



**Auditor of State
Betty Montgomery**

**GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

GOAL Digital Academy Community School
Morrow County
145 ½ N. Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

To the Board of Directors:

We have audited the accompanying basic financial statements of GOAL Digital Academy Community School, Morrow County, Ohio, (the School), a component unit of Mount Gilead Exempted Village School District, Morrow County, Ohio, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School'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 GOAL Digital Academy Community School, a component unit of Mount Gilead Exempted Village School District, as of June 30, 2004, 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.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2005, on our consideration of the School'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.

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 18, 2005

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The management's discussion and analysis of The GOAL Digital Academy Community School's (the "GDA") financial performance provides an overall review of the GDA's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the GDA's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the GDA's financial performance.

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets were \$158,559 at June 30 2004.
- The GDA had operating revenues of \$244,229 and operating expenses of \$363,848 for fiscal year 2004. Operating loss and the change in net assets for the fiscal year was \$(119,619) and \$45,722, respectively.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the GDA's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expense and Changes in Net Assets* provide information about the activities of the GDA, including all short-term and long-term financial resources and obligations.

Reporting the GDA Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the GDA's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the GDA as a whole, the *financial position* of the GDA has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report. The statement of cash flows can be found on page 9.

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

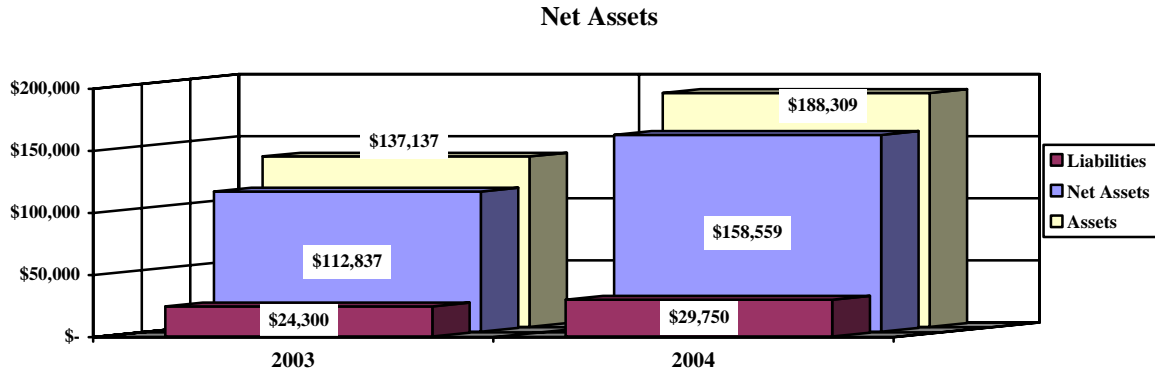
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

The table below provides a summary of the GDA's net assets for 2004 and 2003.

	Net Assets	
	2004	2003
<u>Assets</u>		
Current assets	\$ 61,578	\$ 111,493
Capital assets, net	126,731	25,644
Total assets	188,309	137,137
<u>Liabilities</u>		
Liabilities	29,750	24,300
Total liabilities	29,750	24,300
<u>Net Assets</u>		
Invested in capital assets	126,731	25,644
Restricted	2,171	
Unrestricted	29,657	87,193
Total net assets	\$ 158,559	\$ 112,837

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the GDA's net assets totaled \$158,559, a 40.52% increase over fiscal 2003. This increase is largely due to the purchase of computer equipment for students with the Federal Start Up Grants received in fiscal years 2003 and 2004.

At year-end, capital assets represented 67.30% of total assets. Capital assets consisted of furniture and equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.



**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)

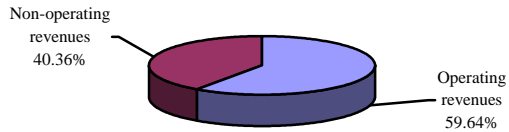
The table below shows the changes in net assets for fiscal year 2004 and 2003.

