

**NEWARK DIGITAL ACADEMY
LICKING COUNTY, OHIO**

(A Component Unit of Newark City School District)

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

JULIE TAYLOR, TREASURER



Mary Taylor, CPA
Auditor of State

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, 2006 through June 30, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 4, 2008

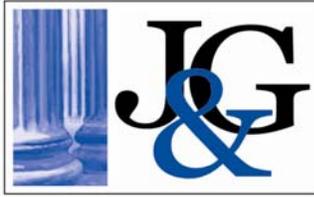
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NEWARK DIGITAL ACADEMY
(A Component Unit of Newark City School District)
LICKING COUNTY, OHIO

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Julian & Grube, Inc.
Serving Ohio Local Governments

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Newark Digital Academy (a component unit of Newark City School District), Licking County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise the Newark Digital Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Newark Digital Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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.

As disclosed in Note 11, Newark Digital Academy has restated their net assets at June 30, 2006 as a result of a prior period adjustment to its capital assets.

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, 2007, and the respective 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 November 12, 2007, on our consideration of the Newark Digital 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.

The management's discussion and analysis 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.

Julian & Grube, Inc.
November 12, 2007

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007. 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. The average enrollment during fiscal year 2007 was 60.

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, 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 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.

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LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Table 1 provides a summary of NDA's net assets as of June 30, 2007 and 2006:

Table 1: Net Assets

<u>Assets:</u>	<u>2007</u>	<u>Restated 2006</u>
Current and Other Assets	\$ 73,675	\$ 151,669
Depreciable Capital Assets, Net	<u>73,671</u>	<u>93,235</u>
Total Assets	<u>147,346</u>	<u>244,904</u>
 <u>Liabilities:</u>		
Current and Other Liabilities	<u>20,436</u>	<u>78,574</u>
Total Liabilities	<u>20,436</u>	<u>78,574</u>
 <u>Net Assets:</u>		
Invested in Capital Assets	73,671	93,235
Unrestricted	<u>53,239</u>	<u>73,095</u>
Total Net Assets	<u>\$ 126,910</u>	<u>\$ 166,330</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the NDA's assets exceeded liabilities by \$126,910.

At year-end, capital assets represented 50% of total assets. Capital assets consisted principally of computer equipment for student use. There is no debt related to the capital assets. 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, 2007 and 2006, as well as a listing of revenues and expenses.

Table 2: Change in Net Assets

	<u>2007</u>	<u>Restated 2006</u>
<u>Operating Revenues:</u>		
Foundation Payments/Other	\$343,024	\$351,027
 <u>Non-Operating Revenues:</u>		
Grants	31,133	215,858
Interest Income	<u>882</u>	<u>751</u>
Total Revenues	<u>375,039</u>	<u>567,636</u>
 <u>Operating Expenses:</u>		
Salaries/Fringe Benefits	69,951	66,080
Purchased Services	273,633	290,097
Materials and Supplies	23,429	21,877
Depreciation	19,564	17,686
Other Operating Expenses	<u>27,882</u>	<u>111,207</u>

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Table 2: Change in Net Assets – (CONTINUED)

	<u>2007</u>	<u>Restated 2006</u>
<u>Total Operating Expenses</u>	<u>414,459</u>	<u>506,947</u>
<u>Increase in Net Assets</u>	<u>\$(39,420)</u>	<u>\$ 60,689</u>

Community schools receive no support from taxes. The State Foundation Program and the State and Federal Programs are the primary support for NDA's existence. NDA began receiving Title funds in fiscal year 2006.

Budgeting

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

Capital Assets

NDA had \$73,671 invested in capital assets (net of accumulated depreciation). Capital assets consist principally of computers used at our computer lab and those used by our students at their home.

Debt

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

For the Future:

NDA began fiscal year 2004 with TRECA providing most of its instructional and administrative services. The same services were utilized in 2007. We will continue to utilize TRECA for these services in fiscal year 2008. In addition, we offer non-digital curriculum, such as Calvert School Educational Services, Keystone National High School, and the American School. We are currently exploring ways to increase our enrollment in the non-digital instruction side of our operations.

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 2008.

