

**NEWARK DIGITAL ACADEMY  
LICKING COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2005**

**JULIE TAYLOR, TREASURER**





**Auditor of State  
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Newark Digital Academy, Licking County, prepared by Julian & Grube, Inc., for the audit period July 1, 2004 through June 30, 2005. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

December 13, 2005

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**NEWARK DIGITAL ACADEMY  
LICKING COUNTY**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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

### Independent Auditor's Report

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

We have audited the accompanying financial statements of Newark Digital Academy (the "Academy"), Licking County, Ohio, a component unit of Newark City School District, as of and for the fiscal year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Newark Digital Academy, as of June 30, 2005, and the changes in financial position and its cash flows for the fiscal 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 October 7, 2005, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report  
Newark Digital Academy  
Page Two

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Julian & Grube, Inc.  
October 7, 2005

**Newark Digital Academy  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

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The management's discussion and analysis of the Newark Digital Academy's (NDA) financial performance provides an overall review of the NDA's financial activities for the fiscal year ended June 30, 2005. Readers should also review the basic financial statements and notes to enhance their understanding of the NDA's financial performance.

The Management's Discussion and Analysis ("the MD & A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD & A.

**Highlights**

NDA opened for its first year of operation on August 25, 2003 as a kindergarten through twelfth grade online internet school. Each student was provided a computer, printer and scanner which were used to access a curriculum based on the state model and which used certified/licensed instructors. Enrollment has continued to rise since its inception with an average enrollment of 68.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in fund net assets reflect how NDA did financially during the fiscal year ended June 30, 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

These statements report NDA's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of NDA has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

NDA uses enterprise presentation for all of its activities.

**Newark Digital Academy  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

Table 1 provides a summary of NDA's net assets as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
<b><u>Assets</u></b>		
Current and Other Assets	\$ 79,688	\$ 27,677
Depreciable Capital Assets, Net	<u>73,482</u>	<u>42,008</u>
Total Assets	<u>153,170</u>	<u>69,685</u>
<b><u>Liabilities</u></b>		
Current and Other Liabilities	<u>47,529</u>	<u>19,204</u>
Total Liabilities	<u>47,529</u>	<u>19,204</u>
<b><u>Net Assets</u></b>		
Invested in Capital Assets	73,482	42,008
Restricted for Other Purposes	-	1,176
Unrestricted	<u>32,159</u>	<u>7,297</u>
Total Net Assets	<u>\$ 105,641</u>	<u>\$ 50,481</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the NDA's assets exceeded liabilities by \$105,641.

At year-end, capital assets represented 47.97% of total assets. Capital assets consisted principally of computer equipment located in the computer lab and office equipment. There is no debt related to this capital asset. Capital assets are used to provide services to the students and are not available for future spending.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2005 and 2004, as well as a listing of revenues and expenses.

**Table 2  
Change in Net Assets**

	<u>2005</u>	<u>2004</u>
<b><u>Operating Revenues:</u></b>		
Foundation Payments	\$ 411,770	\$ 308,930
Miscellaneous	-	50
<b><u>Non-Operating Revenues:</u></b>		
Grants	118,000	176,623
Interest Income	<u>450</u>	<u>-</u>
<b>Total Revenues</b>	<u>530,220</u>	<u>485,603</u>
<b><u>Operating Expenses:</u></b>		
Salaries/Fringe Benefits	40,815	20,375
Purchased Services	396,052	395,950
Materials and Supplies	7,331	14,228
Depreciation	7,035	4,076
Other Operating Expenses	<u>23,827</u>	<u>493</u>
<b>Total Operating Expenses</b>	<u>475,060</u>	<u>435,122</u>
<b>Increase in Net Assets</b>	<u>\$ 55,160</u>	<u>\$ 50,481</u>

**Newark Digital Academy  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005**

Community schools receive no support from taxes. The State Foundation Program and the Ohio Charter Schools Federal Sub-grant Program are the primary support for NDA's existence.

**Budgeting**

NDA is not required to follow the budgetary provision set forth in Ohio Revised Code Chapter 5705.

**Capital Assets**

NDA had \$73,482 invested in capital assets (net of accumulated depreciation). Capital assets consist principally of computer equipment located in the computer lab and office equipment. All computer equipment used by the students was provided through Tri-Rivers Educational Computer Association (TRECA) per the contract agreement.

**Debt**

NDA did not incur any debt during the fiscal year ended June 30, 2005.

**For the Future:**

NDA began fiscal year 2004 with TRECA providing most of its instructional and administrative services. The same services were utilized in 2005. We will continue to utilize TRECA for these services in fiscal year 2006. In addition, we will offer non-digital curriculum, such as Calvert School Educational Services, Keystone National High School, and the American School.

