

# **Massillon Digital Academy**

**Basic Financial Statements  
June 30, 2009 and 2008**





# Mary Taylor, CPA

Auditor of State

Board of Directors  
Massillon Digital Academy  
207 Oak Street SE  
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, 2008 through June 30, 2009. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 3, 2010

**This Page is Intentionally Left Blank.**

# Massillon Digital Academy

For The Year Ended June 30, 2009

<u>Table of Contents</u>	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statements of Net Assets .....	8
Statements of Revenues, Expenses and Changes in Net Assets .....	9
Statements of Cash Flows .....	10
Notes to the Basic Financial Statements .....	11
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	19
Schedule of Findings.....	21
Schedule of Prior Year Findings.....	22
Independent Accountants' Report on Applying Agreed-Upon Procedures.....	23

**This Page is Intentionally Left Blank.**

## Independent Auditors' Report

Board of Directors  
Massillon Digital Academy  
Massillon, Ohio

We have audited the accompanying 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, 2009 and June 30, 2008, 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 audits.

We conducted our audits 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 audits provide 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 Academy as of June 30, 2009 and June 30, 2008, and the changes in financial position and 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 23, 2009, on our consideration of the 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 on pages 3 through 7 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 & Parichi, Inc.*

Cleveland, Ohio  
December 23, 2009



**Massillon Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

---

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 years ended June 30, 2009 and 2008. 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 2009 are as follows:

- Net assets decreased \$278,446.
- Operating revenues accounted for \$320,110 in revenue or 99 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, 2009 and 2008*

---

**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 2009 compared to 2008 and 2007:

**Table 1**  
Net Assets

	2009	Restated 2008	2007
<b>Assets</b>			
Current Assets	\$ 350,540	\$ 332,265	\$ 189,290
Capital Assets	50,374	89,444	129,513
<i>Total Assets</i>	<u>400,914</u>	<u>421,709</u>	<u>318,803</u>
<b>Liabilities</b>			
Current Liabilities	<u>338,525</u>	<u>80,874</u>	<u>778</u>
<b>Net Assets</b>			
Invested in Capital Assets	50,374	89,444	129,513
Restricted	1,486	10,396	5,911
Unrestricted	<u>10,529</u>	<u>240,995</u>	<u>182,601</u>
<i>Total Net Assets</i>	<u>\$ 62,389</u>	<u>\$ 340,835</u>	<u>\$ 318,025</u>

Total assets decreased by \$20,795. This decrease is mainly due to current year depreciation expense exceeding additional purchases. Liabilities increased by \$257,651 the majority of this, is money owed to Massillon City School District for service rendered.

***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 2009?" 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.

**Massillon Digital Academy**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

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.

**Financial Analysis**

Table 2 shows the changes in net assets for fiscal year 2009 compared to fiscal year 2008 and 2007:

**Table 2**  
 Changes in Net Assets

	<b>2009</b>	Restated <b>2008</b>	<b>2007</b>
<b>Operating Revenue</b>			
Foundation Payments	\$ 320,110	\$ 322,237	\$ 252,649
<b>Operating Expenses</b>			
Purchased Services	551,950	255,729	193,452
Materials and Supplies	2,559	631	3,211
Depreciation Expense	39,070	40,069	40,069
Other Operating Expense	8,671	8,353	7,397
<i>Total Operating Expenses</i>	602,250	304,782	244,129
<b>Non-Operating Revenues</b>			
Grants – Federal	3,000	4,486	3,000
Other	0	65	75
Interest Income	694	804	1,343
<i>Total Non-Operating Revenues</i>	3,694	5,355	4,418
<i>Change In Net Assets</i>	\$ (278,446)	\$ 22,810	\$ 12,938

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. The Academy's revenue remained consistent from 2008 to 2009.

The dependence upon state foundation revenues for operating activities is apparent. All monies were used for purchase services. The Academy's operating revenue is 99 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, 2009 and 2008*

---

**The Academy's Funds**

The Academy had total revenues of \$323,804 and expenses of \$602,250. The change in net assets for the fiscal year ended June 30, 2009, was an decrease of \$278,446.

**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 2009, the Academy had \$50,374 (net of \$150,963 in accumulated depreciation) invested in furniture and computer equipment. Table 3 shows fiscal year 2009 balances compared to 2008 and 2007. More detailed information is presented in Note 4 of the notes to the basic financial statements.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Furniture	\$ 800	\$ 1,131	\$ 1,462
Computer Equipment	49,574	88,313	128,051
Total Capital Assets	<u>\$ 50,374</u>	<u>\$ 89,444</u>	<u>\$ 129,513</u>

*Debt Administration*

At June 30, 2009, the Academy had no debt.

**Massillon Digital Academy**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

---

**Current Financial Related Activities**

The Academy is sponsored by the Massillon City School District. The Academy relies on State Foundation Funds.

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 will receive in fiscal year 2010 additional estimated funding in the amount of \$39,753 from the American Recovery and Reinvestment Act through the State Fiscal Stabilization Funds.

