



Mary Taylor, CPA
Auditor of State

MARYSVILLE ACADEMY
UNION COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Marysville Academy
Union County
1000 Edgewood Drive
Marysville, Ohio 43040

To the Board of Directors:

We have audited the accompanying basic financial statements of the Marysville Academy, Union County, Ohio (the Academy), a component unit of Marysville Exempted Village School District, as of and for the year ended June 30, 2006 and the period July 1, 2006 to November 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marysville Academy, Union County, Ohio, as of June 30, 2006 and November 30, 2006, and the changes in financial position and its cash flows for the year and period then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 10, the Academy merged with Marysville Exempted Village School District and ceased operations on November 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 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 & 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 black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

January 8, 2007

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

Unaudited

The discussion and analysis of Marysville Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006 and for the period of July 1, 2006 to November 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 the financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

FINANCIAL HIGHLIGHTS

As of and for fiscal year ended June 30, 2006:

- Net Assets increased \$89,589.
- Operating revenues accounted for \$402,012 in revenue or 71% of all revenues.
- Capital asset additions of \$34,831 consisted of computers.

As of November 30, 2006 and for period July 1, 2006 to November 30, 2006:

- Net Assets decreased \$68,585.
- There were no revenues during this period.
- The Board of Directors passed a resolution on September 25, 2006 to close the Academy and merge with the Academy sponsor, Marysville Exempted Village School District. See Note 10 for further details.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of two parts – management's discussion and analysis and the basic financial statements. These statements are organized so the reader can understand the financial position of the Academy. 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 net assets represents the basic statement of position for the Academy. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL ACADEMY AS A WHOLE

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006**

Unaudited

The following tables represent the Academy's condensed financial information for 2006 and 2005 and the period from July 1, 2006 to November 30, 2006 derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

	Net Assets		
	November 30, 2006	June 30, 2006	June 30, 2005
Current and other assets	\$57,038	\$124,328	\$49,769
Capital assets, Net	68,077	68,077	48,369
Total assets	125,115	192,405	98,138
Other liabilities	7,183	5,888	1,210
Total liabilities	7,183	5,888	1,210
Net assets			
Invested in capital assets, net of related debt	68,077	68,077	48,369
Unrestricted	49,855	118,440	48,559
Total net assets	\$117,932	\$186,517	\$96,928

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2006 and 2005 and the period from July 1, 2006 to November 30, 2006:

	Change in Net Assets		
	November 30, 2006	June 30, 2006	June 30, 2005
Revenues			
Foundation Payments	\$0	\$397,620	\$223,192
All Other Revenue	0	4,392	0
Total revenues	0	402,012	223,192
Expenses			
Purchased Services	64,085	368,349	298,614
Supplies and Materials	0	92,909	3,703
Fringe Benefits	0	0	1,089
Depreciation	0	15,123	13,607
Other Operating Expense	4,500	3,305	2,983
Total expenses	68,585	479,686	319,996
Operating Loss	(68,585)	(77,674)	(96,804)
Nonoperating Revenues			
Federal and State Restricted Grants	0	167,263	17,188
Total Change in Net Assets	(68,585)	89,589	(79,616)
Net Assets Beginning of Year	186,517	96,928	176,544
Net Assets End of Year	\$117,932	\$186,517	\$96,928

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

Unaudited

The Academy operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds are included in the discussion and analysis. Results of fiscal year 2006 indicate an increase in net assets of \$89,589 and ending net assets of \$186,517. The increase is the result of increased grants received. Additionally, the number of students enrolled in the Academy has increased which increased the fees paid to Tri-Rivers Educational Computer Association. The State Foundation revenue increased because it is based on the number of students enrolled in the Academy. The dependence upon State Foundation revenues is apparent as it represents 98% of the operating revenue of the Academy. For the period ending November 30, 2006, the net assets decreased \$68,585 to \$117,932. All students were transferred as of June 30, 2006 as a result, \$0 foundation revenues were received during this period. The decrease in expenses is also the result of the transfer of students.

BUDGET

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 Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006 and the period ending November 30, 2006, the Academy had \$68,077 net of accumulated depreciation invested in equipment. The following table shows fiscal years 2006, period ending November 30, 2006 and 2005:

	Business-Type Activities		Increase (Decrease)
	2006	2005	
Furniture and Equipment	\$103,041	\$68,210	\$34,831
Less: Accumulated Depreciation	(34,964)	(19,841)	(15,123)
Totals	\$68,077	\$48,369	\$19,708

The increase in capital assets is due to the acquisition of computers in fiscal year 2006. There were no capital assets purchased or disposed of during the period ending November 30, 2006. Additional information on the Academy's capital assets can be found in Note 4.

