



**Auditor of State
Betty Montgomery**

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Financial Statements:	
Statement of Cash Receipts, Cash Disbursements, and Change in Fund Cash Balance - Enterprise Fund	3
Notes to the Financial Statements	5
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	11
Schedule of Findings	13

THIS PAGE INTENTIONALLY LEFT BLANK



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Southwest Licking Digital Academy
Licking County
P.O. Box 180
Etna, Ohio 43018-0180

To the Board of Directors:

We have audited the accompanying financial statements of the Southwest Licking Digital Academy, Licking County, Ohio (the Academy), a component unit of the Southwest Licking Local School District, as of June 30, 2004, and for the period from January 9, 2004, through June 30, 2004. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) and Ohio Revised Code Section 3314.03 (A) (8) require the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on an accounting basis not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows, and disclosures that, while material, we cannot determine at this time.

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows of the Southwest Licking Digital Academy, Licking County, Ohio as of June 30, 2004 and for the period January 9, 2004 through June 30, 2004, in accordance with accounting principles generally accepted in the United States of America.

The Academy has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2005, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Betty Montgomery
Auditor of State

April 15, 2005

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE INITIAL PERIOD JANUARY 9, 2004 THROUGH JUNE 30, 2004**

Operating Cash Receipts:	
Intergovernmental	\$120,441
Interest	109
	<hr/>
Total Operating Revenues	120,550
 Operating Cash Disbursements:	
Personal Services - Salaries	3,000
Fringe Benefits	481
Purchased Services	52,878
Supplies and Materials	658
Capital Outlay	3,456
Other	10
	<hr/>
Total Operating Expenses	60,483
	<hr/>
Operating Income	60,067
Fund Cash Balance, January 9, 2004 - See Note 11	4,875
	<hr/>
Fund Cash Balance, June 30	<u><u>\$64,942</u></u>

See accompanying notes to the financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE INITIAL PERIOD JANUARY 9, 2004 THROUGH JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Southwest Licking Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status. The Academy's mission is to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schooled children, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students within the Southwest Licking Local School District, the sponsor school district, that desire a specific course not currently offered that is available through online instruction.

The Academy was formally created on January 9, 2003, by entering a five year contract with the Southwest Licking Local School District (the Sponsor). The Academy was approved by the Sponsor through a preliminary agreement on June 20, 2003. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Sponsor's Treasurer also completes the role of Treasurer for the Academy.

The Academy operates under the direction of a five-member Board of Directors made up of three-members from the Southwest Licking Local School District and two-members from the public. The first public member shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. The second public member shall be a person who represents the interests of parents and students served by the conversion school.

The Academy is a component unit of the Sponsor. The sponsor appoints a majority of the Board of Directors and is able to impose its will on the Academy. The Sponsor can suspend the Academy's operations for any of the following reasons: 1) The Academy's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The Academy's failure to meet generally accepted standards of fiscal management, 3) The Academy's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause.

The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of the Academy and the children it serves. As discussed in Note 6 to the financial statements, during the initial period ended June 30 2004, the Academy paid purchased services to TRECA for instructional, administrative, and technical services. The Academy used the facilities of the Sponsor.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Rev. Code Section 3314.03 (A) (8), Ohio Administrative Code Section 117-2-03 (B), and by the Academy's contract with its Sponsor to prepare its financial statements in accordance with generally accepted accounting principles (GAAP), officials of the Academy chose to prepare its financial statements on the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE INITIAL PERIOD JANUARY 9, 2004 THROUGH JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting (Continued)

Management believes these statements include adequate disclosure of material matters.

B. Basis of Presentation

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

C. 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 the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

D. Cash and Investments

All cash received by the Academy's fiscal agent is maintained in a demand deposit account. The Academy had no investments during the initial period ended June 30, 2004.

E. Capital Assets

The Academy records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

F. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Special Education Weighted Program, and Parity Aid. Revenues received from these programs are recognized as operating cash receipts on the accompanying financial statements.

NOTE 3 - DEPOSITS

At June 30, 2004, the carrying amount of the Academy's deposits was \$64,942 and the bank balance was \$87,124. All of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit of funds by the nonprofit corporation.

NOTE 4 - RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the initial period ended June 30, 2004, the Academy had no liability insurance.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE INITIAL PERIOD JANUARY 9, 2004 THROUGH JUNE 30, 2004
(Continued)**

NOTE 4 - RISK MANAGEMENT (Continued)

A. Property and Liability (Continued)

Effective July 1, 2004, the Academy contracted with agent Best Hoover and McTeague Insurance Services for its insurance coverage through Indiana Insurance Company. The types and amounts of coverage provided are as follows:

General Liability:	
Each Occurrence	\$1,000,000
Damage to Rented Premises	300,000
Medical Expense Limit - Any One Person/Occurrence	15,000
Personal and Advertising Injury	1,000,000
General Aggregate	2,000,000
Products - Comp/Op Aggregate	1,000,000
Errors and Omissions (Deductible \$10,000)	
Each Occurrence	5,000,000
Aggregate Limit	5,000,000

B. Workers' Compensation

The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

NOTE 5 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09 percent of annual covered salary was the portion 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 Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2004 was \$210. The Academy has paid all contributions required through June 30, 2004.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE INITIAL PERIOD JANUARY 9, 2004 THROUGH JUNE 30, 2004
(Continued)**

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations for the fiscal year ended June 30, 2004 was \$210. The Academy has paid all contributions required through June 30, 2004.

