

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FINAL AUDIT**

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2010*

PATRICIA PENNY, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Directors
Tiffin City Schools Digital Academy
244 South Monroe Street
Tiffin, Ohio 44883

We have reviewed the *Independent Auditor's Report* of the Tiffin City Schools Digital Academy, Seneca County, prepared by Julian & Grube, 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 Tiffin City Schools Digital Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 20, 2010

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**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO**

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Directors
Tiffin City Schools Digital Academy
244 S. Monroe Street
Tiffin, Ohio 44883-2906

We have audited the accompanying financial statements of the Tiffin City Schools Digital Academy, Seneca County, Ohio (a component unit of Tiffin City School District), as of and for the fiscal year ended June 30, 2010, which collectively comprise the Tiffin City Schools Digital Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Tiffin City Schools 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, for the Tiffin City Schools Digital Academy, the respective changes in financial position and its cash flows for the fiscal year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12, the Tiffin City Schools Digital Academy ceased operations effective June 30, 2010 at which time all assets, liabilities and net assets were distributed to the sponsor, Tiffin City School District.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2010, on our consideration of the Tiffin City Schools 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Tiffin City Schools Digital Academy
Page Two

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
August 6, 2010

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY, OHIO**

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

The management's discussion and analysis of Tiffin City Schools Digital Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

The Academy ceased operations effective June 30, 2010. The assets and liabilities of the Academy reverted to the Tiffin City School District (the Sponsor) upon the dissolution. Tiffin City School District will use these assets to continue addressing the needs of students who benefited from the Academy's curriculum.

Using these 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 Academy's financial activities. The statement of revenues, expenses and changes in net assets provides information about the activities of the Academy. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its operations.

Reporting the Academy's Financial Activities

Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

The statement of revenues, expenses and changes in net assets includes all 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. 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 change may be the result of many factors, some financial, some not. The statement of revenues, expenses and changes in net assets can be found on page 6 of this report.

The statement of cash flows can be found on page 7 of this report.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY, OHIO**

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

Table 1 provides a summary of the Academy's net assets for fiscal year 2010 and 2009:

(Table 1)		
Net Assets		
	2010	2009
<u>Assets</u>		
Current assets	\$ -	\$ 201,694
Capital assets, net	-	15,073
Total assets	-	216,767
<u>Liabilities</u>		
Current liabilities	-	-
Total liabilities	-	-
<u>Net Assets</u>		
Invested in capital assets	-	15,073
Restricted	-	10,268
Unrestricted	-	191,426
Total net assets	\$ -	\$ 216,767

The Academy ceased operations on June 30, 2010 and transferred all assets to the Sponsor. The Academy transferred \$192,825 in cash, \$1,200 in accounts receivable, \$10,000 in accounts payable and \$8,600 in capital assets, net of accumulated depreciation, to the Sponsor on June 30, 2010. See Note 12 to the basic financial statements for more detail.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY, OHIO**

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

Table 2 shows the changes in net assets for fiscal year 2010 and 2009, as well as a listing of revenues and expenses:

(Table 2)
Change in Net Assets

	2010	2009
<u>Operating Revenues:</u>		
Foundation payments	\$ 219,122	\$ 220,678
Other	1,553	95
Total operating revenue	220,675	220,773
<u>Operating Expenses:</u>		
Purchased services	245,980	213,281
Materials and supplies	7,748	802
Depreciation	6,473	8,277
Other	17,890	8,594
Total operating expenses	278,091	230,954
<u>Non-Operating Revenues (Expenses):</u>		
Grants and subsidies	33,274	10,237
Assets to Tiffin City School District upon dissolution	(192,625)	-
Total non-operating revenues (expenses)	(159,351)	10,237
Change in net assets	(216,767)	56
Net assets beginning of year	216,767	216,711
Net assets at end of year	\$ -	\$ 216,767

Certain 2009 numbers have been restated to more accurately reflect current year presentation.

Capital Assets

At June 30, 2010, the Academy ceased operations and all remaining capital assets, net of accumulated depreciation, of \$8,600, became the property of the Sponsor. See Notes 4 and 12 to the basic financial statements for more detail on capital assets and the Academy's continued existence.

Contacting the Academy's Financial Management

This financial report is designed to provide a general overview of the Academy's finances and to show the Academy's accountability for the monies it receives. Questions concerning any of the information in this report should be directed to the Treasurer's Office at Tiffin City Schools, 244 S. Monroe St., Tiffin, Ohio 44883-2906.

