



Dave Yost • Auditor of State



MARION CITY DIGITAL ACADEMY  
MARION COUNTY

TABLE OF CONTENTS

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position .....	7
Statement of Revenues, Expenses, and Changes in Net Position.....	8
Statement of Cash Flows .....	9
Notes to the Basic Financial Statements .....	11
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	23

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Marion City Digital Academy  
Marion County  
420 Presidential Drive, Suite B  
Marion, Ohio 43302

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Marion City Digital Academy, Marion County, Ohio (the MCDA), a component unit of the Marion City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the MCDA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the MCDA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the MCDA's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion City Digital Academy, Marion County, Ohio, as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2015, on our consideration of the MCDA'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MCDA's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 25, 2015

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014

Unaudited

The management's discussion and analysis of Marion City Digital Academy's ("MCDA") financial performance provides an overall review of MCDA's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at MCDA's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the MCDA's financial performance.

### HIGHLIGHTS

MCDA began operations in January 2003. MCDA is an online internet school and students attending annually have fluctuated since its inception. MCDA continues to contract with Tri-Rivers Educational Computer Association (TRECA) for a few of the services it needs to educate the students.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

### FINANCIAL ANALYSIS OF THE MCDA AS A WHOLE

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

The following tables represent MCDA's condensed financial information for 2014 and 2013 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	Net Position	
	2014	2013
Current and other assets	\$378,187	\$424,541
Capital assets, Net	1,878	2,869
Total assets	380,065	427,410
Other liabilities	21,494	29,543
Total liabilities	21,494	29,543
Net position		
Investment in capital assets	1,878	2,869
Unrestricted	356,693	394,998
Total net position	\$358,571	\$397,867

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014

Unaudited

Changes in Net Position – The following table shows the changes in net position for the fiscal year 2014 and 2013:

	Change in Net Position	
	2014	2013
Operating Revenues		
Foundation Payments	\$592,560	\$648,840
All Other Revenue	1,748	4,700
Total Operating Revenues	<u>594,308</u>	<u>653,540</u>
Operating Expenses		
Salaries and Wages	199,052	178,884
Fringe Benefits	36,536	42,036
Purchased Services	478,952	569,322
Supplies and Materials	34,724	12,372
Depreciation	991	3,648
Other Operating Expense	1,394	412
Total Operating Expenses	<u>751,649</u>	<u>806,674</u>
Operating Loss	<u>(157,341)</u>	<u>(153,134)</u>
Nonoperating Revenues (Expenses)		
Federal and State Restricted Grants	117,832	43,982
Investment Earnings	213	613
Total Nonoperating Revenues (Expenses)	<u>118,045</u>	<u>44,595</u>
Total Change in Net Position	(39,296)	(108,539)
Net Position Beginning of Year	<u>397,867</u>	<u>506,406</u>
Net Position End of Year	<u>\$358,571</u>	<u>\$397,867</u>

MCDA operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds are included in the discussion and analysis. Results of fiscal year 2014 indicate a decrease in net position of \$39,296 and ending net position of \$358,573. The decrease is the result of reduced Foundation payments from the State. This is a result of reduced student population at the Academy. The reduced student population also resulted in reduced expenditures, but to a lesser degree; although, currently we are seeing an increase in population.

## BUDGET

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budgetary process for MCDA. MCDA is required to develop a five year projection that is to be reviewed twice a year by the Board of Directors.



# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

**Unaudited**

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2014, MCDA had \$1,878 net of accumulated depreciation invested in equipment. The following table shows fiscal years 2014 and 2013:

	Business-Type Activities		Increase (Decrease)
	2014	2013	
Equipment	\$178,148	\$178,148	\$0
Less: Accumulated Depreciation	(176,270)	(175,279)	(991)
Totals	\$1,878	\$2,869	(\$991)

The decrease in capital assets is due to depreciation expense. Additional information on MCDA's capital assets can be found in Note 6.

### Debt

The MCDA has not issued any debt.

## ECONOMIC FACTORS

MCDA is sponsored by the Marion City School District. MCDA relies on State foundation funding as well as federal grants to provide the monies necessary to operate the technology oriented educational program. These funds will continue to help expand the current program.

The future of MCDA is dependent upon continued funding from the State as no local revenue can be generated through tuition or property taxes. MCDA has committed itself to providing state of the art technology based educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of MCDA.

