

# **Massillon Digital Academy**

**Basic Financial Statements  
June 30, 2007 and 2006**





# Mary Taylor, CPA

Auditor of State

Board of Directors  
Massillon Digital Academy  
207 Oak Ave S. E.  
Massillon, Ohio 44646

We have reviewed the *Independent Auditors' Report* of the Massillon Digital Academy, Stark County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Massillon Digital Academy is responsible for compliance with these laws and regulations.

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

Mary Taylor, CPA  
Auditor of State

January 18, 2008

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# Massillon Digital Academy

For The Year Ended June 30, 2007 and June 30, 2006

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## Independent Auditors' Report

Board of Directors  
Massillon Digital Academy  
Massillon, Ohio

We have audited the accompanying basic financial statements of the Massillon Digital Academy (the "Academy"), a component unit of the Massillon City School District, as of and for the years ended June 30, 2007 and June 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Massillon Digital Academy as of June 30, 2007 and June 30, 2006, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, on our consideration of the Massillon Digital Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors  
Massillon Digital Academy

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Cini & Panichi, Inc.*

Cleveland, Ohio  
December 21, 2007

**Massillon Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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The discussion and analysis of Massillon Digital Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2007 and 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 notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- Net assets increased \$12,938.
- Operating revenues accounted for \$252,649 in revenue or 98 percent of all revenues.
- There were no capital asset additions.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a financial whole, an entire operating entity.

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 *Statements of Net Assets* represents the basic statement of position for the Academy.

The *Statements of Net Assets* and *Statements of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the Academy, presenting an aggregate view of the Academy's finances. In case of the Academy, there is only one fund presented.

The *Statements of Cash Flows* reflects how the Academy finances and meets its cash flow needs. Finally the notes to the basic financial statements are presented.

**Massillon Digital Academy**  
*Management's Discussion and Analysis (Continued)*  
For the Fiscal Years Ended June 30, 2007 and 2006

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**Reporting the Academy as a Whole**

Recall the Statements of Net Assets provides the perspective of the Academy as a whole.

Table 1 provides a summary of the Academy's net assets for 2007 compared to 2006 and 2005:

<b>Table 1</b>			
Net Assets			
	2007	2006	2005
<b>Assets</b>			
Current Assets	\$ 189,290	\$ 282,690	\$ 53,278
Capital Assets	129,513	169,582	73,632
<i>Total Assets</i>	318,803	452,272	126,910
<b>Liabilities</b>			
Current Liabilities	778	147,185	11,258
<b>Net Assets</b>			
Invested in Capital Assets	129,513	169,582	73,632
Restricted	5,911	4,911	1,960
Unrestricted	182,601	130,594	40,060
<i>Total Net Assets</i>	\$ 318,025	\$ 305,087	\$ 115,652

Liabilities decreased by \$146,407. This decrease is due to intergovernmental payables from Massillon City Schools being paid by 6/30/07.

***Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets and Statements of Cash Flows***

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2007?" The Statements of Net Assets and the Statements of Revenue, Expenses, and Changes in Net Assets answer this Question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The Statements of Cash Flows provide information about how the Academy finances and meets the cash flow needs of its operations.

**Massillon Digital Academy**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

**Financial Analysis**

Table 2 shows the changes in net assets for fiscal year 2007 compared to fiscal year 2006 and 2005:

**Table 2**  
**Changes in Net Assets**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Operating Revenue</b>			
Foundation Payments	\$ 252,649	\$ 251,947	\$ 195,272
<b>Operating Expenses</b>			
Purchased Services	193,452	179,741	219,191
Materials and Supplies	3,211	3,634	16,118
Depreciation Expense	40,069	27,449	3,114
Other Operating Expense	7,397	5,553	7,944
<i>Total Operating Expenses</i>	<u>244,129</u>	<u>216,377</u>	<u>246,367</u>
<b>Non-Operating Revenues</b>			
Grants – Federal	3,000	153,000	153,000
Other	75	30	0
Interest Income	1,343	835	400
<i>Total Non-Operating Revenues</i>	<u>4,418</u>	<u>153,865</u>	<u>153,400</u>
<i>Change In Net Assets</i>	<u>\$ 12,938</u>	<u>\$ 189,435</u>	<u>\$ 102,305</u>

The Statements of Revenues, Expenses, and Changes in Net Assets show the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating revenues associated with those expenses. That is, it identifies the amount of operating expenses supported by State and other funding. In fiscal year 2006 and 2005 the Academy received \$150,000 in federal grant money from the Federal Charter Grant Program. In fiscal year 2007 the Academy did not receive this grant.

