

**NEWARK DIGITAL ACADEMY**  
**(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)**  
**LICKING COUNTY, OHIO**  
**BASIC**  
**FINANCIAL STATEMENTS**  
**(AUDITED)**  
*FOR THE FISCAL YEAR ENDED*  
*JUNE 30, 2010*

**JEFFREY A. ANDERSON, TREASURER**





# Dave Yost • Auditor of State

Board of Directors  
Newark Digital Academy  
85 East Main St.  
Newark, Ohio 43055

We have reviewed the *Independent Auditor's Report* of the Newark Digital Academy, Licking County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. 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 Newark Digital Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

January 25, 2011

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**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 15, 2010

The Board of Directors  
Newark Digital Academy  
85 East Main St.  
Newark, Ohio 43055

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of Newark Digital Academy (the Digital Academy), a component unit of Newark City School District, as of and for the year ended June 30, 2010, which collectively comprise the Digital Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Digital 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 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 Newark Digital Academy, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year 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 15, 2010 on our consideration of the Digital 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. 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.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information required by the 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.

*Kea & Associates, Inc.*

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

The management's discussion and analysis of the Newark Digital Academy's (the "NDA") financial performance provides an overall review of the NDA's financial activities for the year ended June 30, 2010. The intent of this discussion and analysis is to look at the NDA'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 NDA's financial performance.

**Financial Highlights**

Key financial highlights for 2010 are as follows:

- In total, net assets were \$743,232 at June 30, 2010.
- The NDA had operating revenues of \$1,093,571, operating expenses of \$855,087, and non-operating revenues of \$154,680 for fiscal year 2010. Total change in net assets for the fiscal year was an increase of \$393,164.

**Using the Basic Financial Statements**

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 NDA's financial activities. The statement of net assets and statement of revenues, expenses and changes in net assets provide information about the activities of the NDA, including all short-term and long-term financial resources and obligations.

**Reporting the NDA's Financial Activities**

These documents look at all financial transactions and ask the question, "How did we do financially during 2010?" The statement of net assets and statement of revenues, expenses and changes in net assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the NDA's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the NDA as a whole, the financial position of the NDA has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the NDA finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.



**NEWARK DIGITAL ACADEMY  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

The table below provides a summary of the NDA's net assets for fiscal year 2010 and 2009.

<b>Net Assets</b>		
	<u>2010</u>	<u>2009</u>
<b><u>Assets</u></b>		
Current assets	\$ 660,831	\$ 351,375
Capital assets, net	<u>109,060</u>	<u>41,226</u>
Total assets	<u>769,891</u>	<u>392,601</u>
<b><u>Liabilities</u></b>		
Current liabilities	<u>26,659</u>	<u>42,533</u>
Total liabilities	<u>26,659</u>	<u>42,533</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	109,060	41,226
Restricted	48,591	-
Unrestricted	<u>585,581</u>	<u>308,842</u>
Total net assets	<u>\$ 743,232</u>	<u>\$ 350,068</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the NDA's net assets totaled \$743,232. At year-end, capital assets represented 14.17% of total assets. Capital assets consisted of land, buildings, computers and other equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

The table below shows the changes in net assets for fiscal year 2010 and 2009.

<b>Change in Net Assets</b>		
	<u>2010</u>	<u>2009</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 1,084,416	\$ 688,851
Charges for services	<u>9,155</u>	<u>117</u>
Total operating revenue	<u>1,093,571</u>	<u>688,968</u>
<b><u>Operating Expenses:</u></b>		
Personal services	151,931	107,649
Purchased services	514,516	397,075
Materials and supplies	94,332	34,103
Other	76,142	31,687
Depreciation	<u>18,166</u>	<u>20,958</u>
Total operating expenses	<u>855,087</u>	<u>591,472</u>