Change in Net Assets

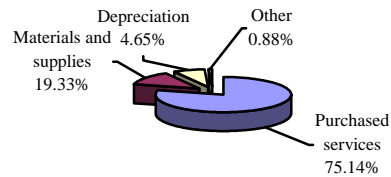
	<u>2004</u>	<u>2003</u>
<u>Operating Revenues:</u>		
State foundation	<u>\$ 244,229</u>	<u>\$ 139,371</u>
Total operating revenue	<u>244,229</u>	<u>139,371</u>
<u>Operating Expenses:</u>		
Purchased services	273,419	190,218
Materials and supplies	70,315	17,185
Depreciation	16,902	3,658
Other	<u>3,212</u>	<u>1,773</u>
Total operating expenses	<u>363,848</u>	<u>212,834</u>
<u>Non-operating revenues:</u>		
State and federal grants	160,341	186,300
Other local revenue	<u>5,000</u>	<u>-</u>
Total non-operating revenues	<u>165,341</u>	<u>186,300</u>
Change in net assets	<u>\$ 45,722</u>	<u>\$ 112,837</u>

The charts below illustrate the revenues and expenses for the GDA during fiscal years 2004 and 2003. Overall operating revenues and expenditures increased in 2004 due to the increase in students enrolled at the GDA during its second full year of operation.

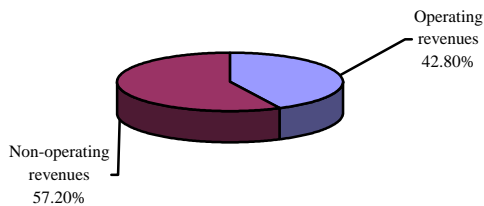
2004 Revenues



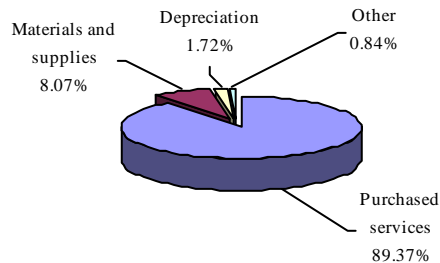
2004 Expenses



2003 Revenues



2003 Expenses



**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Capital Assets

At June 30, 2004, the GDA had \$126,731 invested in furniture and equipment. See Note 5 to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The GDA is a conversion community school sponsored by and is a component unit of the Mt. Gilead Exempted Village School District. The sponsorship currently runs through 2007. It is anticipated that this sponsorship will be renewed.

Contrary to most traditional schools the GDA is a less labor-intensive endeavor. Also, unlike traditional schools, a community school cannot levy any taxes and must survive on state revenues and donations. At this time the GDA relies solely on State funding for their resources. There are no immediate financial concerns outside of controlling health insurance premiums and utility costs. That being stated, the GDA's five-year forecast is very healthy and no budgetary cuts, nor additional resources outside of the State, are projected in the upcoming five-years.

The GDA is committed to operating within its financial means, and to working with the local community and agencies it serves to provide the required educational programs for these students.

Contacting the GDA Treasurer

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the GDA's finances and to show the GDA's accountability for the resources it receives. If you have any questions, or concerns, about this report or need additional financial information, contact Steve Earnest, Treasurer, at GOAL Digital Academy, 145 ½ North Cherry Street, Mt. Gilead, OH 43338, or at Stephen_e@treca.org.

