Capital Lease	\$0	\$896,522	\$318,205	\$578,317	\$457,610
	\$0	\$896,522	\$318,205	\$578,317	\$457,610

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 10 - Capitalized Lease - Lessee Disclosure

TDA has entered into a capitalized lease for computers. This meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments in 2002 were \$318,205.

Property under Capital Lease	\$896,522
Less Accumulated Depreciation	(249,024)
Total June 30, 2002	\$647,498

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of minimum lease payments as of June 30, 2002.

Year	Amount
2003	\$489,812
2004	122,453
	612,265
Less Amount Representing Interest	(33,948)
Present Value of Net Minimum Lease Payments	\$578,317

Note 11 - Purchased Services

The purchased services account in the financial statements is made up of various expenses as follows:

Payroll	\$1,702,823
Administrative Services	412,871
Legal Services	233,783
Utilities	228,570
Technology Services	158,884
Advertising	75,787
Travel	72,080
Miscellaneous	181,740
	\$3,066,538

Note 12 - Fiscal Agent

The sponsorship agreement states the Treasurer of the Governing Authority shall serve as the Treasurer of TDA. As part of this agreement, TDA shall compensate the Governing Authority 3 percent of the per pupil allocation (foundation) paid to TDA by the State of Ohio.

The Treasurer of the Governing Authority shall perform the following functions while serving as the Treasurer of TDA:

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

Note 13 - State Foundation

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which foundation funding is calculated.

For the fiscal year ended June 30, 2002, TDA received an overpayment of \$492,138. This amount has been recorded as deferred revenue on the statement of net assets. TDA will receive reduced foundation payments through fiscal year 2006 to offset this overpayment.

Note 14 - Related Party Transactions

The seven-member board of the Tri-Rivers Educational Computer Association, the Governing Authority, governs TDA. This makes TDA a component unit of the Governing Authority. As part of TDA's contractual agreement with the Governing Authority, TDA is required to pay the Governing Authority 3 percent of the per pupil allocation paid to TDA from the State of Ohio for various services and support. In fiscal year 2002, this amount was \$121,072.

Note 15 - State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

TRECA Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002

Note 16 - Contingencies

A. Grants

The School 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, 2002.

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community Schools Program violates the State's Constitution and State laws. The effect, if any, on TDA is not presently determinable.

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**TRECA DIGITAL ACADEMY
MARION COUNTY
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Ohio Charter Schools - Sub-Grant	143305 - CHS1-2002	84.282	\$ 350,000	\$ -	\$350,000	\$ -
Total U.S. Department of Education			<u>350,000</u>	<u>-</u>	<u>350,000</u>	<u>-</u>
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$350,000</u>	<u>\$ -</u>

The accompanying notes to this schedule are an integral part of this schedule.

**TRECA DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures summarizes the activity of the Academy's federal award programs. The schedule has been prepared on the cash basis of accounting.



Auditor of State Betty Montgomery

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

TRECA Digital Academy
Marion County
2222 Marion-Mt. Gilead Road
Marion, Ohio 43302

To the Board of Directors:

We have audited the basic financial statements of the TRECA Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Tri-Rivers Educational Computer Association, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-10651-001 and 2002-10651-002. We also noted immaterial instances of noncompliance that we have reported to management of the Academy in a separate letter dated March 7, 2003.

Internal Control Over Financial Reporting

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

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However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated March 7, 2003.

This report is intended for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

BETTY MONTGOMERY
Auditor of State

March 7, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TRECA Digital Academy
Marion County
2222 Marion-Mt. Gilead Road
Marion, Ohio 43302

To the Board Directors

Compliance

We have audited the compliance of the TRECA Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Tri-Rivers Educational Computer Association, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Academy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Academy's management. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

BETTY MONTGOMERY
Auditor of State

March 7, 2003

**TRECA DIGITAL ACADEMY
MARION COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

**FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2002-10651-001

Liability Insurance

Ohio Rev. Code Section 3314.03(11)(b) requires that the governing authority of each community school obtain liability insurance, or otherwise provide for the potential liability of the school. Additionally, the Academy's contract with its Sponsor requires the Academy to obtain liability insurance coverage.

The Academy was unable to obtain a liability insurance policy, and did not otherwise provide for the potential liability of the school through a designation of fund balance for contingencies or another method.

We recommend that the Academy either obtain liability insurance coverage, or otherwise provide for its potential liability.

FINDING NUMBER 2002-10651-002

Reporting Requirement

Ohio Rev. Code Section 3314.03(A)(11)(g) requires community schools to submit an annual report of its activities and progress in meeting the goals and standards of Ohio Rev. Code Section 3314.03, divisions (A) (3) and (4) (which are the academic goals method to determine the progress and performance standards to evaluate a school's success) and its financial status to the sponsor, the parents of all students enrolled, and the legislative office of oversight. Additionally, the Academy's contract with its Sponsor states that the report will be submitted to the Office of School Options and the Legislative Office of Education Oversight by August 15th of each year.

The Academy did not file its annual report of activities and progress and its financial status to the sponsor, the parents of all students enrolled in the school, the Office of School Options and the Legislative Office of Education Oversight.

We recommend the Academy file this report with the appropriate parties to ensure compliance with the Ohio Revised Code.



**Auditor of State
Betty Montgomery**

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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
APRIL 15, 2003**