The dependence upon state foundation revenues for operating activities is apparent. All monies were used for purchase services. The Academy's operating revenue is 98 percent of total revenue. State sources are by far the primary support for the Massillon Digital Academy.

**Massillon Digital Academy**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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**The Academy's Funds**

The Academy had total revenues of \$257,067 and expenses of \$244,129. The change in net assets for the fiscal year ended June 30, 2007, was an increase of \$12,938.

**Budget**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. 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. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2007, the Academy had \$129,513 (net of \$71,824 in accumulated depreciation) invested in furniture and computer equipment. Table 3 shows fiscal year 2007 balances compared to 2006 and 2005. More detailed information is presented in Note 4 of the notes to the basic financial statements.

**Table 3**  
**Capital Assets (Net of Depreciation)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Furniture	\$ 1,462	\$ 1,792	\$ 2,123
Computer Equipment	128,051	167,790	71,509
Total Capital Assets	<u>\$ 129,513</u>	<u>\$ 169,582</u>	<u>\$ 73,632</u>

*Debt Administration*

At June 30, 2007, the Academy had no debt.

**Massillon Digital Academy**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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**Current Financial Related Activities**

The Academy is sponsored by the Massillon City School District. The Academy relies on State Foundation Funds. In fiscal year 2006 the Academy received Federal Sub-Grants to provide the monies necessary to begin start-up. The Federal Sub-Grants were exhausted at end of fiscal year 2006. These funds helped expand the current program.

The future of the Academy is dependent upon continued funding from the State Foundation Funds as no local revenue can be generated through tuition or property taxes. It is the intention of the management of the Academy to pursue other State and Federal grants as they become available.

The Academy has committed itself to providing online educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of the Academy.

**Other Information**

Management is currently aware that the Academy was not awarded any grant monies for fiscal year 2007.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our citizen's, 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 information contact Ms. Teresa Emmerling, Treasurer of Massillon Digital Academy, 207 Oak Street S. E., Massillon, Ohio 44646.

**Massillon Digital Academy**

*Statements of Net Assets*

*June 30, 2007 and 2006*

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	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents with Fiscal Agent	\$ 189,290	\$ 282,690
Noncurrent Assets:		
Depreciable Capital Assets, Net	<u>129,513</u>	<u>169,582</u>
<i>Total Assets</i>	<u>318,803</u>	<u>452,272</u>
<b>Liabilities</b>		
Current Liabilities:		
Intergovernmental Payable	<u>778</u>	<u>147,185</u>
<b>Net Assets</b>		
Invested in Capital Assets	129,513	169,582
Restricted for Other Purposes	5,911	4,911
Unrestricted	<u>182,601</u>	<u>130,594</u>
<i>Total Net Assets</i>	<u>\$ 318,025</u>	<u>\$ 305,087</u>

The notes to the basic financial statements are an integral part of this statement.

**Massillon Digital Academy**  
*Statements of Revenues, Expenses and Changes in Net Assets*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
<b>Operating Revenues</b>		
Foundation Payments	\$ 252,649	\$ 251,947
<b>Operating Expenses</b>		
Purchased Services	193,452	179,741
Materials and Supplies	3,211	3,634
Depreciation	40,069	27,449
Other	7,397	5,553
<i>Total Operating Expenses</i>	<u>244,129</u>	<u>216,377</u>
<i>Operating Income</i>	<u>8,520</u>	<u>35,570</u>
<b>Non-Operating Revenues</b>		
Other	75	30
Interest	1,343	835
Federal and State Grants	3,000	153,000
<i>Total Non-Operating Revenues</i>	<u>4,418</u>	<u>153,865</u>
<i>Change in Net Assets</i>	12,938	189,435
<i>Net Assets Beginning of Year</i>	<u>305,087</u>	<u>115,652</u>
<i>Net Assets End of Year</i>	<u>\$ 318,025</u>	<u>\$ 305,087</u>

The notes to the basic financial statements are an integral part of this statement.