**BASIC
FINANCIAL STATEMENTS**

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY, OHIO**

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

Operating revenues:	
Other	\$ 1,553
Foundation revenue	219,122
Total operating revenues	<u>220,675</u>
Operating expenses:	
Purchased services.	245,980
Materials and supplies	7,748
Other.	17,890
Depreciation	6,473
Total operating expenses.	<u>278,091</u>
Operating loss	<u>(57,416)</u>
Non-operating revenues (expenses):	
Grants and subsidies.	33,274
Assets to Tiffin City School District upon dissolution	<u>(192,625)</u>
Total nonoperating revenues (expenses)	<u>(159,351)</u>
Change in net assets.	(216,767)
Net assets at beginning of year	<u>216,767</u>
Net assets at end of year.	<u><u>\$ -</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from other operations	\$ 1,553
Cash received from state foundation	219,122
Cash payments for contractual services	(235,534)
Cash payments for materials and supplies	(7,748)
Cash payments for other expenses	(17,890)
	<hr/>
Net cash used in operating activities	(40,497)
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	33,274
Cash payment to Tiffin City School District upon dissolution	(192,825)
	<hr/>
Net cash used in noncapital financing activities.	(159,551)
Net decrease in cash and cash equivalents	(200,048)
Cash and cash equivalents at beginning of year . . .	200,048
Cash and cash equivalents at end of year	\$ -
	<hr/> <hr/>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (57,416)
Adjustments:	
Depreciation	6,473
Changes in assets and liabilities:	
Decrease in accounts receivable	446
Increase in accounts payable.	10,000
	<hr/>
Net cash used in operating activities	\$ (40,497)
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO

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

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Tiffin City Schools Digital Academy (the Academy) was a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's objective was to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It was 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 were not available locally, and others, including home-schooled students who were not enrolled in any public school and who were not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which was part of the State's education program, was nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy could sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under a contract with the Tiffin City School District (the Sponsor) for a period of five years commencing on the first day of the 2002-2003 academic year, as set forth in the educational plan and subsequently amended for one year for fiscal year 2009-2010. The Academy initiated operations on August 23, 2006. The Sponsor was responsible for evaluating the performance of the Academy and had the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Sponsor was also the fiscal agent of the Academy with the Treasurer of the Sponsor performing the role of Treasurer for the Academy. On June 30, 2010, the Academy ceased operations (see Note 12).

The Academy operated under the direction of a five-member Board of Directors made up of community members who represented the interests of parents and students served by the Academy. The Board of Directors was responsible for carrying out the provisions of the contract which included, but were not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. During fiscal year 2010, the Academy purchased services from the Tri-Rivers Educational Computer Association (TRECA) for providing the instructional, administrative and technical services for the Academy.

The Academy was a component unit of Tiffin City School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with accounting principles generally accepted (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 has elected not to apply FASB statements and interpretations issued after November 30, 1989. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

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

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO**

**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

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

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, are recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

In accordance with the Sponsorship Contract and as discussed in Note 12, the Academy transferred all assets, liabilities and net assets to the Sponsor on June 30, 2010; therefore, the Academy does not present a statement of net assets at June 30, 2010.

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 Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor did not prescribe a budgetary process in addition to preparing a 5-year forecast. The 5-year forecast was updated on an annual basis.

D. Cash

All monies received by the Academy were deposited in a demand deposit account. In accordance with the Sponsorship Contract and as discussed in Note 12, the Academy transferred all remaining cash to the Sponsor on June 30, 2010.

E. Capital Assets and Depreciation

All capital assets were capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets were recorded at their fair market value as of the date donated. The Academy maintained a capitalization threshold of \$1,000. The Academy did not possess any infrastructure. Improvements were capitalized. The costs of normal maintenance and repairs that did not add to the value of the asset or materially extend an asset's life were expensed.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO**

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

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

All capital assets were depreciated. Improvements were depreciated over the remaining useful lives of the related capital assets. Depreciation was computed using the straight-line method. Capital assets, currently consisting of furniture and equipment, was depreciated over five years.

In accordance with the Sponsorship Contract and as discussed in Note 12, the Academy transferred all capital assets, net of accumulated depreciation, to the Sponsor on June 30, 2010.