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 47,733
Receivables:	
Intergovernmental	13,845
Total current assets.	<u>61,578</u>
Noncurrent assets:	
Capital assets, net	<u>126,731</u>
Total assets	<u>188,309</u>
Liabilities:	
Accounts payable	19,048
Intergovernmental payable	<u>10,702</u>
Total liabilities	<u>29,750</u>
Net Assets:	
Invested in capital assets	126,731
Restricted for:	
Other purposes	2,171
Unrestricted	<u>29,657</u>
Total net assets.	<u><u>\$ 158,559</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Operating revenues:	
State foundation.	\$ 244,229
<hr/>	
Total operating revenues	244,229
 Operating expenses:	
Contract services	273,419
Materials and supplies	70,315
Depreciation	16,902
Other	3,212
<hr/>	
Total operating expenses	363,848
Operating loss.	(119,619)
 Nonoperating revenues:	
State and federal grants	160,341
Other local revenue	5,000
<hr/>	
Total nonoperating revenues.	165,341
Change in net assets	45,722
Net assets at beginning of year	112,837
<hr/>	
Net assets at end of year	\$ 158,559
<hr/>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Cash flows from operating activities:	
Cash received from state foundation	\$ 254,931
Cash payments for contractual services	(272,294)
Cash payments for materials and supplies	(76,692)
Cash payments for other expenses	<u>(3,212)</u>
Net cash used in operating activities	<u>(97,267)</u>
Cash flows from noncapital financing activities:	
Cash received state and federal grants	251,496
Cash received from other local revenue	<u>5,000</u>
Net cash provided by noncapital financing activities.	<u>256,496</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(117,989)</u>
Net cash used in capital and related financing activities.	<u>(117,989)</u>
Net increase in cash and cash equivalents	41,240
Cash and cash equivalents at beginning of year . . .	<u>6,493</u>
Cash and cash equivalents at end of year	<u><u>\$ 47,733</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss.	\$ (119,619)
Adjustments:	
Depreciation	16,902
Changes in assets and liabilities:	
Decrease in accounts payable	(5,252)
Increase in intergovernmental payable	<u>10,702</u>
Net cash used in operating activities	<u><u>\$ (97,267)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL

The GOAL Digital Academy (the "GDA") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The GDA 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 their tax exempt status. The GDA'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 Mount Gilead Exempted Village School District 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 other, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The GDA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The GDA may acquire facilities as needed and contract for any services necessary for the operation of the school.

The GDA was certified by the State of Ohio Secretary of State as a non-profit organization on April 23, 2002. The GDA was approved for operation under a contract with the Mount Gilead Exempted Village School District (the "Sponsor") for a five year period commencing September 4, 2002. The Sponsor is responsible for evaluating the performance of the GDA and has the authority to deny renewal of the contract at its expiration.

The GDA operates under the direction of a seven-member Board of Directors made up of members appointed by the Mount Gilead Exempted Village School District Board of Education; therefore, GDA is a component of Mount Gilead Exempted Village School District. The Board of Directors consists of the Mount Gilead Exempted Village School District superintendent and treasurer, the Director of the Tomorrow Center, the technology director, a teacher/director, and two board members appointed by the Mount Gilead Exempted Village School District's Board of Education. The treasurer and any members of the Mount Gilead Exempted Village School District's Board of Education that may be appointed shall be a non-voting ex officio member of GDA's Board of Directors. 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. The Superintendent of Mount Gilead Exempted Village School District is the Chief Administrative Officer of GDA and the Treasurer of Mt. Gilead Exempted Village School District is the Chief Financial Officer.

The GDA has developed a cooperative arrangement with the Sponsor.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the GDA have been prepared in conformity with accounting principles generally accepted in the United States of America (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. The GDA also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The GDA has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The GDA's significant accounting policies are described below.

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

A. Basis of Presentation

The GDA's 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.

GDA uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows reflects how GDA finances meet its cash flows needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is utilized for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which GDA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which GDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to GDA on a reimbursement basis. Expense are recognized at the time they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the GDA and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash and Investments

All monies received by the GDA are deposited in Mount Gilead Exempted Village School District's (the Sponsor) demand deposit account. No specific cash and investments of the Sponsor are assigned to the GDA. Cash balances on hand with the Sponsor are maintained as part of the Sponsors cash pool. For purposes of the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased are considered to be cash equivalents.

