



**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Southwest Licking Digital Academy
Licking County
927 South Street
PO 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), as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03 (B) requires 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 follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the Southwest Licking Digital Academy, Licking County, Ohio, as of June 30, 2006, and the respective changes in modified cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2006, the Academy revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* as described in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 30, 2007

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The management's discussion and analysis (MD&A) of the Southwest Licking Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the Academy's financial performance.

Financial Highlights

The assets of the Academy totaled \$20,243 as of June 30, 2006. Total net assets of the Academy decreased by \$91,137 or 82 percent.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Academy's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of receipts, disbursements and changes in net assets, both on the modified cash basis, provide information about the cash activities of the Academy as a whole.

The MD&A is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of two components: the financial statements and the notes to the financial statements.

The statement of net assets and the statement of receipts, disbursements, and changes in net assets, both on the modified cash basis, reflect how the Academy did financially during the year ended June 30, 2006. The change in net assets is important because it tells the reader whether the financial position of the Academy has increased or decreased during the period. Over time, these increases and /or decrease are one indicator of whether the financial position is improving or deteriorating.

The notes to the financial statements are an integral part of the financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Academy has elected to present its financial statements on a modified cash basis of accounting.

This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Academy's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and MD&A within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

The Academy uses enterprise presentation for all of its activities.

Financial Analysis

Table 1 provides a summary of the Academy's net assets for 2006 compared to 2005 on a modified cash basis:

**Table 1
Net Assets at Year End**

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Cash and Cash Equivalents	<u>\$ 20,243</u>	<u>\$ 111,380</u>
Total Assets	<u>20,243</u>	<u>111,380</u>
<u>Net Assets</u>		
Unrestricted	<u>20,243</u>	<u>111,380</u>
Total Net Assets	<u>\$ 20,243</u>	<u>\$ 111,380</u>

At year end, the Academy has no assets that are subject to external restrictions on how they may be used.

The decrease in the cash balance is largely due to a significant increase in purchased services expenditures that offset the increase in intergovernmental revenues.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Table 2 shows the change in net assets for fiscal year 2006. Since this is the first year the Academy has prepared GASB 34 look-alike statements, comparisons to fiscal year 2005 are not available.

**Table 2
Changes in Net Assets**

	2006
Receipts:	
<i>Operating Receipts</i>	
Foundation Payments	\$ 295,270
Nonoperating Receipts	
Federal Grants	1,920
State Grants	3,000
Interest Earnings	2,522
Total Receipts	302,712
Operating Disbursements:	
Personal Services - Salaries	18,250
Fringe Benefits	2,226
Purchased Services	364,073
Supplies and Materials	3,893
Capital Outlay	3,260
Other	2,147
Total Disbursements	393,849
Change in Net Assets	(91,137)
Net Assets at the Beginning of Year	111,380
Net Assets at the End of the Year	\$ 20,243

The majority of the funding, or 98%, of the Academy comes from the state foundation program.

The most significant disbursement for the Academy is purchased services. Purchased services accounts for 92% of the total disbursements and \$354,434 of the \$364,073 are for contractual payments for professional and technical services paid to Tri-Rivers Educational Computer Association (TRECA) and payments to the Academy's Sponsor. The Academy paid TRECA a total of \$168,541 during fiscal year 2006, all of which was classified as purchased services. The Academy also paid their Sponsor, the Southwest Licking Local School District, management fees and various other charges as defined in the management agreement of \$185,893 which is also included in the purchased services line item.

Salaries, which represent 5% of the total disbursements, are the payments to the employees of the Academy. The other line items, fringe benefits, supplies and materials, capital outlay and other make up the remaining 3% of the total disbursements.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Budget Highlights

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Rev. 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.

Capital Assets and Debt Administration

Capital Assets

The Academy does not report capital assets and infrastructure under the modified cash basis of accounting.

Debt

The Academy does not have any debt outstanding as of June 30, 2006.

Current Issues

The Academy was incorporated in March of 2003 and has used TRECA since the inception to provide most if its instructional and administrative services. We will continue to utilize TRECA for these services in fiscal year 2007. We plan to continue to offer the same services in the next fiscal year and are hopeful enrollment will continue to grow.

Although the Academy does not have a ceiling for student enrollment, we do not expect a significant change in the next fiscal year.