Debt

The Academy has not issued any debt.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

Unaudited

ECONOMIC FACTORS

The Marysville Academy began operations on August 27, 2003. The Marysville Academy was formed as a 501c (3) tax exempt organization. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive and standards-based educational program. As of November 30, 2006, the Academy was merged into the Marysville Exempted Village School District. See Note 10 for further information regarding the merger.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Dolores Cramer, Treasurer of Marysville Academy.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

Statement of Net Assets

June 30, 2006

Assets:

Current Assets:

Cash and Cash Equivalents \$ 110,890

Receivables:

Accounts 2,491

Intergovernmental 10,947

Non Current Assets:

Capital Assets, Net of Accumulated Depreciation 68,077

Total Assets 192,405

Liabilities:

Current Liabilities:

Accounts Payable 5,888

Total Liabilities 5,888

Net Assets

Invested in Capital Assets 68,077

Unrestricted 118,440

Total Net Assets \$ 186,517

See accompanying notes to the basic financial statements

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2006

Operating Revenues:	
Foundation Payments	\$ 397,620
All Other Revenue	4,392
Total Operating Revenues	<u>402,012</u>
Operating Expenses:	
Purchased Services	368,349
Supplies and Materials	92,909
Depreciation	15,123
Other Operating Expense	3,305
Total Operating Expenses	<u>479,686</u>
Operating Loss	(77,674)
Nonoperating Revenue (Expenses):	
Federal and State Restricted Grants	<u>167,263</u>
Total Nonoperating Revenues (Expenses)	<u>167,263</u>
Change in Net Assets	89,589
Net Assets Beginning of Year	<u>96,928</u>
Net Assets End of Year	<u>\$ 186,517</u>

See accompanying notes to the basic financial statements

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2006

<u>Cash Flows from Operating Activities:</u>	
Cash Received for School Foundation	\$387,457
Cash Received from Other Revenue	1,901
Cash Payments for Goods and Services	<u>(459,885)</u>
Net Cash Used for Operating Activities	<u>(70,527)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Restricted Grants Received	<u>179,811</u>
Net Cash Provided by Noncapital Financing Activities	<u>179,811</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	<u>(34,831)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(34,831)</u>
Net Increase in Cash and Cash Equivalents	74,453
Cash and Cash Equivalents at Beginning of Year	<u>36,437</u>
Cash and Cash Equivalents at End of Year	<u><u>\$110,890</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Loss	(\$77,674)
Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities:	
Depreciation Expense	15,123
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(2,491)
Increase in Intergovernmental Receivable	(10,163)
Increase in Accounts Payable	<u>4,678</u>
Total Adjustments	<u>7,147</u>
Net Cash Used for Operating Activities	<u><u>(\$70,527)</u></u>

See accompanying notes to the basic financial statements

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

Statement of Net Assets
November 30, 2006

Assets:	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 46,875
Receivables:	
Intergovernmental	10,163
<i>Non Current Assets:</i>	
Capital Assets, Net of Accumulated Depreciation	68,077
Total Assets	<u>125,115</u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts Payable	7,183
Total Liabilities	<u>7,183</u>
Net Assets	
Invested in Capital Assets	68,077
Unrestricted	49,855
Total Net Assets	<u>\$ 117,932</u>

See accompanying notes to the basic financial statements

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

***Statement of Revenues, Expenses and Changes in Net Assets
For the Period July1, 2006 to November 30, 2006***

Operating Revenues:

Total Operating Revenues	\$ 0
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Operating Expenses:

Purchased Services	64,085
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Other Operating Expense	4,500
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Total Operating Expenses	<u>68,585</u>
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Operating Loss	(68,585)
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Net Assets Beginning of Year	<u>186,517</u>
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Net Assets End of Year	<u><u>\$ 117,932</u></u>
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See accompanying notes to the basic financial statements

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

Statement of Cash Flows

For the Period July1, 2006 to November 30, 2006

Cash Flows from Operating Activities:

