



**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

MARION CITY DIGITAL ACADEMY
MARION COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Marion City Digital Academy
Marion County
910 East Church Street
Marion, Ohio 43302

To the Board of Directors:

We have audited the accompanying basic financial statements of the Marion City Digital Academy, Marion County, Ohio (the Academy), a component unit of the Marion City School District, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion City Digital Academy, Marion County, Ohio, as of June 30, 2011, and the changes in its financial position and its 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 1, 2012, 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.

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

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

Dave Yost
Auditor of State

March 1, 2012

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED**

The discussion and analysis of Marion City Digital Academy's (MCDA) financial performance provides an overall review of MCDA's financial activities for the fiscal year ended June 30, 2011. Readers should also review the basic financial statements and notes to enhance their understanding of MCDA's financial performance.

Highlights

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

Using the Basic Financial Statements

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 change in net assets reflect how MCDA did financially during fiscal year 2011. 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 current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

Table 1 provides a summary of MCDA's net assets for fiscal year 2011 and fiscal year 2010:

	2011	2010	Change
<u>Assets:</u>			
Current Assets	\$553,618	\$553,022	\$596
Capital Assets, Net	10,165	28,113	(17,948)
Total Assets	<u>563,783</u>	<u>581,135</u>	<u>(17,352)</u>
<u>Liabilities:</u>			
Current Liabilities	61,451	117,083	55,632
<u>Net Assets:</u>			
Invested in Capital Assets	10,165	28,113	(17,948)
Unrestricted	492,167	435,939	56,228
Total Net Assets	<u><u>\$502,332</u></u>	<u><u>\$464,052</u></u>	<u><u>\$38,280</u></u>

The only change of note from the prior fiscal year was the decrease in current liabilities. In the prior fiscal year, MCDA had an outstanding obligation owed to the Marion City School District for services. For the current fiscal year, the 4th quarter reimbursement was paid within the fiscal year.

**MARION CITY DIGITAL ACADEMY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for fiscal year 2011 and fiscal year 2010.

Table 2 Change in Net Assets			
	2011	2010	Change
<u>Operating Revenues:</u>			
Foundation	\$807,048	\$831,121	(\$24,073)
Other Operating Revenues	4,450	0	4,450
<u>Non-Operating Revenues:</u>			
Grants	181,981	154,130	27,851
Interest Revenue	907	947	(40)
Total Revenues	994,386	986,198	8,188
<u>Operating Expenses:</u>			
Salaries	193,357	175,561	(17,796)
Fringe Benefits	46,201	40,174	(6,027)
Purchased Services	695,253	684,407	(10,846)
Materials and Supplies	2,527	3,083	556
Depreciation	18,468	33,249	14,781
Other Expenses	300	2,000	1,700
Total Expenses	956,106	938,474	(17,632)
Increase in Net Assets	38,280	47,724	(9,444)
Net Assets at Beginning of Year	464,052	416,328	47,724
Net Assets at End of Year	\$502,332	\$464,052	\$38,280

A review of the above table reflects that fiscal year 2011 activity was similar to fiscal year 2010 with a change in revenues of less than 1 percent and change in expenses of less than 2 percent.

Budgeting

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

Capital Assets

At the end of fiscal year 2011, MCDA had \$10,165 invested in capital assets (net of accumulated depreciation). For further information regarding MCDA's capital assets, refer to Note 5 to the basic financial statements.

Current Issues

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

The future of MCDA is dependent upon continued funding from the State as no local revenue can be generated through tuition or property taxes.

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
UNAUDITED
(Continued)**

MCDA has committed itself to providing state of the art technology based educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of MCDA.

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

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

Contacting MCDA's Financial Management

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of MCDA's finances and to reflect MCDA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Robert Wood, Treasurer, Marion City Digital Academy, 910 East Church Street, Marion, Ohio 43302.