Contacting the Academy's Financial Management

The financial report is designed to provide a general overview of the Academy's finances and to show the Academy's accountability for the funds it receives. If you have any questions about this report or need additional information contact Richard D. Jones, Treasurer, at RDJones@laca.org or call 740-927-4744.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2006**

Assets	
Cash and Cash Equivalents	<u>\$ 20,243</u>
<i>Total Assets</i>	<u><u>20,243</u></u>
Net Assets	
Unrestricted	<u>20,243</u>
<i>Total Net Assets</i>	<u><u>\$ 20,243</u></u>

See accompanying notes to the basic financial statements

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS-
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2006**

Operating Receipts:

Foundation Payments	\$ 295,270
Total Operating Receipts	295,270

Operating Disbursements:

Personal Services - Salaries	18,250
Fringe Benefits	2,226
Purchased Services	364,073
Supplies and Materials	3,893
Capital Outlay	3,260
Other	2,147
Total Operating Disbursements	393,849
Operating Loss	(98,579)

Non-Operating Receipts

Federal Grants	1,920
State Grants	3,000
Interest Earnings	2,522
Total Non-Operating Receipts	7,442
Change in Net Assets	(91,137)
Net Assets at the Beginning of Year	111,380
Net Assets at End of Year	\$ 20,243

See accompanying notes to the basic financial statements

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Note 1 – Description of the School Academy and Reporting Entity

The Southwest Licking Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. 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 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 Treasurer for the Academy is also the Treasurer for the Southwest Licking Local School District. See Note 9 for additional information regarding the sponsorship agreement with the Sponsor.

The Academy paid purchased services to Tri-Rivers Educational Computer Association (TRECA) for providing the planning, design, and implementation, instructional, administrative and technical services during the fiscal year. See Note 8 for information regarding the contract between the Academy and TRECA.

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, both of which are appointed by the Sponsor. The first public member is 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. The Academy also used the facilities of the Sponsor.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 – Summary of Significant Accounting Policies

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 modified cash basis of accounting. For the Academy, Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting, and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Academy does not apply FASB statements issued after November 30, 1989, to its business-type activities. Following are the more significant of the Academy's accounting policies.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets and a statement of cash receipts, disbursements, and change in net assets. These statements are prepared on the modified cash basis of accounting as further described in Note 2 C.

The Academy 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

Enterprise accounting uses a flow of economic resources measurement focus. Statement of revenues, expenses and changes in net assets present increases (i.e. revenues) and decreases (i.e. expenses) in total net assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The modified cash basis of accounting is utilized for reporting purposes. Except for modifications having substantial support, receipts are recorded in the Academy's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the modified cash basis of accounting. Receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified cash basis when the exchange takes place. Receipts resulting from the nonexchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are also recognized when received. This is in contrast with GAAP as the receipt would be recognized in the period in which all eligibility requirements are satisfied. Eligibility requirements include timing requirements, matching requirements, and expenditure requirements. Disbursements are recognized when incurred.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

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 Rev. 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.

E. Cash and Cash Equivalents

All cash received by the Academy's Treasurer is maintained in a demand deposit account. The Academy had no investments during the year ended June 30, 2006.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws or other governments or imposed by enabling legislation. The Academy had no restricted assets during the year.

G. Inventory and Prepaid Items

The Academy reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Employer Contributions to Cost-Sharing Pension Plans

The Academy recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

The Academy's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid. The Academy did not have any debt during the year.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

The Academy's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Operating Receipts and Disbursements

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating disbursements are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All receipts and disbursements not meeting this definition are reported as non-operating.

Note 3 – Change in Financial Statement Presentation

For the year ended June 30, 2006, the Academy revised its financial presentation comparable to the requirements of Governmental Accounting Standards No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. For the Academy, this change had no effect on net assets. The Academy now presents Management's Discussion and Analysis and expanded notes to the financial statements.

Note 4 – Deposits and Investments

At year-end the carrying amount of the Academy's deposits was \$20,243 and the bank balance was \$21,998. The entire balance was covered by federal depository insurance.

Note 5 – 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 omission; injuries to employees; and natural disasters. The Academy did not have liability insurance for the year ended June 30, 2006.

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.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 6 – Defined Benefit Pension Plans

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (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 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 the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at ohsers.org.