Cash Received from Other Revenue	\$2,491
Cash Payments for Goods and Services	<u>(67,290)</u>
Net Cash Used for Operating Activities	<u>(64,799)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Restricted Grants Received	<u>784</u>
Net Cash Provided by Noncapital Financing Activities	<u>784</u>

Net Decrease in Cash and Cash Equivalents	(64,015)
Cash and Cash Equivalents at Beginning of Year	<u>110,890</u>
Cash and Cash Equivalents at End of Year	<u><u>\$46,875</u></u>

Reconciliation of Operating Loss to Net Cash

Used for Operating Activities:

Operating Loss	(\$68,585)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	2,491
Increase in Accounts Payable	<u>1,295</u>
Total Adjustments	<u>3,786</u>
Net Cash Used for Operating Activities	<u><u>(\$64,799)</u></u>

See accompanying notes to the basic financial statements

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Marysville Academy, Marysville, Ohio (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 objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Marysville Exempted Village School District (the Sponsor). 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 Academy operates under the direction of a six-member (five voting members) Board of Directors made up of:

- 1) Three persons employed and serving in administrator position within the Marysville Exempted Village School District, which positions have been identified by the Marysville Exempted Village School District Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the Marysville Exempted Village School District Board of Education and its interests.
- 2) One person who is neither an officer nor employee of the Marysville Exempted Village School District who shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. Such person has been elected by the Marysville Exempted Village School District Board of Education.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

- 3) One person who is neither an officer nor employee of the Marysville Exempted Village School District. This person shall be appointed to represent the interests of parents and students served by the conversion school to be operated by the Academy. Such person must be the parent or legal guardian of a student who is enrolled in the conversion school. Such person shall be elected by the Marysville Exempted Village School District Board of Education.
- 4) The Academy's Treasurer as a non-voting ex officio member who is also the Marysville Exempted Village School District Treasurer and serves the Board of Directors in her official capacity as a representative of the Marysville Exempted Village School District Board of Education and its interests.

Therefore the Academy is a component unit of the Marysville Exempted Village School District. Additionally, the Academy entered into a two-year contract on March 10, 2003 with TRECA for management consulting services. This contract was extended for one year on December 5, 2005; however, no additional contracts were entered into by the Academy after November 30, 2006. The Academy merged operations with the Marysville Exempted Village School District as of November 30, 2006. See Note 10 for further discussion of the merger.

The accounting policies and financial reporting practices of the Academy conform to generally accepted accounting principles as applicable to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of its significant accounting policies.

B. Basis of Presentation - Fund Accounting

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and change in net assets, and a statement of cash flows. Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the Academy follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its enterprise funds.

Revenues – Exchange and Non-exchange Transactions – 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.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, and investments with original maturities of three months or less. During fiscal year 2006, the Academy had no investments.

G. Capital Assets and Depreciation

Capital assets are defined by the Academy as assets with an initial, individual or group cost of more than \$1,000.

1. Property, Plant and Equipment

Property, plant and equipment acquired by the Academy are stated at cost (or estimated historical cost). Contributed capital assets are recorded at fair market value at the date received.

2. Depreciation

All capital assets are depreciated excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Furniture, Fixtures and Equipment	5

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction of improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

I. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

J. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Academy, these revenues are foundation payments and other revenues for providing educational services to other entities. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Statutes require the classification of funds held by the Academy into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the Academy. Such funds must be maintained either as cash in the Academy Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government’s deposits may not be returned. Protection of Academy cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. The Academy does not have a policy over custodial credit risk.

At year end the carrying amount of the Academy’s deposits was of \$110,890 and the bank balance was \$190,402. The Federal Deposit Insurance Corporation (FDIC) covered \$100,000 of the bank balance, the remaining \$90,402 was exposed to custodial credit risk as it was uninsured and collateralized with securities held by the pledging institution’s trust department not in the Academy’s name. As of November 30, 2006, the carrying amount and bank balance of the Academy’s deposits was \$46,875. The bank balance was not exposed to custodial credit risk as discussed above as the bank balance was covered by FDIC.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006 and November 30, 2006 consisted of intergovernmental receivables and accounts receivables. The intergovernmental receivables are for Federal Restricted Grants and foundation payment adjustments. The accounts receivable are for payments related to services provided to TRECA Digital Academy. The intergovernmental and accounts receivables are considered 100% collectable.

