



Mary Taylor, CPA
Auditor of State

**EAST MUSKINGUM DIGITAL ACADEMY
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

East Muskingum Digital Academy
Muskingum County
13505 John Glenn School Road
New Concord, Ohio 43762

To the Board of Directors:

We have audited the accompanying basic financial statements of the East Muskingum Digital Academy, Muskingum County, Ohio (the EMDA), a component unit of the East Muskingum Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2007, which collectively comprise the EMDA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the EMDA's management. Our responsibility is to express opinions 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Muskingum Digital Academy, Muskingum County, Ohio, as of June 30, 2007, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2008, on our consideration of the EMDA'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*. You should read it in conjunction with this report in assessing the results of our audit.

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, consisting 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 black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 19, 2008

**East Muskingum Digital Academy
Muskingum County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited*

The discussion and analysis of the East Muskingum Digital Academy's (EMDA) financial performance provides an overall review of the EMDA's financial activities for the period ended June 30, 2007. Readers should also review the basic financial statements and notes to enhance their understanding of the EMDA's financial performance.

Highlights

EMDA opened for its first year of operation in March 2006 as a kindergarten through twelfth grade site-based program within the East Muskingum Local School District (Sponsor). Each student receives a majority of their learning opportunities from a combination of site-based learning within the Sponsor's classrooms, internet-based learning opportunities that are primarily site-based, and non-internet based learning, which may include both conventional classroom-based coursework and nontraditional non-classroom-based learning experiences. During fiscal year 2007, twenty-eight students were enrolled at the EMDA.

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 net assets reflect how EMDA did financially during the period ended June 30, 2007. 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 period revenues and expenses regardless of when cash is received or paid.

These statements report EMDA'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 EMDA 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.

EMDA uses enterprise presentation for all of its activities.

**East Muskingum Digital Academy
Muskingum County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited*

Table 1 provides a summary of EMDA's net assets as of June 30, 2007:

Table 1 Net Assets	
	2007
<u>Assets:</u>	
Current Assets	\$5,000
 <u>Liabilities:</u>	
Current Liabilities	3,148
 <u>Net Assets:</u>	
Unrestricted	1,852
Total Net Assets	\$1,852

EMDA had net assets of \$1,852 at June 30, 2007. EMDA receives foundation payments from the State based on the number of full-time equivalency students.

Table 2 reflects the changes in net assets for the period ended June 30, 2007:

Table 2 Change in Net Assets	
	2007
<u>Operating Revenues:</u>	
Foundation	\$218,335
 <u>Non-Operating Revenues:</u>	
Grants	103,131
Total Revenues	321,466
 <u>Operating Expenses:</u>	
Purchased Services	320,836
Materials and Supplies	42,000
Total Expenses	362,836
 Change in Net Assets	 (41,370)
Net Assets at Beginning of the Year	43,222
Net Assets at End of the Year	\$1,852

**East Muskingum Digital Academy
Muskingum County**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited*

Budgeting

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

Capital Assets and Debt Administration

Capital Assets

EMDA did not have any capital assets during fiscal year 2007.

Debt

EMDA did not incur any debt during the fiscal year ended June 30, 2007.

Current Issues

Currently, the EMDA is at a crossroads in the terms of direction. It is currently a credit recovery school which helps at risk students. The EMDA is not serving the population of students that are high achievers or average students who may want different course offerings. This is a future goal for the EMDA but to meet those challenges the EMDA needs to hire additional staff and currently the funding is not available.

Contacting the EMDA's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of EMDA's finances and to show EMDA's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Lottie Ransbottom, Treasurer, East Muskingum Digital Academy, 13505 John Glenn School Road, New Concord, Ohio 43762 or e-mail at lransbottom@east-muskingum.k12.oh.us.

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East Muskingum Digital Academy
Muskingum County, Ohio

Statement of Net Assets
June 30, 2007

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$2,000
Intergovernmental Receivable	3,000
Total Assets	<u>5,000</u>
 <u>Liabilities:</u>	
Current Liabilities:	
Deferred Revenue	<u>3,148</u>
 <u>Net Assets:</u>	
Unrestricted	<u>1,852</u>
Total Net Assets	<u><u>\$1,852</u></u>