MCDA continues with the professional development sequence initiated in prior years. The training was implemented as selected staff of the Marion City School District, as the sponsoring school district, will teach students of MCDA. These staff members have been trained to deliver instruction through a digital environment. This group of Marion City School District teachers is putting theory into practice by teaching selected colleagues in MCDA. All grade levels and subject areas are represented and taught by these teachers. These teachers continue to attend professional development training sessions to consult with experienced staff in this environment.

As stated in our original vision for this collaboration, it is anticipated that these teachers (and other teachers to follow) will instruct students online of both MCDA and Marion City School District.

# **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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***Management's Discussion and Analysis***  
***For the Fiscal Year Ended June 30, 2014***

***Unaudited***

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## REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of MCDA's finances and to reflect MCDA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Hueston Lauderman, Treasurer, Marion City Digital Academy, 420 Presidential Drive, Suite B, Marion, Ohio 43302.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Statement of Net Position June 30, 2014

### Assets:

#### Current Assets:

Cash and Cash Equivalents	\$ 376,127
Receivables:	
Intergovernmental	2,060
<b>Total Current Assets</b>	<b>378,187</b>

#### Non Current Assets:

Capital Assets, Net of Accumulated Depreciation	1,878
<b>Total Assets</b>	<b>380,065</b>

### Liabilities:

#### Current Liabilities:

Accounts Payable	882
Accrued Wages and Benefits	16,977
Intergovernmental Payable	2,010
Due to Primary Government	1,625
<b>Total Liabilities</b>	<b>21,494</b>

### Net Position

Investment in Capital Assets	1,878
Unrestricted	356,693
<b>Total Net Position</b>	<b>\$ 358,571</b>

See accompanying notes to the basic financial statements

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## **MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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### ***Statement of Revenues, Expenses and Changes in Net Position For the Fiscal Year Ended June 30, 2014***

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<b>Operating Revenues:</b>	
Foundation Payments	\$ 592,560
All Other Revenue	1,748
<b>Total Operating Revenues</b>	<u>594,308</u>
<b>Operating Expenses:</b>	
Salaries and Wages	199,052
Fringe Benefits	36,536
Purchased Services	478,952
Supplies and Materials	34,724
Depreciation	991
Other Operating Expense	1,394
<b>Total Operating Expenses</b>	<u>751,649</u>
Operating Loss	(157,341)
<b>Nonoperating Revenues:</b>	
Federal and State Restricted Grants	117,832
Investment Earnings	213
<b>Total Nonoperating Revenues</b>	<u>118,045</u>
Change in Net Position	(39,296)
Net Position Beginning of Year	<u>397,867</u>
Net Position End of Year	<u>\$ 358,571</u>

See accompanying notes to the basic financial statements

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Statement of Cash Flows For the Fiscal Year Ended June 30, 2014

<u>Cash Flows from Operating Activities:</u>	
Cash Received for School Foundation	\$592,560
Cash Received from Other Revenue	1,748
Cash Payments for Personal Services	(199,848)
Cash Payments for Fringe Benefits	(41,893)
Cash Payments for Goods and Services	(515,343)
Cash Payments for Other Expenses	(1,435)
Net Cash Used for Operating Activities	<u>(164,211)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Restricted Grants Received	<u>157,932</u>
Net Cash Provided by Noncapital Financing Activities	<u>157,932</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	<u>213</u>
Net Cash Provided by Investing Activities	<u>213</u>
Net Decrease in Cash and Cash Equivalents	(6,066)
Cash and Cash Equivalents at Beginning of Year	<u>382,193</u>
Cash and Cash Equivalents at End of Year	<u><u>\$376,127</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Loss	(\$157,341)
Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities:	
Depreciation Expense	991
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	188
Decrease in Accounts Payable	(3,521)
Decrease in Accrued Wages and Benefits	(796)
Decrease in Intergovernmental Payables	(5,357)
Increase is Due to Primary Government	<u>1,625</u>
Total Adjustments	<u>(6,870)</u>
Net Cash Used by Operating Activities	<u><u>(\$164,211)</u></u>

See accompanying notes to the basic financial statements

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# **MARION CITY DIGITAL ACADEMY**

*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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## ***Notes to the Basic Financial Statements*** ***For the Fiscal Year Ended June 30, 2014***

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Reporting Entity**

Marion City Digital Academy (MCDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. MCDA 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 MCDA's tax exempt status. MCDA's objective is to deliver a comprehensive educational program of high quality, tied to State and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. MCDA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. MCDA may acquire facilities as needed and contract for any services necessary for the operation of the school.