NOTE 4 - CAPITAL ASSETS

Summary by category of changes in capital assets at June 30, 2006:

Historical Cost:

<u>Class</u>	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Capital Assets being depreciated:				
Furniture, Fixtures and Equipment	\$68,210	\$34,831	\$0	\$103,041
Total Cost	<u>\$68,210</u>	<u>\$34,831</u>	<u>\$0</u>	<u>\$103,041</u>

Accumulated Depreciation:

<u>Class</u>	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Furniture, Fixtures and Equipment	(\$19,841)	(\$15,123)	\$0	(\$34,964)
Total Depreciation	<u>(\$19,841)</u>	<u>(\$15,123)</u>	<u>\$0</u>	<u>(\$34,964)</u>
Net Value:	<u>\$48,369</u>			<u>\$68,077</u>

There were no capital assets additions or deletions during the period July 1, 2006 to November 30, 2006. Therefore capital assets net accumulated depreciation at November 30, 2006 are \$68,077.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

NOTE 5 – RELATED PARTY TRANSACTION

The Academy is component unit of the Marysville Exempted Village School District. As described in Note 1, the District is the Academy's sponsor. The Academy and the District entered into a 5-year sponsorship agreement on March 10, 2003 whereby terms of the sponsorship were established. Pursuant to this agreement, the District's Treasurer serves as the Academy's fiscal officer.

In Fiscal year 2006, payments made by the Academy to the District totaled \$258,455. During the period July 1, 2006 to November 30, 2006 the payments totaled \$55,087. These represent payments for consulting services and other related services provided by the District.

NOTE 6 – MANAGEMENT CONSULTING CONTRACT

The Academy entered into a two-year contract on March 10, 2003 with TRECA for management consulting services. This contract was extended for one year on December 5, 2005. Under the contract, the following terms were agreed upon:

- 1) TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
- 2) 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.
- 3) 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.
- 4) The Academy shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K-8 student enrolled in the Academy school year. This amounted to \$84,653 for fiscal year 2006.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

NOTE 7 – PURCHASED SERVICES

For fiscal year ended June 30, 2006, and the period July 1, 2006 to November 30, 2006, purchased services expenses were as follows:

	<u>June 30, 2006</u>	<u>November 30, 2006</u>
Legal Fees	\$ 8,094	\$ 3,523
Tuition	302	0
Communication	1,521	35
Professional Services	25,210	2,450
Maintenance and Repair	369	2,045
Support Services	71,346	26,880
Executive Director	81,617	25,065
Fiscal Services	12,661	2,904
TRECA Services	145,882	894
Professional Development	21,347	289
Total	<u>\$ 368,349</u>	<u>\$ 64,085</u>

NOTE 8 - CONTINGENCIES

A. Grants

The Academy receives financial assistance from federal 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 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 Academy at June 30, 2006 and November 30, 2006.

B. Litigation

A suit was filed in the US 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 Marysville Academy is not presently determinable.

MARYSVILLE ACADEMY

MARYSVILLE, OHIO

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006
and the Period July 1, 2006 to November 30, 2006*

NOTE 8 – CONTINGENCIES (Continued)

C. Full-Time Equivalency

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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. ODE has conducted a review of the Academy's 2006 student enrollment data and FTE calculations. The final review for 2006 reflected that ODE owed the Academy \$10,163. The review as of June 30, 2006 will also serve as the final review as all students were transferred to the District as of that date and the Academy did not receive foundation payments for the period July 1, 2006 to November 30, 2006. A receivable of \$10,163 has been reported as of June 30, 2006 and November 30, 2006.

NOTE 9 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Academy was covered under the Marysville Exempted Village School District insurance policy.

The District participates in the Metropolitan Educational Council Group Program (the Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a seven member board consisting of superintendents, treasurers and business managers.

Specialty Claims Services, Inc. is responsible for processing claims. Marsh, Inc. serves as the Plan's administrator, sales representative, and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from the Metropolitan Educational Council Group Program, 2100 Citygate Drive, Columbus, OH 43219-3566.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 10 – CEASED OPERATIONS/SUBSEQUENT EVENTS

On September 25, 2006, the Academy Board of Directors and Marysville Exempted Village School District Board of Education passed a resolution to close the Academy and merge with the Academy Sponsor, Marysville Exempted Village School District. Marysville Exempted Village School District closed financial records of the Marysville Academy on November 30, 2006. The statement of Net Assets for the period ended November 30, 2006 reflects all assets and liabilities assumed by Marysville Exempted Village School District.



