



Mary Taylor, CPA
Auditor of State

TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Tiffin City Schools Digital Academy
Seneca County
244 South Monroe Street
Tiffin, Ohio 44883-2906

To the Board of Directors:

We have audited the accompanying basic financial statements of the Tiffin City Schools Digital Academy, Seneca County, Ohio (the Academy), a component unit of the Tiffin City School District, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Academy'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 respective financial position of the Tiffin City Schools Digital Academy, Seneca 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 12, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. 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 12, 2008

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

The discussion and analysis of the Tiffin City Schools Digital Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999.

Financial Highlights

The Academy began its first year of operation in fiscal year 2007 and had twenty-eight students participating in the program. The Academy had received start-up and other grant resources in previous fiscal years; however, the Academy actually began operating as a community school in fiscal year 2007.

Net assets increased by \$183,658 during fiscal year 2007.

Using this Financial Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

Table 1 provides a summary of the Academy's net assets for fiscal year 2007:

(Table 1)
Net Assets

	2007
Assets	
Current Assets	\$ 186,345
Capital Assets, Net	31,627
<i>Total Assets</i>	217,972
 Net Assets	
Invested in Capital Assets	31,627
Unrestricted	186,345
<i>Total Net Assets</i>	\$ 217,972

As noted above, this is the initial year of operation for the Academy, so fiscal year 2006 financial information is not available for comparison and discussion.

Table 2 shows the changes in net assets for fiscal year 2007, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2007
Operating Revenues:	
Foundation Payments	\$ 182,685
Non-Operating Revenues:	
Federal Grants	300,000
State Grants	5,000
<i>Total Revenues</i>	487,685
 Operating Expenses	
Purchased Services	284,171
Materials and Supplies	14,445
Depreciation	5,411
<i>Total Expenses</i>	304,027
<i>Increase in Net Assets</i>	\$ 183,658

As noted above, this is the initial year of operation for the Academy, so fiscal year 2006 financial information is not available for analysis and discussion and no comparison between current and prior year can be analyzed. Additionally, the Academy operates as one business-type enterprise fund and therefore, no analysis of individual funds is included.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

Capital Assets

At June 30, 2007, the Academy had \$31,627 invested in furniture and equipment, net of accumulated depreciation. See Note 5 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

Contacting the Academy's Financial Management

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

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

Assets:

Current Assets:

Cash	\$ 157,470
Intergovernmental receivable	28,875
Total Current Assets	<u>186,345</u>

Non-Current Assets:

Depreciable capital assets, net	<u>31,627</u>
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Total Assets	<u>217,972</u>
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Net Assets:

Invested in capital assets	31,627
Unrestricted	<u>186,345</u>

Total Net Assets	<u><u>\$ 217,972</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

Operating Revenues:	
Foundation payments	<u>\$ 182,685</u>
Total Operating Revenues	<u>182,685</u>
Operating Expenses:	
Purchased services	284,171
Materials and supplies	14,445
Depreciation	<u>5,411</u>
Total Operating Expenses	<u>304,027</u>
Operating Loss	<u>(121,342)</u>
Non-Operating Revenues:	
Federal grants	300,000
State grants	<u>5,000</u>
Total Non-Operating Revenues	<u>305,000</u>
Change in Net Assets	183,658
Net Assets Beginning of Year	<u>34,314</u>
Net Assets End of Year	<u><u>\$ 217,972</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash received from State of Ohio - Foundation	\$ 153,810
Cash payments for purchased services	(284,171)
Cash payments for supplies and materials	<u>(14,445)</u>

Net cash used by operating activities	<u>(144,806)</u>
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Cash Flows from Noncapital Financing Activities:

Cash received from Federal and State grants	<u>305,000</u>
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Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	<u>(28,664)</u>
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Net increase in cash	131,530
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Cash at beginning of year	<u>25,940</u>
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Cash at end of year	<u><u>\$ 157,470</u></u>
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**Reconciliation of Operating Loss to Net
Cash Provided by Operating Activities:**

Operating loss	\$ (121,342)
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**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

Depreciation	5,411
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Changes in Assets:

Intergovernmental receivable	<u>(28,875)</u>
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Net cash used by operating activities	<u><u>\$ (144,806)</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

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

The Academy operates under the direction of a five-member Board of Directors made up of community members who represent the interests of parents and students served by the Academy. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. During fiscal year 2007, the Academy purchased services from the Tri-Rivers Educational Computer Association (TRECA) for providing the instructional, administrative and technical services for the Academy.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

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

B. Measurement Focus

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

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Academy receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process in addition to preparing a 5-year forecast. The 5-year forecast is updated on an annual basis.