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**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

Assets:

Current Assets:

Cash and Cash Equivalents	\$488,079
Intergovernmental Receivable	65,194
Prepaid Items	345
Total Current Assets	<u>553,618</u>

Non-Current Assets:

Depreciable Capital Assets, Net	10,165
Total Assets	<u>563,783</u>

Liabilities:

Current Liabilities:

Accounts Payable	800
Accrued Wages Payable	23,865
Due to Primary Government	1,831
Intergovernmental Payable	9,399
Deferred Revenue	25,556
Total Liabilities	<u>61,451</u>

Net Assets:

Invested in Capital Assets	10,165
Unrestricted	492,167
Total Net Assets	<u>\$502,332</u>

See Accompanying Notes to Basic Financial Statements

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Operating Revenues:</u>	
Foundation	\$807,048
Other Operating Revenues	4,450
Total Operating Revenues	<u>811,498</u>
 <u>Operating Expenses:</u>	
Salaries	193,357
Fringe Benefits	46,201
Purchased Services	695,253
Materials and Supplies	2,527
Depreciation	18,468
Other Operation Expenses	300
Total Operating Expenses	<u>956,106</u>
 Operating Loss	 <u>(144,608)</u>
 <u>Non-Operating Revenues</u>	
Grants	181,981
Interest Revenue	907
Total Non-Operating Revenues	<u>182,888</u>
 Change in Net Assets	 38,280
 Net Assets at Beginning of Year	 <u>464,052</u>
Net Assets at End of Year	<u><u>\$502,332</u></u>

See Accompanying Notes to the Basic Financial Statements

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Foundation	\$824,150
Cash Payments for Personal Services	(193,984)
Cash Payments for Fringe Benefits	(46,420)
Cash Payments for Goods and Services	(769,516)
Cash Received from Other Revenues	4,450
Cash Payments for Other Expenses	(300)
Net Cash Used for Operating Activities	<u>(181,620)</u>
 <u>Cash Flows from Noncapital Financing Activities:</u>	
Cash Received from Grants	206,527
 <u>Cash Flows from Capital Financing Activities:</u>	
Cash Payments for Acquisition of Capital Assets	(520)
 <u>Cash Flows from Investing Activities:</u>	
Cash Received from Interest	<u>907</u>
Net Increase in Cash and Cash Equivalents	25,294
Cash and Cash Equivalents at Beginning of Year	<u>462,785</u>
Cash and Cash Equivalents at End of Year	<u><u>\$488,079</u></u>
 Reconciliation of Operating Loss	
<u>to Net Cash Used for Operating Activities:</u>	
Operating Loss	(\$144,608)
 Adjustments to Reconcile Operating Loss	
<u>to Net Cash Used for Operating Activities:</u>	
Depreciation	18,468
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	152
Decrease in Accrued Wages Payable	(627)
Decrease in Due to Primary Government	(69,967)
Decrease in Intergovernmental Payable	(2,140)
Increase in Deferred Revenue	17,102
Net Cash Used for Operating Activities	<u><u>(\$181,620)</u></u>

See Accompanying Notes to the Basic Financial Statements

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**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Note 1 - Description of the School

Marion City Digital Academy (MCDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. MCDA is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect MCDA's tax exempt status. MCDA's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. MCDA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. MCDA may acquire facilities as needed and contract for any services necessary for the operation of the school.

MCDA was approved for operation under a contract with the Marion City School District (the Sponsor) for a five-year period commencing on May 21, 2007. The Sponsor is responsible for evaluating the performance of MCDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of MCDA with the Treasurer of the Sponsor performing the role of Treasurer for MCDA.

MCDA operates under the direction of a five-member Board of Directors made up of community members within the area served by MCDA. The board members are appointed by the Marion City Board of Education. Because the Marion City Board of Education is financially accountable for MCDA, MCDA is considered a component unit of the Marion City School District. The Board of Directors of MCDA is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. During fiscal year 2011, MCDA purchased services from the Tri-Rivers Educational Computer Association (TRECA).

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of MCDA 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. MCDA 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 FASB codified its standards and the standards issued prior to November 30, 1989 are included in the codification. MCDA does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. Following are the more significant of the MCDA's accounting policies.