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*

Marysville Academy
Union County
1000 Edgewood Drive
Marysville, Ohio 43040

To the Board of Directors:

We have audited the accompanying basic financial statements of the Marysville Academy, Union County, Ohio, (the Academy), a component unit of Marysville Exempted Village School District, as of and for the year ended June 30, 2006 and the period July 1, 2006 to November 30, 2006 and have issued our report thereon dated January 8, 2007 wherein we noted the Academy merged with Marysville Exempted Village School District and ceased operations on November 30, 2006. 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.

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 that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

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 8, 2007

MARYSVILLE ACADEMY
UNION COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2006 AND NOVEMBER 30, 2006

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

FINDING NUMBER 2006-001

Close Out Procedures

Ohio Revised Code (ORC) section 3314.074 establishes the order of the distribution of assets when a community school permanently closes and ceases operations. In addition, **ORC section 3314.015(e)** provides that the Ohio Department of Education (ODE) shall adopt procedures for use by a community school governing authority and sponsor when the school closes. In May, 2006 the ODE's Office of Community Schools (OCS) issued the required procedures listing the actions to be taken by community school's Governing Authority (GA), Sponsors, and the ODE when closing a community school.

The OCS's "Community School Closing Procedures Guidance" requires a charter school to do the following:

ACTIONS FOR THE GOVERNING AUTHORITY

Step 8 – Account for all school property throughout the closing process

Step 9 - requires after the school has closed, to make disposition of school property (they shall):

- a. Notify all other community schools and traditional public schools of the date of the sale;
- b. Price items at fair market value
- c. Federally purchased items (CCIP and grant purchased) need to be separately submitted to ODE, Office of Federal Programs and a request made regarding their dissemination(request to sell items to other schools towards debt satisfaction);
- d. ETech (formerly known as Ohio SchoolNet) hardware and software must be returned to ETech to be redistributed per statutory requirements.

Step 13 – Utilize proceeds and foundation dollars and any other income to pay the following in the following order:

- a. STRS/SERS/retirement and other adjustments;
- b. Teachers and staff
- c. Employment taxes and Federal taxes;
- d. Audit preparation (prepare financials);
- e. Private creditors;
- f. State Treasury General Revenue Fund; and
- g. Grant status with Final Expenditure Reports and obligations

Instead of following the above guidance, the Academy obtained guidance from the Ohio Department of Education's Federal Department. This guidance was inconsistent with Ohio Rev. Code 3314.074.

The Marysville Exempted Village School District, the Academy's sponsor, assumed the following assets and liabilities upon the closing of the Academy:

- As of December 13, 2006 the Academy's bank account was closed and the cash balance of \$46,875 was deposited into Marysville Exempted Village School District's bank account. The cash balances are maintained within a separate cost center by Marysville Exempted Village School District and will be used to pay the outstanding Academy liabilities of \$7,183 related to financial statement preparation and auditing services.
- The final FTE Review for the Academy revealed that ODE owed the Academy \$10,163.
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**MARYSVILLE ACADEMY
UNION COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006 AND NOVEMBER 30, 2006
(Continued)**

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

Close Out Procedures (continued)

- The Academy maintained a capital asset inventory system to account for all capital assets purchased throughout the Academy's existence. As of November 30, 2006, the Academy had capital assets net of accumulated depreciation of \$68,077. All capital assets were purchased by the Academy with Charter Public Schools Federal Grant. Upon closing, the capital assets were deleted from the Academy's inventory system and recorded as capital asset additions to the Marysville Exempted Village School District's inventory system.

The actions taken by Marysville Academy were not in accordance with the guidelines issued by ODE for closing a community school. We recommend the School and/or Sponsor contact the ODE to rectify any outstanding items associated with the closing of the school and the noncompliance items listed above.

Officials' Response:

All actions taken by the Academy to close were performed in accordance with the Ohio Department of Education. The Academy did not transfer assets and liabilities until receiving approval from the Ohio Department of Education or consultation from the Department directing the Academy of the proper action to be taken. Correspondence from the Ohio Department of Education regarding the closing of the Academy is available upon request, contact Dolores Cramer, Treasurer, Marysville Exempted Village School District.

Auditor of State Conclusion:

We have been informed that Marysville Academy and ODE have had discussions about the proper disposition of the school's assets.



Mary Taylor, CPA
Auditor of State

MARYSVILLE ACADEMY

UNION 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
JUNE 7, 2007**