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

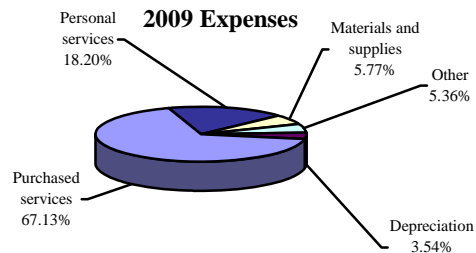
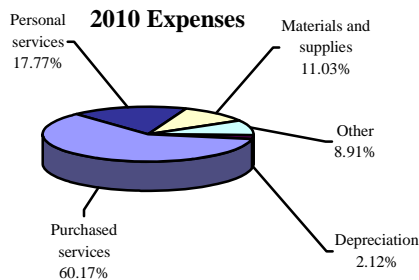
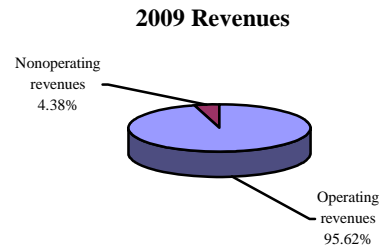
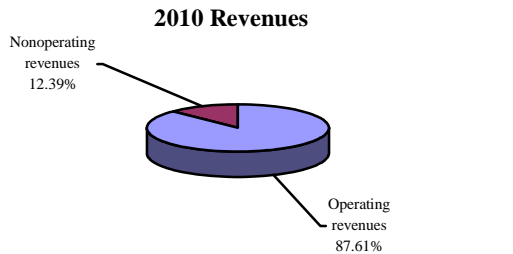
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010

**Change in Net Assets  
(Continued)**

	<u>2010</u>	<u>2009</u>
<b><u>Non-operating Revenues:</u></b>		
State and Federal grants	\$ 147,791	\$ 28,896
Interest revenue	1,650	1,729
Miscellaneous	<u>5,239</u>	<u>897</u>
Total non-operating revenues	<u>154,680</u>	<u>31,522</u>
Change in net assets	393,164	129,018
Net assets at beginning of year	<u>350,068</u>	<u>221,050</u>
Net assets at end of year	<u>\$ 743,232</u>	<u>\$ 350,068</u>

The increase in State foundation operating revenues and purchased services operating expenses was a result of an increase in student enrollment. The NDA received American Recovery and Reinvestment Act (ARRA) grants during the year that increased federal grant non-operating revenues during the year.

The charts below illustrate the revenues and expenses for the NDA during fiscal year 2010 and 2009.



**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

**Capital Assets**

At the end of fiscal 2010, the NDA had \$109,060 invested in land, a building and furniture and equipment. The following table shows fiscal year 2010 balances compared to 2009:

	<b>Capital Assets at June 30</b>	
	<b>(Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 6,630	\$ -
Building	78,378	-
Furniture and equipment	<u>24,052</u>	<u>41,226</u>
Total	<u>\$ 109,060</u>	<u>\$ 41,226</u>

During fiscal year 2010, the NDA purchased the land and building, previously leased from the sponsor, for \$86,000. See Note 5 to the basic financial statements for additional information on the NDA's capital assets.

**Debt Administration**

At June 30, 2010, the NDA had no outstanding debt at year-end.

**Current Financial Related Activities**

NDA began fiscal year 2004 with TRECA providing most of its instructional and administrative services. The same services were utilized in 2010. During 2010, NDA also contracted with Jefferson County Educational Service Center for participation in the Virtual Learning Academy. We will continue to utilize TRECA and Jefferson County Education Service Center for these services in fiscal year 2011. In addition, we offer non-digital curriculum, such as Calvert School Educational Services, Keystone National High School, and the American School. The cutting edge nature of this kind of instructional delivery makes for constant change during the first few years of operation.

**Contacting the NDA's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the NDA's finances and to show the NDA's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Jeffery A. Anderson, Treasurer, at Newark Digital Academy, 85 East Main Street, Newark, Ohio 43055 or email at [JAANDERSON@laca.org](mailto:JAANDERSON@laca.org).