**Massillon Digital Academy**  
*Statements of Cash Flows*  
For the Fiscal Years Ended June 30, 2007 and 2006

	2007	2006
<i>(Decrease) Increase in Cash and Cash Equivalents</i>		
<b>Cash Flows From Operating Activities</b>		
Cash Received from State Foundation	\$ 252,649	\$ 251,947
Cash Payments for Goods and Services	(339,859)	(43,814)
Cash Payments for Materials and Supplies	(3,211)	(3,634)
Cash Payments for Other Expenses	(7,397)	(5,553)
<i>Net Cash (Used for) Provided by Operating Activities</i>	<u>(97,818)</u>	<u>198,946</u>
<b>Cash Flows From Non-Capital Financing Activities</b>		
Operating Grants Received	3,000	153,000
Other Non-Operating Revenues	75	30
<i>Net Cash Provided by Non-Capital Financing Activities</i>	<u>3,075</u>	<u>153,030</u>
<b>Cash Flows From Investing Activities</b>		
Interest on Investments	1,343	835
<b>Cash Flows From Capital and Related Activities</b>		
Payments for Capital Acquisitions	0	(123,399)
<i>Net (Decrease) Increase in Cash and Cash Equivalents</i>	(93,400)	229,412
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>282,690</u>	<u>53,278</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 189,290</u></u>	<u><u>\$ 282,690</u></u>
<b>Reconciliation of Operating Income to</b>		
<b>Net Cash (Used for) Provided by Operating Activities</b>		
<i>Operating Income</i>	\$ 8,520	\$ 35,570
Adjustments:		
Depreciation	40,069	27,449
(Decrease) Increase in Liabilities		
Intergovernmental Payable	(146,407)	135,927
<i>Total Adjustments</i>	<u>(106,338)</u>	<u>163,376</u>
<i>Net Cash (Used for) Provided by Operating Activities</i>	<u><u>\$ (97,818)</u></u>	<u><u>\$ 198,946</u></u>

The notes to the basic financial statements are an integral part of this statement.

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Massillon Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3313 and 3314. 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 predominately 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 Massillon City 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. Part of the contract contains a comprehensive plan requiring the Academy to assess achievement levels. The Academy will strive to obtain a student pass rate of 75 percent or higher minimum percent designated by the Department of Education on the Ohio achievement test. Furthermore, the Academy will endeavor to achieve an overall attendance rate of 93 percent or above and a graduation rate of 90 percent or above. The Academy has no paid employees.

The Academy operates under the direction of a six-member (five voting members) Board of Directors made up of:

- (a) Three persons employed and serving in administrator positions within the Sponsor, whose positions have been identified by the Massillon City 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 Massillon City School District Board of Education and its interests. The three members may consist of the Assistant Superintendent, Director of Curriculum and Coordinator of State and Federal Grants and Programs or other administrative positions designated at the sponsor's discretion.
- (b) One person who is neither an officer nor employee of the Sponsor 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.
- (c) One person who is a representative of Stark-Portage Area Computer Consortium (SPARCC).
- (d) The Academy's Treasurer as a non-voting ex officio member who is also the Sponsor's Treasurer and serves the Board of Directors in his official capacity as a representative of the Massillon City School District Board of Education and its interests.

Therefore, the Academy is a component unit of the Sponsor.

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Massillon Digital Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied 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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Academy also has the option to apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are described below.

**A. Basis of Presentation**

**Enterprise Accounting**

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or changes in net assets is appropriate for public policy, management control, accountability or other purposes.

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets 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.

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 accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the 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 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. Expenses are recognized at the time they are incurred.

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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

**C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, with the exception of 5705.391. All other budgetary provisions are required to be followed, 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.

**D. Cash and Cash Equivalents**

Cash held by the Academy is reflected as "Cash and Cash Equivalents with Fiscal Agent" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During 2007, the Academy had no investments.

**E. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

The Academy received \$252,649 and \$251,947 for the years ended June 30, 2007 and 2006.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

In fiscal year 2006, the Academy participated in the Federal Charter Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to help defray operating costs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the years ended June 30, 2007 and 2006, totaled \$3,000 and \$153,000 per year, respectively.

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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

**F. Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Capital leases are amortized over the life of the lease. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Equipment	8
Computers	5

**G. 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. For the years ended June 30, 2007 and 2006, the Academy had unrestricted net assets of \$182,601 and \$130,594, respectively, and \$5,911 and \$4,911 of restricted net assets, respectively.

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

**H. Operating Revenues and Expenses**

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

**I. Estimates**

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

**J. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal years 2007 and 2006.

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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**NOTE 3 - DEPOSITS**

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2007, the Academy and public depositories complied with the provisions of these statutes.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

At fiscal year-end, the carrying amount of the Academy's deposits was \$189,290. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2007, \$92,793 of the Academy's bank balance of \$192,793 was exposed to custodial risk as discussed above, while \$100,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding deposit and investment of funds by the Academy.

At June 30, 2006, the carrying amount of the Academy's deposits was \$282,690. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as June 30, 2006, \$185,743 of the Academy's bank balance of \$285,743 was exposed to custodial risk while \$100,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the Academy.