E. Cash

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Tiffin City School District. All cash received by the fiscal agent is maintained in a separate account in the Academy's name. The Academy had no investments during the fiscal year.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value as of the date donated. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

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

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

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

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. The Academy did not have any restricted net assets at fiscal year end.

H. Operating Revenues and Expenses

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

I. Intergovernmental Revenues

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

Federal and state grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy participates in various programs through the Ohio Department of Education. These include the Federal Charter School Grant Program, Poverty-based Assistance, and EMIS grant.

J. Estimates

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

NOTE 3 DEPOSITS

At fiscal year end June 30, 2007, the carrying amount of the Academy's deposits totaled \$157,470. The bank balance was \$314,093, of which \$100,000 was covered by the Federal Depository Insurance Corporation (FDIC).

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

NOTE 4 – INTERGOVERNMENTAL RECEIVABLES

The intergovernmental receivable of \$28,875 was for fiscal year 2007 state foundation payments which were not received at June 30, 2007. The intergovernmental receivable is considered collectible in full due to the stable condition of state programs.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, is as follows:

	Balance 07/01/06	Additions	Deletions	Balance 06/30/07
Furniture and Equipment	\$ 12,723	\$ 28,664		\$ 41,387
Less: Accumulated Depreciation	4,349	5,411		9,760
Capital Assets, Net	\$ 8,374	\$ 23,253		\$ 31,627

NOTE 6 – RISK MANAGEMENT

The Academy 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. The Academy is covered under the liability and property policies of the Tiffin City School District.

Coverages are as follows:

General Liability:	
Per occurrence	\$ 1,000,000
Aggregate	2,000,000
Fire Damage Liability	300,000

There have been no claims filed against or on behalf of the Academy.

NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR

The Academy does not employ any individuals within the Academy itself. All employees are employed by the Sponsor.

The sponsorship agreement states the Academy shall acquire the services of a qualified fiscal officer. The Treasurer of the Tiffin City School District serves as the chief financial officer of the Academy. The sponsorship agreement states, the Academy shall perform the following functions:

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

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR – (Continued)

In addition, the sponsorship agreement states the Academy shall secure the services of an Executive Director who shall be the chief operating officer of the Academy. This position is filled by the Director of Secondary Instruction/Personnel of the Sponsor, the Tiffin City School District.

The Academy shall pay to the Sponsor such other amounts as are mutually agreed, including fees for any services provided to the Academy by the Sponsor. During the year ended June 30, 2007, the Academy incurred \$304,027 in expenses of which \$57,676 has been paid to the Tiffin City School District. The expenses were primarily related to salaries and benefits.

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The Academy contributes to the School Employees Retirement System (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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy'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. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2007 was \$1,709; 100 percent has been contributed for fiscal year 2007.

B. State Teachers Retirement System

The Academy 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 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System (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 their 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 30, 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. This 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 Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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 Academy's required contributions for pension obligations to STRS Ohio for the fiscal year ended June 30, 2007, was \$5,417; 100 percent has been contributed for fiscal year 2007. There were no contributions to the DC and Combined Plans for fiscal year 2007 made by the Academy or made by the plan members.

NOTE 9 – POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

NOTE 9 – POSTEMPLOYMENT BENEFITS – (Continued)

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 cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the 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 Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$417 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 Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS 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 health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, compared to 3.42 percent of covered payroll for 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 two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$531.

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 at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

NOTE 10 – CONTRACT WITH TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION

The Academy entered into a contract on June 16, 2006, for fiscal year 2007, with Tri-Rivers Educational Computer Association (TRECA). Under the contract, the following terms were agreed upon:

- TRECA shall provide the Academy with instructional, supervisory/administrative, and technical services sufficient to substantially implement the Academy's educational plan and the Academy's assessment and accountability plan.
- All personnel providing services to the Academy on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

**NOTE 10 – CONTRACT WITH TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION –
(Continued)**

- The technical services provided by TRECA to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- The Academy shall secure the services of an Executive Director, who shall be the chief operating officer of the Academy, with primary responsibility for day-to day operations of the Academy.
- Curricular services provided by TRECA shall be limited to the basic standardized curriculum developed by TRECA. Basic services do not include special education and related services.
- The Academy shall pay TRECA \$3,650 per full-time student. Part-time students may be enrolled on such terms as agreed to by the parties.

For fiscal year 2007, \$125,049 was paid to TRECA.

To obtain TRECA's audited June 30, 2007, financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Academy is a component unit of the Sponsor. The Academy and the Sponsor entered into a sponsorship agreement, whereby terms of the sponsorship were established. The Treasurer of the Sponsor serves as the Treasurer of the Academy, the Director of Secondary Instruction/Personnel of the Sponsor also serves as the Executive Director of the Academy, and other employees of the Sponsor provide additional services to the Academy.