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

MCDA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus

MCDA is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of MCDA are included on the statement of net assets. The statement of revenues, expenses, and change in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how MCDA finances and meets 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. MCDA'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 nonexchange transactions, in which MCDA 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which MCDA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to MCDA on a reimbursement basis. 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 MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budget requirement. A line item budget is to be presented to MCDA's Board of Directors at all regular board meetings. The budget is to be reviewed and accepted or rejected at each meeting.

E. Cash and Cash Equivalents

Cash held by MCDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2011, MCDA had no investments.

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2011, 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 expense is reported in the year in which services are consumed.

G. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. MCDA maintains a capitalization threshold of five hundred dollars. MCDA does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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 equipment, are depreciated over five to ten years.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists 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. MCDA first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. MCDA did not have any restricted net assets at fiscal year end.

I. Intergovernmental Revenues

MCDA currently participates in the State Foundation Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements in which MCDA must provide local resources to be used for a specified purpose, and expenditure requirements in which the resources are provided to MCDA on a reimbursement basis.

The amount of these grants is directly related to the number of students enrolled in MCDA. The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by MCDA. These reviews are conducted to ensure that accurate student enrollment data is reported to the State, upon which State foundation funding is calculated.

The remaining grants and entitlements received by MCDA are recognized as non-operating revenues in the accounting period in which eligibility requirements have been met.

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 2 - Summary of Significant Accounting Policies (continued)

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of MCDA. For MCDA, these revenues are generally foundation payments from the State. Operating expenses are necessary costs incurred to provide the service that is the primary activity of MCDA. All revenues and expenses 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 in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 - Deposits

At fiscal year end, the carrying amount of MCDA's deposits was \$488,079. At fiscal year end, \$238,962 of MCDA's bank balance of \$488,962 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject MCDA to a successful claim by the FDIC.

Note 4 - Receivables

At June 30, 2011, MCDA had intergovernmental receivables, in the amount of \$65,194. The receivables are expected to be collected within one year.

	Amount
Idea Part - B	\$6,071
Title I	21,743
Title II-A	385
Education Jobs	36,972
Title II-D	23
Total Intergovernmental Receivables	\$65,194

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at 6/30/10	Additions	Reductions	Balance at 6/30/11
Depreciable Capital Assets				
Equipment	\$177,628	\$520	\$0	\$178,148
Less Accumulated Depreciation	(149,515)	(18,468)	0	(167,983)
Capital Assets, Net	\$28,113	(\$17,948)	\$0	\$10,165

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 6 - Risk Management

MCDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, MCDA obtained the following insurance coverage through Marion City School District's insurance policy.

Coverage provided by the Ohio School Plan:

General Liability

Each Occurrence

\$1,000,000

Aggregate

2,000,000

Settled claims have not exceeded this commercial coverage for the past three fiscal years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

Note 7 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description - MCDA participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement 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 can be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, 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 DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**MARION CITY DIGITAL ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 7 - Defined Benefit Pension Plans (continued)

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the STRS Ohio Board upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salary. MCDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

MCDA's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 was \$19,756 , \$18,598, and \$18,187 respectively. For fiscal year 2011, 84 percent has been contributed, with the balance reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009. There were no contributions to the DCP and CP for fiscal year 2011 made by MCDA or by the plan members.

B. School Employees Retirement System

Plan Description - MCDA participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor 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 stand-alone financial report that can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and MCDA is required to contribute 14 percent of annual covered payroll. The contribution requirement of plan members and employers is established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the system's funds (pension trust fund, death benefit fund, Medicare B fund, and health care fund). For the fiscal year ended June 30, 2011, the allocation to pension and death benefits was 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate was allocated to the Medicare B and health care funds. MCDA's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 was \$3,960, \$4,340, and \$3,021, respectively. For fiscal year 2011, 35 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2011, one of the Board of Education members has selected Social Security. The Board's liability is 6.2 percent of wages paid.

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 8 - Postemployment Benefits

A. State Teachers Retirement System

Plan Description - MCDA participates in a cost-sharing multiple-employer defined benefit Health Care Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the Defined Benefit or Combined pension plans offered by STRS Ohio. Ohio law authorizes STRS Ohio to offer the Plan. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. The Plan is included in STRS Ohio's financial report which can be obtained by calling (888) 227-7877 or by visiting the STRS Ohio Web site at www.strsoh.org.