Although NDA does not have a ceiling for student enrollment, we do not expect a large change (either increase or decrease) in enrollment for fiscal year 2006.

NDA will apply for the final round, Phase III, of the Federal Charter School Grant during fiscal year 2006 in the amount of \$150,000. These grant funds will be used to enhance the operations of the NDA.

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 citizens, investors and creditors with a general overview of NDA's finances and to show the NDA's accountability for the money it receives. If you have any questions about this report or need additional information, contact Julie Taylor, Treasurer, at Newark Digital Academy, 85 East Main Street, Newark, Ohio 43055 or email at [jtaylor@laca.org](mailto:jtaylor@laca.org).

**NEWARK DIGITAL ACADEMY  
LICKING COUNTY**

**Statement of Net Assets  
June 30, 2005**

<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	\$79,562
Prepaid Items	126
Noncurrent Assets:	
Depreciable Capital Assets, Net	<u>73,482</u>
 Total Assets	 <u>153,170</u>
 <b>LIABILITIES:</b>	
Current Liabilities:	
Accounts Payable	38,063
Accrued Wages and Benefits	3,272
Intergovernmental Payable	<u>6,194</u>
 Total Liabilities	 <u>47,529</u>
 <b>NET ASSETS:</b>	
Invested in Capital Assets	73,482
Unrestricted	<u>32,159</u>
 Total Net Assets	 <u><u>\$105,641</u></u>

See accompanying notes to the basic financial statements.

**NEWARK DIGITAL ACADEMY  
LICKING COUNTY**

**Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Fiscal Year Ended June 30, 2005**

OPERATING REVENUES:	
Foundation Payments	\$411,770
Total Operating Revenues:	<u>411,770</u>
OPERATING EXPENSES:	
Salaries	36,832
Fringe Benefits	3,983
Purchased Services	396,052
Materials and Supplies	7,331
Depreciation	7,035
Other	23,827
<i>Total Operating Expenses</i>	<u>475,060</u>
<i>Operating Income (Loss)</i>	<u>(63,290)</u>
NON-OPERATING REVENUES (EXPENSES):	
Federal and State Subsidies	118,000
Interest Income	450
<i>Total Non-Operating Revenues (Expenses)</i>	<u>118,450</u>
<i>Net Change in Net Assets</i>	55,160
<i>Net Assets(Deficit) at Beginning of Year</i>	50,481
<i>Net Assets (Deficit) at End of Year</i>	<u><u>\$105,641</u></u>

See accompanying notes to the basic financial statements.

**NEWARK DIGITAL ACADEMY  
LICKING COUNTY**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2005**

Cash Flows from Operating Activities	
Received from Foundation	\$418,953
Payments to Suppliers for Goods and Services	(4,028)
Payments for Contract Services	(405,001)
Payments to Employees for Services	(40,914)
Payments for Other Operating Expenses	(23,827)
Net Cash Used for Operating Activities	<u>(54,817)</u>
Cash Flows from Noncapital Financing Activities	
Received from Operating Grants	<u>118,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>118,000</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	<u>(4,302)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(4,302)</u>
Cash Flows from Investing Activities	
Received for Interest on Investments	<u>450</u>
Net Cash Provided by Investing Activities	<u>450</u>
Net Increase in Cash and Cash Equivalents	59,331
Cash and Cash Equivalents Beginning of Year	20,231
Cash and Cash Equivalents End of Year	<u><u>\$79,562</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Income (Loss)	(63,290)
Adjustments:	
Depreciation	7,035
(Increase) Decrease In Assets:	
Intergovernmental Receivable	7,183
Prepaid Items	137
Increase (Decrease) in Liabilities:	
Accounts Payable	2,802
Accrued Wages and Benefits	1,812
Pension Obligation Payable	(1,911)
Intergovernmental Payable	<u>(8,585)</u>
Net Cash Used for Operating Activities	<u><u>(\$54,817)</u></u>

Note: Capital asset addition of \$34,207 was included in accounts payable at June 30, 2005.  
See accompanying notes to the basic financial statements.

**Newark Digital Academy**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2005**

**Note 1 - Description of the School Academy and Reporting Entity**

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 CSD, sponsor 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 CSD (the Sponsor). 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 2005. See Note 10 for additional information regarding the sponsorship agreement with Newark CSD.

NDA paid purchased services to Tri-Rivers Educational Computer Association (TRECA) for providing the planning, design, implementation, instructional, administrative and technical services during the fiscal year. See Note 5 for additional information regarding the contract between TRECA and NDA.

NDA operates under the direction of a five-member Board of Directors made up of three members from the Newark CSD and two members from the public. 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, and providing a fiscal officer. The Academy is a component unit of the Newark City School District.