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 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 2006, 10.58 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 years ended June 30, 2006, 2005, and 2004 were \$504, \$560, and \$210, respectively. The full amount has been contributed for fiscal years 2006, 2005 and 2004.

B. State Teachers Retirement System of Ohio

The Academy participates in 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 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 6 – Defined Benefit Pension Plans (Continued)

B. State Teachers Retirement System of Ohio (Continued)

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2006, 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. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. 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 to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,320, \$600, and \$210, respectively. The full amount has been contributed for fiscal years 2006, 2005 and 2004.

Note 7 – Postemployment Benefits

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$75 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 7 – Postemployment Benefits (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries.

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 the projected claims less premium contributions for the next fiscal year. Expenses for

health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

Note 8 – Contract with the Tri-Rivers Educational Computer Association

The Academy entered into a one year contract with the Tri-Rivers Educational Association (TRECA) on July 1, 2005 for the period July 1, 2005 through June 30, 2006. 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.
- The Academy shall pay to TRECA \$3,600 per full-time student students enrolled in the Academy during the 2005-2006 academic year or pro rated per portion thereof; part-time students may be enrolled on such terms as are agreed to by the parties.

During the year ended June 30, 2006, the Academy paid TRECA \$168,541 for these services. Included in this total was \$27,065 in services related to the prior year contract. All services for fiscal year 2006 have been paid.

To obtain TRECA's audited June 30, 2006 financial statements, contact Scott Armstrong, Treasurer, at scott@treca.org or call 740-389-4798.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 9 – Contract with Sponsor

The Community School Sponsorship Contract between the Academy and the Southwest Licking Local School District requires the Academy to pay the following amounts:

- The Academy was required to pay to the Sponsor \$25,000 for planning, design, and initial implementation services acquired by the Sponsor on behalf of the Academy from TRECA. This fee was paid during fiscal year 2004.
- The Academy is required to make annual payments to the Sponsor of \$150 per student per year.
- The Academy may also pay the Sponsor other amounts as are mutually agreed for any services provided to the Academy by the Sponsor.

During the year ended June 30, 2006, the Academy paid the Sponsor \$185,893 for the services defined above.

Note 10 – Purchased Services

For the year ended June 30, 2006, purchased service disbursements were for the following services:

<u>Type</u>	<u>Amount</u>
Sponsor Management Fees and Disbursements	\$ 185,893
Professional and Technical Services	168,715
Audit Fees	5,738
Student Intervention	1,920
Other	1,319
Speech Services	275
Data Processing Services	213
	<u>\$ 364,073</u>

Note 11 – 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 grantor agencies. Any disallowed claims resulting from such audits could become a liability for 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, 2006.

B. Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

Note 11 – 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 the 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 2006 review found the Academy was overpaid \$18,624. The Academy's fiscal year 2007 foundation receipts will be reduced by this amount.

Note 12 – Subsequent Event

Effective March 7, 2007, four members of the Academy's Board of Directors resigned due to guidance obtained from legal counsel regarding changes to community school laws included in Ohio House Bill 79 which became effective March 30, 2007.

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Mary Taylor, CPA

Auditor of State

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
927 South Street
PO Box 180
Etna, Ohio 43018-0180

To the Board of Directors:

We have audited the financial statements of Southwest Licking Digital Academy, Licking County, Ohio (the Academy) as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated January 30, 2007, wherein we noted a change in accounting basis and that the District did not prepare its financial statements 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 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 January 30, 2007, 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 matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the Academy's management dated January 30, 2007, we reported other matters related to noncompliance we deemed immaterial.

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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 30, 2007

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Ohio Rev. Code Section 3314.03(A)(8) requires that a community school file its financial reports in the same manner as school districts. Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code §117-2-03 further clarifies the requirements of Ohio Revised Code §117.38.

Ohio Admin. Code Section 117-2-03(B) requires 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 accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time. 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.

Officials' Response: The Academy intends to prepare the FY 2007 financial statements in accordance with GAAP.

**SOUTHWEST LICKING DIGITAL ACADEMY
LICKING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Revised Code Section 3314.03(A)(8) and Ohio Administration Code 117-2-3(B), failure to prepare financial in accordance with GAAP	No	Not Corrected – Repeated as finding 2006-001



Mary Taylor, CPA
Auditor of State

**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 10, 2007**