The Academy has committed itself to providing online educational opportunities to students. The Academy and the Massillon Board of Education approved a new Director for Fiscal Year 2010. The management will aggressively pursue adequate funding to secure the financial stability of the Academy.

**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, 2009 and 2008*

---

---

	<u>2009</u>	<u>Restated 2008</u>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents with Fiscal Agent	\$ 350,540	\$ 332,265
Noncurrent Assets:		
Depreciable Capital Assets, Net	<u>50,374</u>	<u>89,444</u>
<i>Total Assets</i>	<u>400,914</u>	<u>421,709</u>
<b>Liabilities</b>		
Current Liabilities:		
Intergovernmental Payable	<u>338,525</u>	<u>80,874</u>
<b>Net Assets</b>		
Invested in Capital Assets	50,374	89,444
Restricted for Other Purposes	1,486	10,396
Unrestricted	<u>10,529</u>	<u>240,995</u>
<i>Total Net Assets</i>	<u>\$ 62,389</u>	<u>\$ 340,835</u>

See accompanying notes to the basic financial statements.

**Massillon Digital Academy**  
*Statements of Revenues, Expenses and Changes in Net Assets*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

	2009	Reststed 2008
<b>Operating Revenues</b>		
Foundation Payments	\$ 320,110	\$ 322,237
<b>Operating Expenses</b>		
Purchased Services	551,950	255,729
Materials and Supplies	2,559	631
Depreciation	39,070	40,069
Other	8,671	8,353
<i>Total Operating Expenses</i>	602,250	304,782
<i>Operating Income (Loss)</i>	(282,140)	17,455
<b>Non-Operating Revenues</b>		
Other	0	65
Interest	694	804
Federal and State Grants	3,000	4,486
<i>Total Non-Operating Revenues</i>	3,694	5,355
<i>Change in Net Assets</i>	(278,446)	22,810
<i>Net Assets Beginning of Year</i>	340,835	318,025
<i>Net Assets End of Year</i>	\$ 62,389	\$ 340,835

See accompanying notes to the basic financial statements.

**Massillon Digital Academy**  
*Statements of Cash Flows*  
For the Fiscal Years Ended June 30, 2009 and 2008

	2009	Restated 2008
<b>Cash Flows From Operating Activities</b>		
Cash Received from State Foundation	\$ 320,110	\$ 322,237
Cash Payments for Goods and Services	(294,299)	(175,633)
Cash Payments for Materials and Supplies	(2,559)	(631)
Cash Payments for Other Expenses	(8,671)	(8,353)
<i>Net Cash Provided by Operating Activities</i>	14,581	137,620
<b>Cash Flows From Non-Capital Financing Activities</b>		
Grants Received	3,000	4,486
Other Non-Operating Revenues	0	65
<i>Net Cash Provided by Non-Capital Financing Activities</i>	3,000	4,551
<b>Cash Flows From Investing Activities</b>		
Interest on Investments	694	804
<i>Net Increase in Cash and Cash Equivalents</i>	18,275	142,975
<i>Cash and Cash Equivalents Beginning of Year</i>	332,265	189,290
<i>Cash and Cash Equivalents End of Year</i>	\$ 350,540	\$ 332,265
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
<i>Operating Income (Loss)</i>	\$ (282,140)	\$ 17,455
Adjustments:		
Depreciation	39,070	40,069
(Decrease) Increase in Liabilities		
Intergovernmental Payable	257,651	80,096
<i>Total Adjustments</i>	296,721	120,165
<i>Net Cash Provided by Operating Activities</i>	\$ 14,581	\$ 137,620

See accompanying notes to the basic financial statements.



**Massillon Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

---

**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 consist of two (2) Assistant Principals – Washington High School) and the Director of Pupil Services 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/CEO as a non-voting ex officio member who is also the Sponsor's Treasurer/CEO 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, 2009 and 2008*

---

**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, 2009 and 2008*

---

**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 2009, 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 \$320,110 and \$322,237 for the years ended June 30, 2009 and 2008.

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 2009, the Academy participated in several state and federal grant programs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the grant programs for the years ended June 30, 2009 and 2008, totaled \$3,000 and \$4,486 per year, respectively.

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

---

**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 Fixtures	8
Computer Equipment	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, 2009 and 2008, the Academy had unrestricted net assets of \$10,529 and \$240,995, respectively, and \$1,486 and \$10,396 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 2009 and 2008.

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

---

**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 uninsured 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 2009, 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 June 30, 2008, the carrying amount of the Academy's deposits was \$332,265. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as June 30, 2008, \$388,580 of the Academy's bank balance of \$488,580 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.