**BASIC  
FINANCIAL STATEMENTS**

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2010

<b>Assets:</b>	
Current assets:	
Cash and cash equivalents . . . . .	\$ 624,377
Intergovernmental receivable . . . . .	36,454
Total current assets . . . . .	660,831
Noncurrent assets:	
Land . . . . .	6,630
Depreciable capital assets, net . . . . .	102,430
Total noncurrent assets . . . . .	109,060
Total assets . . . . .	769,891
 <b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	2,082
Intergovernmental payable . . . . .	2,000
State foundation payable . . . . .	22,577
Total liabilities . . . . .	26,659
 <b>Net assets:</b>	
Invested in capital assets . . . . .	109,060
Restricted for federally funded programs . . . . .	44,601
Restricted for state funded programs . . . . .	3,990
Unrestricted . . . . .	585,581
Total net assets . . . . .	\$ 743,232

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 1,084,416
Tuition and fees . . . . .	9,155
Total operating revenues . . . . .	<u>1,093,571</u>
<b>Operating expenses:</b>	
Personal services . . . . .	151,931
Purchased services . . . . .	514,516
Materials and supplies . . . . .	94,332
Other operating expenses . . . . .	76,142
Depreciation . . . . .	18,166
Total operating expenses . . . . .	<u>855,087</u>
Operating income . . . . .	<u>238,484</u>
<b>Non-operating revenues:</b>	
State and Federal grants . . . . .	147,791
Interest revenue . . . . .	1,650
Other non-operating revenues . . . . .	5,239
Total nonoperating revenues . . . . .	<u>154,680</u>
Change in net assets . . . . .	393,164
<b>Net assets at beginning of year . . . . .</b>	<u>350,068</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 743,232</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<b>Cash flows from operating activities:</b>	
Cash received from foundation . . . . .	\$ 1,092,564
Cash received from tuition and fees . . . . .	9,155
Cash payments for personal services. . . . .	(155,591)
Cash payments for purchased services . . . . .	(529,716)
Cash payments to suppliers for goods and supplies. . . . .	(92,526)
Cash payments for other expenses . . . . .	(83,110)
	<hr/>
Net cash provided by operating activities. . . . .	240,776
	<hr/>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from State and Federal grants . . . . .	111,595
Cash received from miscellaneous receipts. . . . .	5,239
	<hr/>
Net cash provided by noncapital financing activities. . . . .	116,834
	<hr/>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	(86,000)
	<hr/>
Net cash used in capital and related financing activities. . . . .	(86,000)
	<hr/>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	1,650
	<hr/>
Net cash provided by investing activities . . . . .	1,650
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Net increase in cash and cash equivalents. . . . .	273,260
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>351,117</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$ 624,377</b>
	<hr/> <hr/>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 238,484
Adjustments:	
Depreciation . . . . .	18,166
Changes in assets and liabilities:	
(Decrease) in accounts payable. . . . .	(3,700)
(Decrease) in intergovernmental payable . . . . .	(3,660)
(Decrease) in due to primary government . . . . .	(9,447)
Increase in state foundation payable . . . . .	933
	<hr/>
Net cash provided by operating activities . . . . .	<b>\$ 240,776</b>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 1 - DESCRIPTION OF THE SCHOOL**

The Newark Digital Academy (NDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. NDA 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 NDA's tax exempt status. NDA'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. The students may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students with the Newark City School District, (sponsor of the NDA), that desire a specific course not currently offered but is available through online instruction.

NDA was created on February 11, 2003 by entering into a five year contract with the Newark City School District (the Sponsor) through fiscal year 2008. On May 13, 2008, the NDA entered into a new five year contract through fiscal year 2013. The Sponsor is responsible for evaluating the performance of the NDA and has the authority to deny renewal of the contract at its expiration. The Sponsor provided and maintained space at its technology center at no cost for NDA during fiscal year 2010. NDA paid purchased services to Tri-Rivers Educational Computer Association (TRECA) for providing the planning, design, implementation, instructional, administrative and technical consulting services during the fiscal year.

NDA operates under the direction of a five-member Board of Directors. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

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

The financial statements of NDA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. NDA 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. NDA has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. Following are the more significant of the NDA's accounting policies.

**A. Basis of Presentation**

The NDA'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.

NDA uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.



**NEWARK DIGITAL ACADEMY  
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**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

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

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of NDA 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 total net assets. The statement of cash flows reflects how NDA's finances meet its cash flow needs.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. NDA's financial statements are prepared using the accrual basis of accounting. 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. Revenue resulting from non-exchange transactions, in which NDA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which NDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to NDA on a reimbursement basis. Expenses are recognized at the time they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the NDA's contract with its Sponsor. The contract between NDA and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**D. Cash and Cash Equivalents**

Cash received by NDA is reflected as "cash and cash equivalents" on the statement of net assets. NDA had no investments during the fiscal year ended June 30, 2010.