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

E. Capital Assets and Depreciation

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. The GDA maintains a capitalization threshold of \$500 for nontechnical and audio/visual equipment and \$200 for technical and audiovisual equipment. The GDA 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. Equipment is depreciated over five to fifteen years.

F. Operating Revenues and Expenses

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

G. Intergovernmental Revenue

The GDA currently participates in the State Foundation Program, the Federal Charter School Grant Program through the Ohio Department of Education, the State Community School Grant, and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from the State Foundation program are recognized as operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

H. Estimates

The preparation of financial statements in conformity with GAAP 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 - ACCOUNTABILITY

Changes in Accounting Principles

For fiscal year 2004, the GDA has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB Statement No. 34 creates new basic financial statements for reporting on the GDA's financial activities. The basic financial statements include government-wide financial statements prepared on the accrual basis of accounting.

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 3 – ACCOUNTABILITY- (Continued)

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management’s Discussion and Analysis.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

The implementation of these statements had no effect on net assets at June 30, 2003.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

The GDA has agreed to follow state statute investment requirements of its sponsor, Mt. Gilead Exempted Village School District. At June 30, 2004, the GDA had no investments. However, the carrying amount of cash in the sponsor’s cash pool is noted below.

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 year-end the carrying amount of the GDA’s deposits on hand with the Sponsor was \$47,733. The balance was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to Section 135.81, Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the GDA. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the GDA to a successful claim by the FDIC.

NOTE 5 - CAPITAL ASSETS

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

	Balance 6/30/03	Additions	Disposals	Balance 6/30/04
Furniture and equipment	\$ 29,302	\$117,989	\$ -	\$147,291
Less: accumulated depreciation	(3,658)	(16,902)	-	(20,560)
Net fixed assets	\$ 25,644	\$101,087	\$ -	\$126,731

NOTE 6 - RECEIVABLES

The GDA participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$150,000 during the year ended June 30, 2004 to offset start-up costs of the GDA. Revenue received from this program is recognized as grants in the accompanying financial statements. Of this award, \$13,845 was receivable at June 30, 2004. This amount is presented as an intergovernmental receivable on the statement of net assets. All intergovernmental receivables are considered collectible in full due to the current year guarantee of Federal funds.

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 7 - RISK MANAGEMENT

The GDA 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. On February 1, 2003, the GDA was named as an additional insured party on Mt. Gilead Exempted Village School District's, the Sponsor, insurance policy with Indiana Insurance for general liability insurance and property insurance. The entire risk of loss; less any deductibles, transfers to the commercial carrier. The following limits and deductibles are in aggregate for both GDA and the Sponsor. Indiana Insurance provides general liability coverage. The general liability coverage insures up to \$1,000,000 each occurrence and \$2,000,000 aggregate. In addition, a \$2,000,000 per occurrence and aggregate policy was also underwritten by Indiana Insurance.

Indiana Insurance provides property, crime, and equipment breakdown insurance coverage. The property coverage insures up to a blanket limit of \$28,085,616 with a \$1,000 deductible, commercial crime covers up to \$10,000. The limits and deductibles stated above are in aggregate for both GDA and the sponsor.

NOTE 8 - CONTINGENCIES

A. Grants

The GDA 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 the GDA at June 30, 2004.

B. Litigation

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

C. State School Funding Decision

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

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

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 9 - SERVICE CONTRACT

The Mount Gilead Exempted Village School District and GDA entered into a service contract effective for the 2003-2004 school year. This agreement states that GDA will contract for educational services from the Mount Gilead Exempted Village School District Board of Education and reimburse the Board of Education for these services. The Mount Gilead Exempted Village School District agreed to provide the requested services and receive reimbursement for GDA pursuant to Ohio Revised Code Section 3317.11.