F. Operating Revenues and Expenses

Operating revenues were those revenues that were generated directly from the primary activities. For the Academy, these revenues were primarily foundation payments from the State. Operating expenses were necessary costs incurred to provide the service that is the primary activity of the Academy. Revenues and expenses not meeting this definition were reported as non-operating.

G. Intergovernmental Revenue

The Academy participated in the State Foundation Program. Revenues received from this program were recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements were recognized as non-operating revenues in the accounting period in which all eligibility requirements had been met. Eligibility included timing requirements, which specify the year when the resources were required to be used or the fiscal year when use was first permitted; matching requirements, in which the Academy was required to provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources were provided to the Academy on a reimbursement basis. The Academy received various State and Federal grants during fiscal year 2010 is the amount of \$33,274.

H. 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.

NOTE 3 - DEPOSITS

All monies received by the Academy were deposited in a demand deposit account. In accordance with the Sponsorship Contract and as discussed in Note 12, all remaining cash was transferred to the Sponsor at June 30, 2010.

TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO

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

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2010 follows:

	<u>Balance</u> <u>6/30/09</u>	<u>Additions</u>	<u>Transfer</u> <u>of Assets</u> <u>to Sponsor</u>	<u>Balance</u> <u>6/30/10</u>
Furniture and equipment	\$ 41,387	\$ -	\$ (41,387)	\$ -
Less: accumulated depreciation	<u>(26,314)</u>	<u>(6,473)</u>	<u>32,787</u>	<u>-</u>
Net capital assets	<u>\$ 15,073</u>	<u>\$ (6,473)</u>	<u>\$ (8,600)</u>	<u>\$ -</u>

In accordance with the Sponsorship Contract and as discussed in Note 12, the Academy transferred all capital assets, net of accumulated depreciation, to the Sponsor on June 30, 2010.

NOTE 5 - RISK MANAGEMENT

The Academy was 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. The Academy was covered under the liability and property policies of the Sponsor.

<u>Coverage</u>	<u>Limits of</u> <u>Coverage</u>
General Liability:	
Per occurrence	\$1,000,000
Aggregate	2,000,000
Fire Damage Liability	300,000

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

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO**

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

NOTE 6 - FISCAL AGENT AND PAYMENTS TO SPONSOR

The Academy did not employ any individuals within the Academy itself. All employees were employed by the Sponsor.

The Sponsorship Contract stated that the Academy shall acquire the services of a qualified fiscal officer. The Treasurer of the Tiffin City School District served as the Treasurer of the Academy. The Sponsorship Contract stated, the Academy shall perform the following functions:

- Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- Comply with the policies and procedures regarding internal financial control of the Academy; and,
- Comply with the requirements and procedures for financial audits by the Auditor of State.

In addition, the Sponsorship Contract stated the Academy shall secure the services of an Executive Director who shall be the chief operating officer of the Academy. This position was filled by the high school principal of the Sponsor, the Tiffin City School District.

The Academy shall pay to the Sponsor such other amounts as were mutually agreed, including fees for any services provided to the Academy by the Sponsor. During the year ended June 30, 2010, the Academy paid \$128,045 to the Tiffin City School District. The expenses were primarily related to salaries and benefits.

The Sponsor also provided educational support through the Sponsor's informational technology and pupil services departments.

NOTE 7 - CONTRACT WITH TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION

The Academy entered into a contract for fiscal year 2010 with Tri-Rivers Educational Computer Association (TRECA). Under the contract, the following terms were agreed upon:

- TRECA shall provide the Academy with instructional, supervisory/administrative, and technical services sufficient to substantially implement the Academy's educational plan and the Academy's assessment and accountability plan.
- All personnel providing services to the Academy on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- The Academy shall secure the services of an Executive Director, who shall be the chief operating officer of the Academy, with primary responsibility for day-to-day operations of the Academy.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO**

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

NOTE 7 - CONTRACT WITH TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION - (Continued)

- Curricular services provided by TRECA shall be limited to the basic standardized curriculum developed by TRECA. Basic services do not include special education and related services.
- The Academy shall pay TRECA \$3,875 per full-time student. Part-time students may be enrolled on such terms as agreed to by the parties.

For fiscal year 2010, \$78,163 was paid to TRECA.