**E. Capital Assets**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The NDA maintains a capitalization threshold of one thousand dollars. The NDA does not possess any infrastructure.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method. Buildings are depreciated over forty years, furniture is depreciated over twenty years, and computers are depreciated over six years.

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**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

**F. Intergovernmental Revenue**

The NDA currently participates in the State Foundation Program, the EMIS grant, the Data Communication grant, the IDEA B grant, Education Stabilization grant, the Stimulus Title IID grant, the Nutrition Education and Training Program grant, Title I grant, Title V grant, Drug Free School grant, the Improving Teacher Quality grant programs. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2010 school year excluding State and Federal grants totaled \$1,084,416.

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 NDA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the NDA on a reimbursement basis. State and Federal grants revenue for the fiscal year 2010 received was \$147,791.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2010 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. The NDA has no prepaid assets at June 30, 2010.

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Amounts restricted include amounts restricted for State and Federally funded programs.

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

**I. Operating Revenues and Expenses**

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

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

**J. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 3 - CHANGES IN ACCOUNTING POLICIES**

For fiscal year 2010, the NDA has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the NDA.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the NDA.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the NDA.

**NOTE 4 - DEPOSITS**

At June 30, 2010, the carrying amount of all NDA deposits was \$624,377. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$477,774 of the NDA's bank balance of \$727,774 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

**NEWARK DIGITAL ACADEMY  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**NOTE 4 - DEPOSITS - (Continued)**

Custodial credit risk is the risk that, in the event of bank failure, the NDA's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% 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 a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the NDA. The NDA has no deposit policy for custodial credit risk beyond the requirement of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the NDA to a successful claim by the FDIC.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance <u>06/30/09</u>	Additions	Reductions	Balance <u>06/30/10</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ -	\$ 6,630	\$ -	\$ 6,630
Total capital assets, not being depreciated	<u>-</u>	<u>6,630</u>	<u>-</u>	<u>6,630</u>
<i>Capital assets, being depreciated:</i>				
Building	-	79,370	-	79,370
Furniture and equipment	<u>130,400</u>	<u>-</u>	<u>-</u>	<u>130,400</u>
Total capital assets, being depreciated	<u>130,400</u>	<u>79,370</u>	<u>-</u>	<u>209,770</u>
<i>Less: accumulated depreciation</i>				
Building	-	(992)	-	(992)
Furniture and equipment	<u>(89,174)</u>	<u>(17,174)</u>	<u>-</u>	<u>(106,348)</u>
Total accumulated depreciation	<u>(89,174)</u>	<u>(18,166)</u>	<u>-</u>	<u>(107,340)</u>
Capital assets, net	<u>\$ 41,226</u>	<u>\$ 67,834</u>	<u>\$ -</u>	<u>\$ 109,060</u>

During fiscal year 2010, the NDA purchased land and a building for the use and maintenance of its technology center. The building was previously being leased to the NDA by the Sponsor.

**NOTE 6 - SERVICE AGREEMENTS**

**A. TRECA**

NDA entered into a one-year contract on July 16, 2009 for fiscal year 2010, with Tri-Rivers Educational Computer Association (TRECA) for consulting services. Under the contract, the following terms were agreed upon:

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FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

**NOTE 6 - SERVICE AGREEMENT - (Continued)**

TRECA shall provide NDA with the following consulting services: instructional, supervisory/administrative, and technical services sufficient to effectively implement the NDA's educational plan and NDA's assessment and accountability plan.

All personnel providing services to NDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.

The technical services provided by TRECA to NDA 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. In the event NDA is unable to recover such equipment or the equipment is not recovered in other than good working conditions, NDA shall reimburse TRECA for the cost of such equipment in the amount of \$900 per student, except that if the student has been enrolled in the NDA for at least 90 days, \$700, and if the student has been enrolled in the NDA for at least 180 days, \$500.

NDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of NDA.

Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.

NDA shall pay TRECA \$3,875 per full-time student. Part-time students may be enrolled on such terms as are agreed to by the parties.