MCDA was approved for operation under a contract with the Marion City School District (the Sponsor) for the period February 18, 2014 through June 30, 2019. The Sponsor is responsible for evaluating the performance of MCDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is in the process of renewing the contract. The Sponsor is also the fiscal agent of MCDA with the Assistant Treasurer of the Sponsor performing the role of Treasurer for MCDA.

MCDA operates under the direction of a five-member Board of Directors made up of community members within the area served by MCDA. The board members are appointed by the Marion City Board of Education. Because the Marion City Board of Education is financially accountable for MCDA, MCDA is considered a component unit of the Marion City School District. The Board of Directors of MCDA is responsible for carrying out the 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. During fiscal year 2014, MCDA purchased services from the Tri-Rivers Educational Computer Association (TRECA).

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

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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014*

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **B. Basis of Presentation**

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

#### **C. Measurement Focus**

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

#### **D. Basis of Accounting**

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

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

***Revenues – Exchange and Non-exchange Transactions*** – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which MCDA receives value without directly giving equal value in return, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue.

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 MCDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to MCDA on a reimbursement basis.



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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **E. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budget requirement. MCDA is required to develop a five year projection that is to be reviewed twice a year by the Board of Directors.

#### **F. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits, and investments with original maturities of three months or less. During fiscal year 2014, MCDA had no investments.

#### **G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. There are no prepaid items as of June 30, 2014.

#### **H. Capital Assets and Depreciation**

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. MCDA maintains a capitalization threshold of \$500. MCDA does not have 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.

##### **1. Property, Plant and Equipment**

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

##### **2. Depreciation**

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

<u>Description</u>	<u>Estimated Lives (in years)</u>
Furniture, Fixtures and Equipment	5 - 10

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# **MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014***

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **I. Net Position**

Net position represents the difference between assets and liabilities. Investment in capital assets consist of capital assets net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by MCDA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

MCDA policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available. MCDA did not have a restricted net position at fiscal year end.

#### **J. Estimates**

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

#### **K. Operating Revenues and Expenses**

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

# **MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014***

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### **NOTE 2 – CASH AND CASH EQUIVALENTS**

At year end the carrying amount of MCDA's deposits was of \$376,127 and the bank balance was \$377,412. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$127,412 was uninsured and collateralized with securities held by the pledging institution's trust department, not in MCDA's name. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Custodial credit risk is the risk that, in the event of a bank failure, MCDA will not be able to recover deposits. 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 MCDA.

### **NOTE 3 - RECEIVABLES**

Receivables at June 30, 2014 consisted of intergovernmental receivables. The total of \$2,060 is for federal restricted grants, all of which is considered collectible.

### **NOTE 4 - DEFINED BENEFIT PENSION PLANS**

All of MCDA's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

#### **A. School Employee Retirement System**

Plan Description - MCDA contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability 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 can be obtained on SERS' website, [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### A. School Employee Retirement System (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and MCDA is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. MCDA's contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$4,244, \$4,199 and \$5,258 respectively, which were equal to the required contributions for each year.

#### B. State Teachers Retirement System

Plan Description - MCDA 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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# MARION CITY DIGITAL ACADEMY

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## *Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014*

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### NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

#### **B. State Teachers Retirement System** (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 the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salaries. MCDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2013, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

MCDA's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$14,302, \$23,862, and \$20,063 respectively; which were equal to the required contributions for each year.

#### **C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2014, one members of the Board of Directors has elected Social Security. The contribution rate is 6.2 percent of wages.

# **MARION CITY DIGITAL ACADEMY**

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014***

### **NOTE 5 - POSTEMPLOYMENT BENEFITS**

#### **A. School Employee Retirement System**

Plan Description –MCDA participates in two cost-sharing multiple employer defined benefit OPEB 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 as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website, [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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 2014, 0.14 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2014, this amount was \$20,525.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

MCDA's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$139, \$198, and \$228, respectively; which were equal to the required contributions for each year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2014, this actuarially required allocation was 0.76 percent of covered payroll. MCDA's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$246, \$237, and \$311 respectively; which were equal to the required contributions for each year.

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

### NOTE 5 - POSTEMPLOYMENT BENEFITS (Continued)

#### B. State Teachers Retirement System

Plan Description –MCDA contributes to the cost sharing multiple employer defined benefit Health 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 Revised Code Chapter 3307 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 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. MCDA’s contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,100, \$1,836, and \$1,543 respectively; which were equal to the required contributions for each year.