**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, to its basic financial statements, 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. 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.

**B. Measurement Focus**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Statement of revenues, expenses and changes in net assets present increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**Newark Digital Academy**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2005**

**Note 2 - Summary of Significant Accounting Policies** (continued)

**C. Basis of Accounting**

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 nonexchange 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.

**D. 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.

**E. 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, 2005.

**F. Capital Assets**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated fixed 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. Furniture is depreciated over twenty years, and computers are depreciated over six years.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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.

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the NDA or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

**I. Restricted Assets**

There are certain resources set aside due to restricted state and federal grant funding.

**Newark Digital Academy**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2005**

**Note 2 - Summary of Significant Accounting Policies** (continued)

**J. 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 the good or service that is the primary activity of the NDA. All revenues and expenditures not meeting this definition are reported as non-operating.

**K. Estimates**

The preparation of financial statements in conformity with GAAP 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 - Deposits and Investments**

At fiscal year end, the carrying amount of the NDA's deposits and bank balance was \$79,562. All of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**Note 4 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance at 6/30/04	Additions	Reductions	Balance at 6/30/05
Capital Assets:				
Furniture and Equipment	\$46,084	\$38,509	0	\$84,593
Less Accumulated Depreciation:				
Furniture and Equipment	(4,076)	(7,035)	0	(11,111)
Capital Assets, Net	<u>\$42,008</u>	<u>\$31,474</u>	<u>\$0</u>	<u>\$73,482</u>

**Note 5 - Contract with TRECA**

NDA entered into a one-year contract on July 28, 2004, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide NDA with 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.
- 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.
- In exchange for the services and support (including equipment) provided by TRECA, NDA shall pay to TRECA a fee of \$25,000 for the 2004-2005 school year.

**Newark Digital Academy**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2005**

**Note 5 - Contract with TRECA** (continued)

- NDA shall pay TRECA \$3,550 per full-time high school student and \$2,550 per full-time K-8 student enrolled in NDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.
- 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.

For the initial period \$297,101 was payable under this contract. All but \$6,194 of this amount was paid as of June 30, 2005.

**Note 6 - 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 2005, the NDA contracted for the following insurance coverages:

Coverages provided by Madison Collins Stephens  
Insurance are as follows:

General NDA Liability	
Per Occurrence	1,000,000
Total per Year	3,000,000

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

**Note 7 - Defined Benefit Pension Plans**

**A. State Teachers Retirement System**

The NDA contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the NDA is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 2004. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The NDA's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2005 was \$2,198 and for 2004 it was \$1,680; 86 percent has been contributed for fiscal year 2005. The unpaid contribution for fiscal year 2005 is \$314, is recorded as a liability.

**B. School Employees Retirement System**

The NDA contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**Newark Digital Academy**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2005**

**Note 7 - Defined Benefit Pension Plans** (continued)

**B. School Employees Retirement System** (continued)

Plan members are required to contribute 9 percent of their annual covered salary and the NDA is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.5 percent was the portion used to fund pension obligations for fiscal year 2004. For fiscal year 1999, 7.7 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The NDA's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, was \$1,560 and for 2004 it was \$2,280; 92 percent has been contributed for fiscal year 2005. The unpaid contribution for fiscal year 2005 is \$120, is recorded as a liability.

**Note 8 - State School Funding**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient..."

As of the date of these financial statements, the NDA is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under these programs and on its financial operations.

**Note 9 - 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 are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the NDA. 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, 2005.

**B. Litigation**

There are currently no matters in litigation with the NDA as defendant.

**Note 10 - Contract with Newark CSD**

The Community School Sponsorship Contract between NDA and Newark CSD outlined the payments that NDA had to make to the Newark CSD during fiscal year 2005. The following payments were made in fiscal year 2005 from NDA to Newark CSD:

Set chargeback amount of salaries and stipends of Newark CSD employees that work directly with NDA	\$ 87,407
Annual payments of 5% of funding provided by the Ohio Department of Education (building use, administrative costs, postage, meeting expense)	<u>20,960</u>
Total amount of payments made by NDA to Newark CSD in fiscal year 2005	<u>\$ 108,367</u>



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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**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  
Newark Digital Academy  
85 East Main Street  
Newark, Ohio 43055

We have audited the financial statements of the Newark Digital Academy (the “Academy”), Licking County, Ohio, a component unit of Newark City School District, as of and for the fiscal year ended June 30, 2005, and have issued our report thereon dated October 7, 2005. 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 Newark Digital Academy’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education  
Newark Digital Academy

Compliance and Other Matters

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

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

Julian & Grube, Inc.  
October 7, 2005



**Auditor of State  
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**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  
DECEMBER 27, 2005**