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
For the Fiscal Years Ended June 30, 2007 and 2006

**NOTE 4 - CAPITAL ASSETS**

A summary of the Academy's capital assets at June 30, 2007 and 2006:

	Balance 07/01/2006	Additions	Reductions	Balance 06/30/2007
<i>Capital Assets, being depreciated:</i>				
Furniture	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	198,691	0	0	198,691
<i>Total Capital Assets, being depreciated</i>	201,337	0	0	201,337
<i>Less: Accumulated Depreciation</i>				
Furniture	(854)	(331)	0	(1,185)
Computer Equipment	(30,901)	(39,738)	0	(70,639)
<i>Total Accumulated Depreciation</i>	(31,755)	(40,069)	0	(71,824)
<i>Total Capital Assets being depreciated, Net</i>	<u>\$ 169,582</u>	<u>\$ (40,069)</u>	<u>\$ 0</u>	<u>\$ 129,513</u>
	Balance 07/01/05	Additions	Reductions	Balance 06/30/2006
<i>Capital Assets, being depreciated:</i>				
Furniture	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	75,292	123,399	0	198,691
<i>Total Capital Assets, being depreciated</i>	77,938	123,399	0	201,337
<i>Less: Accumulated Depreciation</i>				
Furniture	(523)	(331)	0	(854)
Computer Equipment	(3,783)	(27,118)	0	(30,901)
<i>Total Accumulated Depreciation</i>	(4,306)	(27,449)	0	(31,755)
<i>Total Capital Assets being depreciated, Net</i>	<u>\$ 73,632</u>	<u>\$ 95,950</u>	<u>\$ 0</u>	<u>\$ 169,582</u>

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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**NOTE 5 – FISCAL OFFICER**

The sponsorship agreement states the Treasurer of the Massillon City School District shall serve as the Fiscal Officer of the Academy.

The Treasurer of Massillon City School District shall perform the following functions while serving as the fiscal officer of the Academy:

- A. Maintain the financial records of the Academy in conformance with generally accepted accounting principles as required by the State Auditor;
- B. Comply with the operating policies recommended by the State Auditor, including those related to the presentation, review, discussion, and approval or rejection of a line item budget and regular reports of current and encumbered expense;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

**NOTE 6 - RELATED PARTY TRANSACTION**

The Academy is a component unit of the Massillon City School District (the District). The District is the Academy's sponsor. The Academy and the District entered into a 5-year sponsorship agreement commencing on the first day of the 2002 academic year, whereby terms of the sponsorship were established. Pursuant to this agreement, the District's treasurer serves as the Academy's fiscal officer. The Academy is required to pay an initial payment of \$25,000 and \$150 per student per year to the District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. The Sponsor waived the \$150 per student for the years 2007 and 2006.

**NOTE 7 - RISK MANAGEMENT**

**Insurance Coverage**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the years ended 2007 and 2006, the Academy contracted with the Indiana Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in the prior fiscal years. There has not been a significant reduction in coverage from the prior year.

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Years Ended June 30, 2007 and 2006*

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**NOTE 8 – PURCHASED SERVICES**

For the fiscal years ending June 30, 2007 and 2006, purchased service expenses were payments for professional and technical services to SPARCC in the amount of \$18,000 and \$300, respectively. The following is a breakdown of the total purchase services for year June 30, 2007:

	<u>2007</u>	<u>2006</u>
Professional and Technical Services	\$ 193,338	\$ 179,741
Travel Mileage/Meeting Expense	<u>114</u>	<u>0</u>
Total Purchased Services	<u><u>\$ 193,452</u></u>	<u><u>\$ 179,741</u></u>

**NOTE 9 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007 and 2006.

**B. Litigation**

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2006 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State's educational system and the matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. On October 25, 2006, the Ohio Supreme Court held that the state law authorizing the establishment and operations of community schools is constitutional both on its faith and as applied.

**C. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Academy does not anticipate any significant adjustments to state funding for fiscal year 2007 and 2006, as a result of such review.

**Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Massillon Digital Academy  
Massillon, Ohio

We have audited the financial statements of the Massillon Digital Academy (the “Academy”), a component unit of the Massillon City School District, as of and for the years ended June 30, 2007 and June 30, 2006, and have issued our report thereon dated December 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Academy’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy’s financial statements that is more than inconsequential will not be prevented or detected by the Academy’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors  
Massillon Digital Academy

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Finance Committee, Board of Education, Board of Directors, management, the Auditor of State's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Cini & Parichi, Inc.*

Cleveland, Ohio  
December 21, 2007



**Mary Taylor, CPA**  
Auditor of State

**MASSILLON DIGITAL ACADEMY**

**STARK 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  
JANUARY 31, 2008**