### NOTE 6 - CAPITAL ASSETS

Summary by category of changes in capital assets at June 30, 2014:

<i>Historical Cost:</i>				
Class	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<i>Capital Assets being depreciated:</i>				
Equipment	\$178,148	\$0	\$0	\$178,148
Total Cost	\$178,148	\$0	\$0	\$178,148
<i>Accumulated Depreciation:</i>				
Class	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Equipment	(\$175,279)	(\$991)	\$0	(\$176,270)
Total Depreciation	(\$175,279)	(\$991)	\$0	(\$176,270)
<i>Net Value:</i>	\$2,869			\$1,878

# **MARION CITY DIGITAL ACADEMY**

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*(A Component Unit of Marion City School District)*  
**MARION COUNTY, OHIO**

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## ***Notes to the Basic Financial Statements*** ***For the Fiscal Year Ended June 30, 2014***

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### **NOTE 7 – RELATED PARTY TRANSACTIONS**

MCDA is a component unit of the Sponsor (Marion City School District). MCDA and Marion City School District entered into a sponsorship agreement on February 18, 2014, whereby terms of the sponsorship were established. Pursuant to this agreement, Marion City School District's Assistant Treasurer serves as MCDA's fiscal officer.

In fiscal year 2014, other payments made by MCDA to the Sponsor totaled \$488,395. These represent payments of \$17,777 for administrative services provided by Marion City School District to MCDA and \$470,618 for reimbursements for supplies and equipment purchases made by Marion City School District for MCDA.

Payments made by MCDA to TRECA in fiscal year 2014 for purchased services were \$19,229. This consists of student charges and miscellaneous fees.

### **NOTE 8 – FISCAL AGENT**

The sponsorship agreement states that if and agreed by MCDA and its Sponsor, the Sponsor shall be the fiscal agent of the Academy and shall provide the services of a qualified individual who shall serve as the Academy's fiscal officer. During 2014, the Sponsor's Assistant Treasurer served as the Academy's fiscal officer.

The Assistant Treasurer of the Sponsor shall perform the following functions while serving as the Treasurer of MCDA:

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



# **MARION CITY DIGITAL ACADEMY**

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(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

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## ***Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014***

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### **NOTE 9 – CONTRACT WITH TRECA**

MCDA entered into a contract in August 2013, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- 1) TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement MCDA's educational plan and MCDA's assessment and accountability plan.
- 2) All personnel providing services to MCDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions, and all other legal withholding and/or payroll taxes with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- 3) MCDA 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 MCDA.
- 4) Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- 5) In exchange for the services and support provided by TRECA, MCDA shall pay to TRECA per full-time student enrolled in MCDA per year plus fees for any additional services requested. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2014, \$19,229 was paid to TRECA.

To obtain TRECA's June 30, 2014, audited financial statements contact Scott Armstrong, Treasurer, at [scott@treca.org](mailto:scott@treca.org).

# MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)  
MARION COUNTY, OHIO

## Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2014

### NOTE 10 – RISK MANAGEMENT

MCDA 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 2014, MCDA obtained the following insurance coverage through Marion City School District's insurance policy.

Insurance Provider	Item Covered	Coverage Amount
Ohio Casualty	General Liability	\$1,000,000/per occurrence
Ohio Casualty	Aggregate	2,000,000

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

### NOTE 11 - CONTINGENCIES

#### A. Grants

MCDA receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCDA at June 30, 2014.

#### B. Litigation

MCDA is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2014.

#### C. Foundation Payments

The Ohio Department of Education (ODE) has identified several community schools and/or STEM schools that made critical data errors between the June payment and the Final #1 payment. As a result, ODE will be running a Final #2 foundation report for community schools and STEM schools for fiscal year 2014. As of the date of this report, a final list of schools impacted and amounts are not yet available, but ODE believes this will result in receivables to the schools affected.



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Marion City Digital Academy  
Marion County  
420 Presidential Drive, Suite B  
Marion, Ohio 43302

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Marion City Digital Academy, Marion County, Ohio, (the MCDA), a component unit of Marion City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the MCDA's basic financial statements and have issued our report thereon dated February 25, 2015.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the MCDA's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the MCDA's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the MCDA's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the MCDA'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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the MCDA's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the MCDA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 25, 2015



# Dave Yost • Auditor of State

**MARION CITY DIGITAL ACADEMY**

**MARION 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  
APRIL 9, 2015**