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 Academy'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.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

ASSETS:

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$73,575
Prepaid Items	100

Noncurrent Assets:

Depreciable Capital Assets, Net:	<u>73,671</u>
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<i>Total Assets</i>	<u><u>147,346</u></u>
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LIABILITIES:

Current Liabilities:

Accounts Payable	1,867
Accrued Wages and Benefits	3,925
Due to Primary Government	11,881
Intergovernmental Payable	<u>2,763</u>

<i>Total Liabilities</i>	<u><u>20,436</u></u>
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NET ASSETS:

Invested in Capital Assets	73,671
Unrestricted	<u>53,239</u>

<i>Total Net Assets</i>	<u><u>\$126,910</u></u>
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See accompanying notes to the basic financial statements.

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

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

OPERATING REVENUES:	
Foundation Payments	\$342,619
Other Revenues	405
<i>Total Operating Revenues</i>	<u>343,024</u>
 OPERATING EXPENSES:	
Salaries	57,732
Fringe Benefits	12,219
Purchased Services	273,633
Materials and Supplies	23,429
Depreciation	19,564
Other	27,882
<i>Total Operating Expenses</i>	<u>414,459</u>
 <i>Operating Income (Loss)</i>	 <u>(71,435)</u>
 NON-OPERATING REVENUES (EXPENSES):	
Interest	882
Federal and State Subsidies	31,133
<i>Total Non-Operating Revenues (Expenses)</i>	<u>32,015</u>
 <i>Net Change in Net Assets</i>	 (39,420)
 <i>Net Assets(Deficit) at Beginning of Year (restated)</i>	 166,330
 <i>Net Assets (Deficit) at End of Year</i>	 <u><u>\$126,910</u></u>

See accompanying notes to the basic financial statements

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

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Cash Flows from Operating Activities	
Received from Sales	\$343,024
Payments to Suppliers for Goods and Services	(90,467)
Payments for Contract Services	(274,586)
Payments to Employees for Services	(59,747)
Payments for Other Operating Expenses	(28,033)
Net Cash Used for Operating Activities	<u>(109,809)</u>
Cash Flows from Noncapital Financing Activities	
Received from Federal and State Grants	<u>31,133</u>
Net Cash Provided by Noncapital Financing Activities	<u>31,133</u>
Cash Flows from Investing Activities	
Received for Interest on Investments	<u>882</u>
Net Cash Provided by Investing Activities	<u>882</u>
Net Decrease in Cash and Cash Equivalents	(77,794)
Cash and Cash Equivalents Beginning of Year	151,369
Cash and Cash Equivalents End of Year	<u><u>\$73,575</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Income (Loss)	(\$71,435)
Adjustments:	
Depreciation	19,564
(Increase) Decrease In Assets:	
Prepaid Items	200
Increase (Decrease) in Liabilities:	
Accounts Payable	(67,325)
Accrued Wages and Benefits	(1,677)
Due to Primary Government	11,881
Intergovernmental Payable	(1,017)
Net Cash Used for Operating Activities	<u><u>(\$109,809)</u></u>

See accompanying notes to the basic financial statements.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 City School District, (sponsor of the NDA), that desire a specific course not currently offered but is available through online instruction.

NDA was created on February 11, 2003 by entering into a five year contract with the Newark City School District (the Sponsor). 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 2007. NDA paid purchased services to Tri-Rivers Educational Computer Association (TRECA) for providing the planning, design, implementation, instructional, administrative and technical consulting services during the fiscal year.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Newark Digital Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. NDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. NDA has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the NDA's accounting policies.

A. Basis of Presentation

The NDA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

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

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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 NDA are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how NDA's finances meet its cash flow needs.

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, 2007.

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, 2007 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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

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 Net Assets

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

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 goods or services that are 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the NDA's deposits and bank balance was \$73,575. 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.