See accompanying notes to the basic financial statements

East Muskingum Digital Academy
Muskingum County, Ohio

Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

<u>Operating Revenues:</u>	
Foundation	<u>\$218,335</u>
Total Operating Revenues	<u>218,335</u>
<u>Operating Expenses:</u>	
Purchased Services	320,836
Materials and Supplies	<u>42,000</u>
Total Operating Expenses	<u>362,836</u>
Operating Loss	(144,501)
<u>Non-Operating Revenues:</u>	
Grants	<u>103,131</u>
Change in Net Assets	(41,370)
Net Assets at Beginning of Year	<u>43,222</u>
Net Assets at End of Year	<u><u>\$1,852</u></u>

See accompanying notes to the basic financial statements

East Muskingum Digital Academy
Muskingum County, Ohio

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation	\$221,483
Cash Payments to Suppliers for Goods and Services	<u>(362,836)</u>
Net Cash Used for Operating Activities	<u>(141,353)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Grants Received	100,131
Net Increase in Cash and Cash Equivalents	(41,222)
Cash and Cash Equivalents Beginning of Year	<u>43,222</u>
Cash and Cash Equivalents End of Year	<u><u>\$2,000</u></u>
Reconciliation of Operating Loss to	
<u>Net Cash Used for Operating Activities:</u>	
Operating Loss	<u>(\$144,501)</u>
Adjustments to Reconcile Operating Loss	
to Net Cash Used for Operating Activities:	
Changes in Assets and Liabilities:	
Increase in Deferred Revenue	<u>3,148</u>
Net Cash Used for Operating Activities	<u><u>(\$141,353)</u></u>
See accompanying notes to the basic financial statements	

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East Muskingum Digital Academy
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 1 - Description of the Entity

The East Muskingum Digital Academy (EMDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314, specifically Section 3314.03. EMDA 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 EMDA's tax exempt status. EMDA's mission is to enhance and facilitate student learning by combining a site-based educational setting with state-of-the-art curriculum and instruction with access to local school resources that complement that instruction and prepare students to become lifelong learners and productive citizens. 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 East Muskingum Local School District, sponsor school district, that desire a specific course not currently offered but is available through online instruction.

EMDA was created on March 22, 2006, by entering a five year contract with the East Muskingum Local School District (the Sponsor). The Sponsor is responsible for evaluating the performance of EMDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the EMDA with the Treasurer of the Sponsor completing the role of Treasurer for the EMDA.

EMDA originally operated under the direction of a seven-member Board of Directors made up of two members from the East Muskingum Local School District and five-members from the public. The five public members shall be public officials or public sector employees who have a professional interest in furthering the establishment and operation of EMDA or one or more parents and community civic leaders. EMDA is a component unit of the Sponsor. The Sponsor can impose its' will on the EMDA. The Sponsor can suspend the EMDA's operations for any of the following reasons: 1) The EMDA's failure to meet student performance requirements stated in its contract with the Sponsor; 2) The EMDA's failure to meet generally accepted standards of fiscal management; 3) The EMDA's violation of any provisions of the contract with the Sponsor or applicable state or federal law; or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of EMDA and the children it serves. On March 30, 2007, House Bill 79 became effective which updated Ohio Revised Code (ORC) Sections 3314.02, 3314.03, and 3314.014 and created ORC Section 3314.026. These ORC sections revised the procedures for the selection of Board of Directors for community schools. Under advisement from EMDA's legal council, three of the former board members resigned their positions as Board of Directors because they were employees of the Sponsor and Tri-Rivers Educational Computer Association (TRECA). As of June 30, 2007, the Board of Directors only consisted of four members. During the fiscal year ended June 30 2007, EMDA paid the Sponsor to provide instructional, administrative, and technical services.

East Muskingum Digital Academy
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 2 - Summary of Significant Accounting Policies

The financial statements of the EMDA 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. EMDA 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 entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the EMDA's accounting policies are described below.

A. Basis of Presentation

The EMDA'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.

EMDA 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

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of EMDA are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how EMDA finances meet its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. EMDA'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 EMDA 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 EMDA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to EMDA 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 EMDA's contract with its Sponsor. The contract between EMDA and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

East Muskingum Digital Academy
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

E. Cash and Cash Equivalents

Cash received by EMDA is reflected as “Cash and Cash Equivalents” on the statement of net assets. EMDA had no investments during the fiscal year ended June 30, 2007.

F. Capital Assets

EMDA follows the capital asset policy of the Sponsor. Therefore, EMDA maintains a capitalization threshold of five thousand dollars. At June 30, 2007, EMDA had no capital assets that met the threshold. All capital assets will be capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets will be recorded at their fair market values as of the date received. All of EMDA’s reported capital assets will be depreciated using the straight-line method over the estimated useful life.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by EMDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. EMDA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The statement of net assets reports no restricted net assets and has no monies restricted by enabling legislation.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of EMDA.