NOTE 6 - CONTRACT WITH TRECA

The Academy entered into a two-year contract on January 15, 2003, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide the Academy with instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
- All personnel providing services to the Academy on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- The Academy shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of the Academy.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- In exchange for the services and support (including equipment) provided by TRECA, the Academy shall pay to TRECA a fee of \$35,000 for the 2002-2003 school year and \$25,000 for the 2003-2004 school year.
- TRECA would also provide the Academy with planning, design, and initial implementation services for the establishment of the Academy for a fee of \$25,000.
- The Academy shall pay to TRECA \$3,500 per full-time high school students and \$2,500 per full-time K - 8 students enrolled in the Academy per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For the initial period January 9, 2004 through June 30, 2004, \$52,014 was payable under this contract. Prior to January 9, \$85,000 was payable under this contract. The Academy paid 100% of this amount as of June 30, 2004.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE INITIAL PERIOD JANUARY 9, 2004 THROUGH JUNE 30, 2004
(Continued)**

NOTE 7 - PURCHASED SERVICES

For the initial period ended June 30, 2004, purchased service disbursements were for the following services:

Type	Amount
Professional and Technical Services	\$52,270
Travel Mileage / Meeting Expenses	352
Communications	180
Tuition	66
Other	10
Total	<u>\$52,878</u>

NOTE 8 - RELATED PARTY TRANSACTIONS

Of the five-member Board of the Academy, the Sponsor appoints four-members. The Academy is a component unit of the Sponsor. During the initial period ended June 30, 2004, the Academy paid \$352 to the Sponsor for reimbursement of expenses incurred by Academy officials' mileage, meals, and other expenses to attend meetings at TRECA. Prior to January 9, 2004, the Academy paid the Sponsor \$74,000 for expenses incurred for its establishment.

Per the Academy's contract with its Sponsor, the Academy will pay the Sponsor, from funding provided by the Ohio Department of Education pursuant to Ohio Rev. Code Section 3314.08, \$150 per student per year. As of June 30, 2004, the Academy owed \$3,249 to the Sponsor related to this provision of the contract.

NOTE 9 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging Ohio's Community (i.e., Charter) School's 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 courts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any on the Academy is not presently determinable.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE INITIAL PERIOD JANUARY 9, 2004 THROUGH JUNE 30, 2004
(Continued)**

NOTE 9 – CONTINGENCIES (Continued)

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. The fiscal year 2004 review resulted in the underpayment to the Academy in the amount of \$777. This amount will be included with foundation proceeds during fiscal year 2005.

NOTE 10 - STATE SCHOOL FUNDING

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 decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The Academy is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

NOTE 11 - BEGINNING FUND BALANCE

The Academy received its first FTE foundation settlement on January 9, 2004. Prior this date, the Academy had receipt and disbursement transactions related to start-up activities. The net impact on these transactions resulted in a beginning balance of \$4,875.



Auditor of State Betty Montgomery

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

Southwest Licking Digital Academy
Licking County
P.O. Box 180
Etna, Ohio 43018-0180

To the Board of Directors:

We have audited the financial statements of the Southwest Licking Digital Academy, Licking County, Ohio (the Academy), a component unit of Southwest Licking Local School District, as of June 30, 2004, and for the period January 9, 2004, through June 30, 2004, and have issued our report thereon dated April 15, 2005, wherein we noted the financial statements and notes were prepared on an accounting basis not in accordance with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated April 15, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the Academy's management dated April 15, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

Southwest Licking Digital Academy
Licking County
Independent Accountants' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

We intend this report solely for the information and use of management and the Board of Directors. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 15, 2005

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

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

Finding Number 2004-001

Ohio Rev. Code Section 3314.03 (A) (8) and Ohio Admin. Code Section 117-2-03 (B) require the Academy to prepare its annual financial report in accordance with Generally Accepted Accounting Principles (GAAP). In addition, the Academy's contract with its sponsor requires financial reports to be prepared in conformity with GAAP.

The Academy prepared its financial statements on the cash basis of accounting, which is a basis of accounting other than GAAP.

The accompanying financial statements omit the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows, and disclosures that, while material, cannot be determined at this time. The accompanying financial statements also do not include Management's Discussion and Analysis (MD&A), which is supplementary information required by GAAP. The Academy may be fined and various other administrative remedies may be taken against the Academy.

We recommend the Academy prepare its financial statements in accordance with the GAAP.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

SOUTHWEST LICKING DIGITAL ACADEMY

LICKING 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 26, 2005**