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital assets at June 30, 2006 have been restated, see Note 11 for further information. Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Restated Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07
Capital Assets:				
Furniture and Equipment	\$122,032	\$0	\$0	\$122,032
Less Accumulated Depreciation:				
Furniture and Equipment	(28,797)	(19,564)	0	(48,361)
Capital Assets, Net	<u>\$93,235</u>	<u>\$(19,564)</u>	<u>\$0</u>	<u>\$73,671</u>

NOTE 5 - CONTRACT WITH TRECA

NDA entered into a one-year contract on June 8, 2006, with Tri-Rivers Educational Computer Association (TRECA) for consulting services. Under the contract, the following terms were agreed upon:

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

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

The technical services provided by TRECA to NDA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation. In the event NDA is unable to recover such equipment or the equipment is not recovered in other than good working conditions, NDA shall reimburse TRECA for the cost of such equipment in the amount of \$900 per student, except that if the student has been enrolled in the NDA for at least 90 days, \$700, and if the student has been enrolled in the NDA for at least 180 days, \$500.

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

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

NDA shall pay TRECA \$3,650 per full-time student. Part-time students may be enrolled on such terms as are agreed to by the parties.

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

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 5 - CONTRACT WITH TRECA

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

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

For the initial period \$146,466 was payable under this contract. All but \$2,763 of this amount was paid as of June 30, 2007.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2007, purchased services expenses were as follows:

Professional and technical services	\$ 123,805
Travel and meetings	26,712
Other purchased services	<u>123,116</u>
Total	<u>\$ 273,633</u>

NOTE 7 - 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 2007, the NDA contracted for the following insurance coverages:

Coverages provided by Indiana Insurance are as follows:

General NDA Liability

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

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

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The NDA participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

**NEWARK DIGITAL ACADEMY
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during the fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 03, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. The option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The NDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The NDA's required contributions for pension obligations to the DB Plan for the fiscal year ended June 30, 2007, 2006, and 2005, was \$2,520, \$3,469, and \$2,198, respectively. 92.26% has been contributed for fiscal year 2007 and 100% has been contributed for 2006 and 2005. \$195 represents the unpaid contribution for fiscal year 2007 and 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. 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 may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the NDA is required to contribute an actuarially determined rate. The current NDA rate is 14 percent of annual covered payroll. A portion of the NDA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, 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, 2007, 2006, and 2005, was \$3,135, \$2,843, and \$1,560, respectively. 61.85% has been contributed for fiscal year 2007, with 100% contributed for fiscal year 2006 and 2005. \$1,196 represents the unpaid contribution for fiscal year 2007 and is recorded as a liability.

NOTE 9 - POSTEMPLOYMENT BENEFITS

The NDA provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the NDA, this amount equaled \$194 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 9 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. NDA employees are dual employees of NDA and Newark City Schools. The surcharge amount is either paid by Newark City Schools or the 2 percent cap is reached. For the 2007 fiscal year, NDA paid \$974 to fund health care benefits.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 10 - CONTINGENCIES

A. Grants

The NDA received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the NDA at June 30, 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 currently pending, and the effect of this suit, if any, on the Digital Academy cannot presently be determined.

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

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - RESTATEMENT OF NET ASSETS

The NDA has reported a prior period adjustment to restate its capital assets for items below its capitalization threshold improperly included at June 30, 2006. The prior period adjustment had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets, June 30, 2006	\$ 197,102
Adjustment for assets improperly capitalized	<u>(30,772)</u>
Restated net assets, June 30, 2006	<u>\$ 166,330</u>



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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 (a component unit of Newark City School District), Licking County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Newark Digital Academy's basic financial statements and have issued our report thereon dated November 12, 2007. As disclosed in Note 11, Newark Digital Academy has restated their net assets at June 30, 2006 as a result of a prior period adjustment to restate its capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Newark Digital Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Newark Digital Academy's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Newark Digital Academy'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 the normal course of 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 Newark Digital Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Newark Digital Academy's financial statements that is more than inconsequential will not be prevented or detected by the Newark Digital Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Newark Digital Academy's internal control.

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 deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Newark Digital Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted a certain matter that was reported to management of Newark Digital Academy in a separate letter dated November 12, 2007.

This report is intended solely for the information and use of the management and Board of Directors of the 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." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
November 12, 2007



Mary Taylor, CPA
Auditor of State

NEWARK DIGITAL ACADEMY

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2008**