Mount Gilead Exempted Village School District's Board of Education agreed to provide the following services for GDA:

1. Instructional services for all grade levels.
2. Collaboration for staff development programs for certified and non-certified staff.
3. Planning and consultative services for curriculum development.
4. Psychological services as needed for re-evaluations and initial multi-factored evaluations.
5. Fiscal services including payroll, retirement, and insurance.
6. Student services including E.M.I.S., Nursing, Speech, Guidance, and Therapy.
7. Classroom space and administrative services.
8. Custodial services.
9. Supervision/Director services.
10. Technology support.

The Mount Gilead Board of Education acts as the fiscal agent for the service agreement described above. As fiscal agent, the Board of Education shall enter into employment contracts with each certified teacher/administrator/aid whose services are to be shared with Mount Gilead Exempted Village School District. Other services may be provided based on mutual consent of both GDA and the Mount Gilead Exempted Village School District.

NOTE 10 - CONTRACT SERVICES- RELATED PARTY TRANSACTIONS

For fiscal year ended June 30, 2004, contract services expenses were as follows:

Employee payroll	\$ 149,597
Employee fringe benefits	33,445
Utility expenses	5,842
Other purchased services	<u>84,535</u>
 Total	 <u>\$ 273,419</u>

The above transactions are related party transactions since these services are purchased through the Sponsor, Mount Gilead Exempted Village School District as described in Note 9.

NOTE 11 - FULL TIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The final review for fiscal year 2004 reflected that the GDA owed the Ohio Department of Education \$10,702. This liability is presented as an intergovernmental payable on the statement of net assets.

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - DEFINED BENEFIT PENSION PLANS

The GDA has contracted with its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the GDA of the obligation for remitting pension contributions. The retirement systems consider the GDA as the Employer-of-Record and the Center ultimately responsible for remitting contributions to each of the systems noted below:

A. School Employees Retirement System

The GDA's Sponsor contributes on behalf of the Center to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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 43215-3476.

Plan members are required to contribute 10% of their annual covered salary and the GDA is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the GDA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2004, 9.09% of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The GDA's required contributions for pension obligations for the year ended June 30, 2004, were paid by the GDA's Sponsor.

B. State Teachers Retirement System

The GDA's Sponsor contributes on behalf of the GDA to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone 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, or by calling (614) 227-4090.

Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during the fifth year of membership unless they permanently select the DC or Combined Plan.

**THE GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

NOTE 12 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The GDA was required to contribute 14%; 13% was the portion used to fund pension obligations. As a comparison, 13% was used to fund pension obligations in 2003. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The GDA's required contributions for pension obligations to STRS for the year ended June 30, 2004 were paid by the GDA's Sponsor.

NOTE 13 - POSTEMPLOYMENT BENEFITS

The GDA's Sponsor provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS 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% of covered payroll. For fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. The GDA's costs were paid by the GDA's Sponsor.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. The GDA's costs were paid by the GDA's Sponsor.



Auditor of State Betty Montgomery

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

GOAL Digital Academy Community School
Morrow County
145 ½ N. Cherry Street
P.O. Box 239
Mount Gilead, Ohio 43338

To the Board of Directors:

We have audited the basic financial statements of GOAL Digital Academy Community School, Morrow County, Ohio, (the School), a component unit of Mount Gilead Exempted Village School District, Morrow County, Ohio, as of and for the year ended June 30, 2004, and have issued our report thereon dated March 18, 2005, in which we noted the School adopted Governmental Accounting Board Statement No. 34. 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 School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the School's management in a separate letter dated March 18, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the School's management in a separate letter dated March 18, 2005.

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

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

Betty Montgomery
Auditor of State

March 18, 2005

**GOAL DIGITAL ACADEMY COMMUNITY SCHOOL
MORROW COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Ohio Rev. Code Section 3314.03(11)(b) — The school did not purchase liability insurance.	Yes	N/A
2003-002	Auditor of State Bulletin 98-003 — The School did not have a complete set of distinguishable financial records	Yes	N/A



**Auditor of State
Betty Montgomery**

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800-282-0370

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GOAL DIGITAL ACADEMY COMMUNITY SCHOOL

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED

MAY 5, 2005