Payments to the following related parties were as follows:

Tiffin City School District (Sponsor)	\$ 57,676
Jane Tomaszewski (Employee of Sponsor)	80
Total	<u>\$ 57,756</u>

NOTE 12 - CONTINGENCIES

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2007.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

NOTE 12 – CONTINGENCIES – (Continued)

B. Pending 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 the Tiffin City Schools Digital Academy cannot presently be determined.

C. Full-time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. These conclusions of this review could result in state funding to be adjusted. The results of the fiscal year end 2007 review revealed no material adjustment to the Academy's school funding.

NOTE 13 – TAX EXEMPT STATUS

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

NOTE 14 – START-UP FUNDING

The Academy was awarded a total of \$50,000 in State Community School Grant funding payable during fiscal year 2004 and restricted for start up funding, of which \$50,000 was received during fiscal year 2004. These funds were used for the purchase of classroom materials and equipment and for legal and administrative services provided. All funds were used during fiscal year 2004 and there was no remaining balance at the fiscal year end.

The Academy was awarded a total of \$150,000 for Phase I of the Federal Charter School Grant funding payable during fiscal year 2005, of which \$150,000 was received during fiscal year 2005. These funds were used for the purchase of classroom materials and equipment and for legal and administrative services provided. All funds were used during fiscal year 2005 and there was no remaining balance at the fiscal year end.

The Academy received a contribution from the Tiffin City School District (Sponsor) to assist the Academy with cash-flow issues during the start-up phase.

**TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY**

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

NOTE 15 – NET ASSETS

At June 30, 2006, the Academy had net assets in the amount of \$34,314. These net assets were comprised of the following:

Federal Grant Funds	\$ 150,000
State Grant Funds	50,000
Contribution from Sponsor	25,000
Miscellaneous	940
Capital assets, net accumulated depreciation	8,374
Less:	
Total start-up expenses incurred for the periods ended June 30, 2005 and 2004	<u>(200,000)</u>
Net assets, June 30, 2006	<u><u>\$ 34,314</u></u>



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*

Tiffin City Schools Digital Academy
Seneca County
244 South Monroe Street
Tiffin, Ohio 44883-2906

To the Board of Directors:

We have audited the basic financial statements of the Tiffin City Schools Digital Academy, Seneca County, (the Academy) a component unit of the Tiffin City School District, as of and for the year ended June 30, 2007, and have issued our report thereon dated March 12, 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 Academy'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 Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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 Academy'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 Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings as item 2007-001 to be a significant deficiency in internal control over financial reporting.

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www.auditor.state.oh.us

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

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated March 12, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express 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 matter that we reported to the Academy's management in a separate letter dated March 12, 2008.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, Board of Directors, and the Community's School's sponsor. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 12, 2008

TIFFIN CITY SCHOOLS DIGITAL ACADEMY
SENECA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2007-001

Material Weakness

Financial Reporting

As a result of the audit procedures performed, errors were noted in the financial statements that required six material audit adjustments ranging in amounts from \$27 to \$99,950. During fiscal year 2007, several disbursements totaling \$99,950 were posted for invoices dated during fiscal year 2008. The original costs of several capital assets were improperly recorded and the depreciation expense during fiscal year 2007 was also improperly calculated resulting in capital assets net of accumulated depreciation to be understated by \$20,164. Also, during fiscal year 2007 nine deposits ranging in amounts from \$9,447 to \$135,000 were not posted to the accounting system prior to being deposited with the designated depository. The number of business days between the funds being deposited with the designated depository and the receipts being posted to the accounting system ranged from seven to two hundred and twenty-six business days. Finally, there were several outstanding reconciling items on the June 2007 cash reconciliation which were not properly addressed. These outstanding reconciling items included two deposits with the designated depository during fiscal year 2005 in the amounts of \$25,000 and \$940 where the Academy failed to post the receipts to the accounting system.

Sound financial reporting is the responsibility of the Treasurer and Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

To ensure the Academy's financial statements and notes to the statements are complete and accurate, the Academy should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and Board of Directors, to identify and correct errors and omissions. The Treasurer should also review the Uniform School Accounting System User Manual to ensure that all accounts are being properly posted to the financial statements. The Treasurer should also perform a detailed review of the outstanding reconciling items listed on each cash reconciliation to ensure the items are accounted for properly and in a timely manner.

Officials' Response: Controls have been put into place by the Treasurer to ensure that a review of statements and a detailed review of outstanding reconciling items are conducted properly and in a timely fashion. To ensure that the Academy's financial statements are reviewed, the Treasurer and the Board of Directors will review monthly statements at each of the regular board of directors meeting.



Mary Taylor, CPA
Auditor of State

TIFFIN CITY SCHOOLS DIGITAL ACADEMY

SENECA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 25, 2008**