At June 30, 2009, the carrying amount of the Academy's deposits was \$350,540. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2009, the Academy's bank balance of \$617,881 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding 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, 2009 and 2008

**NOTE 4 - CAPITAL ASSETS**

A summary of the Academy's capital assets at June 30, 2009 and 2008:

	Balance 07/01/2008	Additions	Reductions	Balance 06/30/2009
<i>Capital Assets, Being Depreciated:</i>				
Furniture and Fixtures	\$ 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 and Fixtures	(1,516)	(331)	0	(1,847)
Computer Equipment	(110,377)	(38,739)	0	(149,116)
<i>Total Accumulated Depreciation</i>	(111,893)	(39,070)	0	(150,963)
<i>Total Capital Assets Being Depreciated, Net</i>	<u>\$ 89,444</u>	<u>\$ (39,070)</u>	<u>\$ 0</u>	<u>\$ 50,374</u>

	Balance 7/1/2007	Additions	Reductions	Balance 06/30/2008
<i>Capital Assets, Being Depreciated:</i>				
Furniture and Fixtures	\$ 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 and Fixtures	(1,185)	(331)	0	(1,516)
Computer Equipment	(70,639)	(39,738)	0	(110,377)
<i>Total Accumulated Depreciation</i>	(71,824)	(40,069)	0	(111,893)
<i>Total Capital Assets Being Depreciated, Net</i>	<u>\$ 129,513</u>	<u>\$ (40,069)</u>	<u>\$ 0</u>	<u>\$ 89,444</u>

**Massillon Digital Academy**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Years Ended June 30, 2009 and 2008*

---

**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 2007 academic year, whereby terms of the sponsorship were established. Pursuant to this agreement, the District's treasurer/CFO 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 has waived the \$150 per student since the Academy's inception.

**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 2009 and 2008, the Academy contracted with the Ohio Casualty Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in any of the last three 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, 2009 and 2008*

---

**NOTE 8 – PURCHASED SERVICES**

For the fiscal years ending June 30, 2009 and 2008, purchased service expenses were payments for professional and technical services to SPARCC in the amount of \$6,000 and \$6,000, respectively. The following is a breakdown of the total purchased services for year June 30, 2009:

	2009	2008
Professional and Technical Services	\$ 551,950	\$ 255,729

**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, 2009 and 2008.

**B. 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 2009 and 2008, as a result of such review.

**NOTE 10 – RESTATEMENT OF NET ASSETS**

During the year, it was determined by the Academy that intergovernmental payables were understated by \$80,874 at June 30, 2008. As a result, net assets have been restated as follows:

Previously Reported Net Assets, 6/30/08	\$ 421,709
Restatement of Intergovernmental Payable	(80,874)
Restated Net Assets, 7/1/08	\$ 340,835



**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, 2009 and June 30, 2008, and have issued our report thereon dated December 23, 2009. We conducted our audits 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 audits, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2009-1.

Board of Directors  
Massillon Digital Academy

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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **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*.

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity, 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 23, 2009

# Massillon Digital Academy

## Schedule of Findings

June 30, 2009

---

### 1. Summary of Auditors' Results

Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies reported at the financial statement level (GAGAS)?	Yes
Was there any material weaknesses reported at the financial statement level (GAGAS)?	No
Was there any material noncompliance reported at the financial statement level (GAGAS)?	No

### 2. Findings Related To The Financial Statements Required To Be Reported In Accordance With GAGAS

2009-001 – Significant Deficiency

Sound financial reporting is the responsibility of the Treasurer and the Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following audit adjustment was made to the financial statements, and where applicable, to the Academy's accounting records:

1. Adjusted intergovernmental payable for amounts that were not original recorded.

The lack of controls over the posting of year-end financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data at year-end.

We recommend the Academy review their policies and procedures for controls over recording of year-end financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Academy and thereby increasing the reliability of the financial data at year-end. Although the Academy has contracted a third party to perform their GAAP Conversion, the Academy's management needs to review the statements to be sure that all items are being properly recorded.

Officials Response: Management will develop a process to oversee the GAAP process more closely and have better communication with the third party during the conversion process.

### 3. Other Findings

None.

# Massillon Digital Academy

## Schedule of Prior Year Findings

June 30, 2009

---

The Academy had no prior audit findings.

## Independent Accountants' Report on Applying Agreed-Upon Procedures

Board of Directors  
Massillon Digital Academy  
207 Oak Avenue SE  
Massillon, Ohio 44646

To the Board of Directors:

Ohio Revised Code Section 117.53 states, “the Auditor of State shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by to by the Board, solely to assist the Board in evaluating whether the Massillon Digital Academy (the “Academy”) has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on August 22, 2007.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
  - a. A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
  - b. A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Revised Code Section 3313.666;
  - c. A procedure for reporting prohibited incidents;
  - d. A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

December 23, 2009

- e. A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- f. A procedure for documenting any prohibited incident that is reported;
- g. A procedure for responding to and investigating any reported incident;
- h. A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- i. A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student’s rights under the first amendment to the Constitution of the United States;
- j. A requirement that the Academy administration semiannually provide the president of the Academy board a written summary of all reported incidents and post the summary on its web site, if the Academy has a web site, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

*Cini & Parichi, Inc.*

Cleveland, Ohio  
December 23, 2009



**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  
FEBRUARY 16, 2010**