Operating expenses are necessary costs incurred to provide the service that is the primary activity of EMDA. All revenues and expenses not meeting this definition are reported as non-operating.

I. Estimates

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

Note 3 – Prior Year Balances

At June 30, 2006, EMDA had \$43,222 in unrestricted net assets. This balance represented foundation payments from the Ohio Department of Education.

East Muskingum Digital Academy
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 4 - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, EMDA's deposits may not be returned. EMDA does not have a deposit policy for custodial credit risk. At June 30, 2007, the bank balance of EMDA's deposits was \$117,478. \$100,000 of the bank balance was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", \$17,478 was uninsured and uncollateralized. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 5 - Receivables

At June 30, 2007, receivables consisted of an intergovernmental receivable totaling \$3,000 for an EMIS grant. The receivable was collected in July 2007.

Note 6 – Contract with the Sponsor

EMDA entered into a three-year contract on January 12, 2007, with East Muskingum Local School District (the Sponsor) for comprehensive services. Under the contract, the following terms were agreed upon:

- The Sponsor shall provide EMDA with instructional, supervisory/administrative, and technical services sufficient to effectively implement EMDA's educational plan and EMDA's assessment and accountability plan.
- All personnel providing services to EMDA on behalf of the Sponsor under the agreement shall be employees of the Sponsor and the Sponsor 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 the Sponsor to EMDA 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. All equipment shall remain the property of the Sponsor, including but not limited to computer hardware and software equipment.
- EMDA shall pay the Sponsor a fee of \$163,130 for work performed prior to the execution of this contract. In addition, EMDA shall pay to the Sponsor 100 percent of the base formula funds, and 100 percent of the additional funds received by EMDA from the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. These fees shall be paid according to a schedule agreed to by the parties, but not less than four times per fiscal year.

For fiscal year 2007, the Sponsor provided comprehensive services in the amount of \$364,836, which includes the \$163,130. EMDA paid this entire amount as of June 30, 2007.

Note 7 – Risk Management

EMDA is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. During the fiscal year ended June 30, 2007, EMDA had liability insurance through the East Muskingum Local School District's policy.

East Muskingum Digital Academy
Muskingum County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 8 – Purchased Services

For the period July 1, 2006 through June 30, 2007, purchased service expenses were for the following services:

<u>Type</u>	<u>Amount</u>
Consultant/ Personnel Services	\$212,071
Technological Services	15,134
EMIS Coordinator	5,000
Fiscal Services	20,500
Instructional Services	50,000
Administrative Services	13,131
Legal Services	5,000
Total	<u>\$320,836</u>

Note 9 - Related Party Transactions

EMDA is presented as a component unit of the Sponsor. For fiscal year 2007, \$13,131 was payable to the Sponsor for administrative grant services provided to EMDA. EMDA paid this entire amount as of June 30, 2007.

Note 10 - Contingencies

A. Grants

EMDA 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 EMDA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the EMDA at June 30, 2007.

B. Litigation

A lawsuit entitled Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/ charter schools. The case is still currently pending, and the effect of this suit, if any, on EMDA cannot be presently determined.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by EMDA. These reviews are conducted to ensure EMDA is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The fiscal year 2007, review resulted in the discovery of an overpayment to EMDA in the amount of \$3,148. This amount has been reflected as deferred revenue and will be deducted from foundation funding in the fiscal year 2007.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

East Muskingum Digital Academy
Muskingum County
13505 John Glenn High School Road
New Concord, Ohio 43762

To the Board of Directors:

We have audited the basic financial statements of the East Muskingum Digital Academy, Muskingum County, Ohio (the EMDA), a component unit of the East Muskingum Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2007, which collectively comprise the EMDA's basic financial statements and have issued our report thereon dated March 19, 2008. 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the EMDA's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the EMDA's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the EMDA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the EMDA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the EMDA's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the EMDA's internal control will not prevent or detect a material financial statement misstatement.

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

We noted a certain matter that we reported to the EMDA's management in a separate letter dated March 19, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the EMDA'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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the EMDA's management in a separate letter dated March 19, 2008.

We intend this report solely for the information and use of management, Board of Directors and the East Muskingum Local School District (the EMDA's sponsor). We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

March 19, 2008



Mary Taylor, CPA
Auditor of State

EAST MUSKINGUM DIGITAL ACADEMY

MUSKINGUM 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 10, 2008**