Funding Policy - Chapter 3307 of the Ohio Revised Code authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to postemployment health care. MCDA's contribution for health care for the fiscal years ended June 30, 2011, 2010, and 2009 was \$1,520, \$1,431, and \$1,399, respectively. For fiscal year 2011, 84 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

B. School Employees Retirement System

Plan Description - MCDA participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2011, 1.43 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2011, this amount was \$35,800. For fiscal year 2011, MCDA paid \$507 in surcharge.

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

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 8 - Postemployment Benefits (continued)

MCDA's contribution for health care for the fiscal years ended June 30, 2011, 2010, and 2009 was \$479, \$156, and \$1,383, respectively. For fiscal year 2011, 35 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2011, this actuarially required allocation was .76 percent of covered payroll. MCDA's contribution for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 was \$255, \$258, and \$249, respectively. For fiscal year 2011, 35 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2010 and 2009.

Note 9 - Fiscal Agent

The sponsorship agreement states the Treasurer of the Sponsor shall serve as the fiscal officer of MCDA.

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

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

Note 10 - Contract with TRECA

MCDA entered into a contract on June 14, 2010, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

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

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 10 - Contract with TRECA (continued)

4. MCDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of MCDA.
5. Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
6. In exchange for the services and support (including equipment) provided by TRECA, MCDA shall pay to TRECA \$3,900 per full-time student enrolled in MCDA per year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2011, \$237,366 was paid to TRECA.

To obtain TRECA's June 30, 2011, audited financial statements contact Scott Armstrong, Treasurer, at scott@treca.org.

Note 11 - Related Party Transactions

MCDA is a component unit of the Sponsor (Marion City School District). MCDA and Marion City School District entered into a five-year sponsorship agreement on May 21, 2007, whereby terms of the sponsorship were established. Pursuant to this agreement, Marion City School District's Treasurer serves as MCDA's fiscal officer.

In fiscal year 2011, other payments made by MCDA to Marion City School District were \$670,023. This represent payments of \$24,724 for administrative services provided by Marion City School District to MCDA and \$645,299 for reimbursements for supplies and equipment purchases made by Marion City School District for MCDA.

Payments made by MCDA to TRECA in fiscal year 2011 for purchased services were \$237,366. This consists of the \$164,393 in student charges and \$72,973 in miscellaneous fees.

Note 12 - Contingencies

A. Grants

MCDA 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCDA at June 30, 2011.

B. Litigation

There are currently no matters in litigation with MCDA as a defendant.

**MARION CITY DIGITAL ACADEMY
MARION COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

Note 12 - Contingencies (continued)

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. The conclusions of this review could result in State funding being adjusted. MCDA received an overpayment of \$25,556 in fiscal year 2011. This amount has been recorded as a liability in the accompanying financial statements.



Dave Yost • Auditor of State

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

Marion City Digital Academy
Marion County
910 East Church Street
Marion, Ohio 43302

To the Board of Directors:

We have audited the financial statements of Marion City Digital Academy, Marion County, Ohio (the Academy), a component unit of the Marion City School District, as of and for the year ended June 30, 2011, and have issued our report thereon dated March 1, 2012. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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 certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 1, 2012.

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

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

Dave Yost
Auditor of State

March 1, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Marion City Digital Academy
Marion County
910 East Church Street
Marion, Ohio 43302

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether the Marion City Digital Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In the audit report dated November 12, 2009, it was noted the Board adopted an anti-harassment policy on September 8, 2008, however, in our testing for the year ended June 30, 2011, we noted the Board had not adopted an anti-harassment policy.
2. We inquired with the Board's management regarding the aforementioned policy. They stated they have not yet adopted an anti-harassment policy. The Board should adopt a policy as required by Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and Academy's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State

March 1, 2012



Dave Yost • Auditor of State

MARION CITY DIGITAL ACADEMY

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 29, 2012**