To obtain TRECA's audited June 30, 2010 financial statements please contact Scott Armstrong, Chief Financial Officer, at scott@treca.org.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Academy was a component unit of the Sponsor. The Academy and the Sponsor entered into a Sponsorship Contract, whereby terms of the sponsorship were established. The Treasurer of the Sponsor served as the Treasurer of the Academy, the high school principal of the Sponsor also served as the Executive Director of the Academy and other employees of the Sponsor provided additional services to the Academy.

The Academy made payments to the Sponsor in the amount of \$128,045 during fiscal year 2010.

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, 2010.

B. Litigation

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

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO**

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

NOTE 10 - TAX EXEMPT STATUS

The Academy's legal counsel issued a tax opinion stating the Academy was not required to pay federal income tax or file federal tax returns because it qualified as an integral part of the Tiffin City School District which is a political subdivision of the State of Ohio. The tax opinion also indicates that as a further protection, they structured the Academy's incorporation documents in such a way that, in the unlikely event the Internal Revenue Service ever reaches a contrary conclusion regarding the Academy's tax status, the Academy should qualify as a tax-exempt organization under either Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code, retroactive to the date of incorporation. Thus, the Academy should avoid liability for any taxes or penalties imposed by the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

NOTE 11 - PURCHASED SERVICES

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

Professional and technical services	\$ 131,864
Property services	2,475
Other purchased services	<u>111,641</u>
Total	<u>\$ 245,980</u>

NOTE 12 - CONTINUED EXISTENCE/SUBSEQUENT EVENT

Due to a lack of grant funding and the expectations of the operation of the Academy that would have resulted in the ineffective spending and an overuse of personnel, the Academy ceased operations as of June 30, 2010 upon the expiration of the Sponsorship Contract.

In accordance with the Sponsorship Contract, upon dissolution, any remaining assets and liabilities of the Academy are to be conveyed to the Sponsor (Tiffin City School District). On June 30, 2010, the Academy transferred the following assets and liabilities to the Tiffin City School District in accordance with the Sponsorship Contract:

Cash	\$ 192,825
Accounts receivable	1,200
Accounts payable	(10,000)
Capital assets, net of accumulated depreciation	<u>8,600</u>
Total assets to Sponsor upon dissolution	<u>\$ 192,625</u>

This transfer of assets to the Sponsor is reflected on the financial statements as "Assets to Tiffin City School District upon dissolution."

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
(A Component Unit of Tiffin City School District)
SENECA COUNTY, OHIO**

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

NOTE 12 - CONTINUED EXISTENCE/SUBSEQUENT EVENT - (Continued)

The following expenditure transactions occurred subsequent to the closing of the Academy:

<u>Vendor</u>	<u>Amount</u>	<u>Purpose</u>
Julian & Grube	\$ 5,000	Audit
Auditor of State	500 *	Audit
Julian & Grube	1,500	GAAP Services
Brickler & Eckler, LLP	5,000 *	Legal Services

*Estimated

These payments will be made from Tiffin City Schools from the transfer of assets amount at June 30, 2010.

During the dissolution process the Academy consulted the Ohio Department of Education, Office of Community Schools.



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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
Tiffin City Schools Digital Academy
244 S Monroe Street
Tiffin, OH 44883-2906

We have audited the financial statements of Tiffin City Schools Digital Academy, Seneca County, Ohio, (a component unit of Tiffin City School District) as of and for the fiscal year ended June 30, 2010 and have issued our report thereon dated August 6, 2010 in which we noted the Tiffin City Schools Digital Academy ceased operations as of June 30, 2010 at which time all assets, liabilities and net assets were distributed to the sponsor, Tiffin City School District. 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 Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tiffin City Schools 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 opining on the effectiveness of Tiffin City Schools Digital Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of Tiffin City Schools 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, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of Tiffin City Schools Digital Academy's financial statements will not be prevented, or detected and timely corrected.

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 material weaknesses, as defined above.

Board of Directors
Tiffin City Schools Digital Academy

Compliance and Other Matters

As part of reasonably assuring whether the Tiffin City Schools Digital Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express 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 management, Board of Directors and the Tiffin City School's Digital Academy's sponsor (Tiffin City School District). We intend it for no one other than these specified parties.



Julian & Grube, Inc.
August 6, 2010

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Mary Taylor, CPA
Auditor of State

TIFFIN CITY SCHOOLS DIGITAL ACADEMY

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 4, 2011**