NDA may receive a reduction in the above described fees by assuming additional responsibilities, such as by providing the computers and technology to individual students in lieu of TRECA providing said equipment or by providing overall support services which include application, orientation, scheduling/guidance, attendance monitoring, intervention, and student withdrawal services.

In addition to the base fees above, NDA shall pay TRECA, according to the tier fees, for services required for such students by virtue of their status as Disabled.

TRECA also provides a part-time technician for an annual fee of \$14,500.

For the initial period \$157,692 was paid under this contract.

**B. Jefferson County Educational Service Center**

NDA entered into a one-year contract for fiscal year 2010, with the Jefferson County Educational Service Center (ESC) for participation in the Jefferson County ESC Virtual Learning Academy (VLA).

The VLA is an internet-based educational delivery system designed for grades 2-12, providing alternative educational options for credit deficiencies, alternative programs, students being schooled at home and summer school programs.

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**NOTE 6 - SERVICE AGREEMENT - (Continued)**

Under the contract, the following terms were agreed upon:

The VLA shall provide NDA with the following services: development and maintenance of NDA's VLA database, technology professional development, daily on-line VLA technical support, marketing consultation, treasurer's office/EMIS support, and intervention support.

The student VLA license fees will be the responsibility of NDA at of rate of \$185 per student. Additional fees will be charged for students enrolled in specialized courses. Discounted rates will be charged to summer school students.

For the initial period \$232,366 was paid under this contract.

**NOTE 7 - PURCHASED SERVICES**

For fiscal year ended June 30, 2010, purchased services expenses were as follows:

Professional and technical services	\$ 289,253
Travel and meetings	13,861
Other purchased services	<u>211,402</u>
Total	<u>\$ 514,516</u>

**NOTE 8 - RISK MANAGEMENT**

The NDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During fiscal year 2010, the NDA contracted for the following insurance coverages:

Coverages provided by Indiana Insurance are as follows:

General NDA Liability

Per Occurrence	\$1,000,000
Total per Year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

NDA also carries Public Official Bonds through Travelers Casualty and Surety Company of America for the Treasurer, Superintendent and Board President.

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**NOTE 9 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The NDA contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the NDA is required to contribute at an actuarially determined rate. The current NDA rate is 14 percent of annual covered payroll. A portion of the NDA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The NDA's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$3,477, \$2,031 and \$2,424, respectively; 67.13 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. State Teachers Retirement System of Ohio**

Plan Description - The NDA participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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**NOTE 9 - PENSION PLANS - (Continued)**

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

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The NDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The NDA's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$13,917, \$8,770 and \$2,682, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2010, certain members of the Board of Director have elected Social Security. The NDA's liability is 6.2 percent of wages paid.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The NDA participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under *Employers/Audit Resources*.



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**NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)**

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The NDA's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$125, \$930 and \$1,106, respectively; 67.13 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The NDA's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$207, \$168 and \$175, respectively; 67.13 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

**B. State Teachers Retirement System of Ohio**

Plan Description - The NDA contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The NDA's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$1,071, \$675 and \$194, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

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**NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - CONTINGENCIES**

**A. Grants**

The NDA received financial assistance from federal and state agencies in the form of grants. The expenditure 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 of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the NDA at June 30, 2010.

**B. Litigation**

The NDA is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment date 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. The conclusion of this review resulted in a payable of \$8,148 in 2010. In addition to the current year adjustment, \$14,429 of the fiscal year 2009 adjustment of \$21,644 had not been withheld from foundation settlements at June 30, 2010. The total State Foundation payable at June 30, 2010 is \$22,577.



## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

December 15, 2010

To the Board of Directors  
Newark Digital Academy  
85 East Main St.  
Newark, Ohio 43055

**INDEPENDENT AUDITOR'S 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**

We have audited the accompanying financial statements of the Newark Digital Academy (the "Digital Academy"), a component unit of Newark City School District, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. 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 Digital Academy's internal control over financial reporting as a basis for designing our audit 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 Digital Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Digital Academy's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Digital 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 Board of Directors, sponsor and management and is not intended to be and should not be used by anyone other than these specified parties.

*Rea & Associates, Inc.*



# Dave Yost • Auditor of State

**NEWARK DIGITAL ACADEMY**

**LICKING COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 8, 2011**