

**Massillon Digital Academy
Stark County, Ohio**

Audited Financial Statements

June 30, 2011



Dave Yost • Auditor of State

Board of Directors
Massillon Digital Academy
207 Oak Street SE
Massillon, Ohio 44646

We have reviewed the *Independent Auditor's Report* of the Massillon Digital Academy, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Massillon Digital Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 13, 2012

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**Massillon Digital Academy
Stark County, Ohio**

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December 23, 2011

To the Board of Directors
Massillon Digital Academy
207 Oak Street S.E.
Massillon, Oh 44646

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Massillon Digital Academy (the Academy), as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy, as of June 30, 2011, and the respective 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 December 23, 2011 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rea & Associates, Inc.

Massillon Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011

The discussion and analysis of Massillon Digital Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- Net assets increased \$186,391.
- Operating revenues accounted for \$567,376 in revenue or 83 percent of all revenues.
- There were \$998 of capital asset additions.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a financial whole, an entire operating entity.

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The *Statement of Net Assets* represents the basic statement of position for the Academy.

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the Academy, presenting an aggregate view of the Academy's finances. In case of the Academy, there is only one fund presented.

The *Statement of Cash Flows* reflects how the Academy finances and meets its cash flow needs. Finally the notes to the basic financial statements are presented.

Massillon Digital Academy
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

Reporting the Academy as a Whole

Recall the Statements of Net Assets provides the perspective of the Academy as a whole.

Table 1 provides a summary of the Academy's net assets for 2011 compared to 2010:

Table 1
Net Assets

	2011	2010
Assets		
Current Assets	\$ 626,491	\$ 432,785
Capital Assets	5,290	18,369
<i>Total Assets</i>	631,781	451,154
Liabilities		
Current Liabilities	120	5,884
Net Assets		
Invested in Capital Assets	5,290	18,369
Restricted	50,789	64,711
Unrestricted	575,582	362,190
<i>Total Net Assets</i>	\$ 631,661	\$ 445,270

Total assets increased by \$180,627. This increase is due to an increase in cash for fiscal year 2011 caused by revenues out pacing expenses. Liabilities decreased by \$5,764.

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets answer this Question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Massillon Digital Academy
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The Statement of Cash Flows provide information about how the Academy finances and meets the cash flow needs of its operations.

Financial Analysis

Table 2 shows the changes in net assets for fiscal year 2011 compared to fiscal year 2010:

Table 2
 Changes in Net Assets

	2011	2010
Operating Revenue		
Foundation Payments	\$ 567,376	\$ 482,801
Operating Expenses		
Purchased Services	473,678	370,415
Materials and Supplies	2,101	9,925
Depreciation Expense	14,077	37,635
Other Operating Expense	9,271	9,617
<i>Total Operating Expenses</i>	499,127	427,592
Non-Operating Revenues		
Grants – Federal and State	117,235	69,380
Other	0	142
Interest Income	907	702
<i>Total Non-Operating Revenues</i>	118,142	70,224
<i>Change In Net Assets</i>	\$ 186,391	\$ 125,433

The Statement of Revenues, Expenses, and Changes in Net Assets show the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating revenues associated with those expenses. That is, it identifies the amount of operating expenses supported by State and other funding. The Academy's revenue increased from 2010 to 2011. This increase is due to new federal grant money and an increase in enrollment.

The dependence upon state foundation revenues for operating activities is apparent. The majority of monies were used for purchased services. The Academy's operating revenue is 83 percent of total revenue. State sources are by far the primary support for the Academy.

Massillon Digital Academy
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

Budget

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the Academy had \$5,290 (net of \$202,675 in accumulated depreciation) invested in furniture and fixtures and computer equipment. Table 3 shows fiscal year 2011 balances compared to 2010. More detailed information is presented in Note 4 of the notes to the basic financial statements.

Table 3
Capital Assets (Net of Depreciation)

	<u>2011</u>	<u>2010</u>
Furniture and Fixtures	\$ 137	\$ 468
Computer Equipment	<u>5,153</u>	<u>17,901</u>
Total Capital Assets	<u><u>\$ 5,290</u></u>	<u><u>\$ 18,369</u></u>

Debt Administration

At June 30, 2011, the Academy had no debt.

Massillon Digital Academy
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011

Current Financial Related Activities

The Academy is sponsored by the Massillon City School District. The Academy relies on State Foundation Funds.

The future of the Academy is dependent upon continued funding from the State Foundation Funds as no local revenue can be generated through tuition or property taxes. It is the intention of the management of the Academy to pursue other State and Federal grants as they become available.

The Academy will receive in fiscal year 2012 additional estimated funding in the amount of \$35,404 from the ED Jobs fund through CCIP.

The Academy has committed itself to providing online educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of the Academy.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Teresa Emmerling, Treasurer of Massillon Digital Academy, 207 Oak Street S. E., Massillon, Ohio 44646.

Massillon Digital Academy

Statement of Net Assets

June 30, 2011

	<u>2011</u>
Assets	
Current Assets:	
Cash and Cash Equivalents with Fiscal Agent	\$ 577,091
Intergovernmental Receivable	49,340
Accounts Receivable	<u>60</u>
<i>Total Current Assets</i>	<u>626,491</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net	<u>5,290</u>
<i>Total Assets</i>	<u>631,781</u>
Liabilities	
Current Liabilities:	
Intergovernmental Payable	<u>120</u>
Net Assets	
Invested in Capital Assets	5,290
Federally Fund Programs	49,589
State Fund Programs	1,200
Unrestricted	<u>575,582</u>
<i>Total Net Assets</i>	<u><u>\$ 631,661</u></u>

See accompanying notes are an interal part of the financial statements.

Massillon Digital Academy
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

	2011
Operating Revenues	
Foundation Payments	\$ 567,376
Operating Expenses	
Purchased Services	473,678
Materials and Supplies	2,101
Depreciation	14,077
Other	9,271
<i>Total Operating Expenses</i>	499,127
<i>Operating Income</i>	68,249
Non-Operating Revenues	
Interest	907
Federal and State Grants	117,235
<i>Total Non-Operating Revenues</i>	118,142
<i>Change in Net Assets</i>	186,391
<i>Net Assets Beginning of Year</i>	445,270
<i>Net Assets End of Year</i>	\$ 631,661

See accompanying notes are an interal part of the finanical statements.

Massillon Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

	2011
Cash Flows From Operating Activities	
Cash Received from State Foundation	\$ 560,396
Cash Payments for Goods and Services	(473,678)
Cash Payments for Materials and Supplies	(2,101)
Cash Payments for Other Expenses	(9,151)
<i>Net Cash Provided by Operating Activities</i>	75,466
Cash Flows From Non-Capital Financing Activities	
Grants Received	100,067
Cash Flows From Investing Activities	
Interest on Investments	907
Cash Flows From Capital and Related Activities	
Payments for Capital Acquisitions	(998)
<i>Net Increase in Cash and Cash Equivalents with Fiscal Agent</i>	175,442
<i>Cash and Cash Equivalents with Fiscal Agent, Beginning of Year</i>	401,649
<i>Cash and Cash Equivalents with Fiscal Agent, End of Year</i>	\$ 577,091
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
<i>Operating Income</i>	\$ 68,249
Adjustments:	
Depreciation	14,077
(Increase) Decrease Assets	
Accounts Receivable	(60)
Intergovernmental Receivable	(1,036)
(Decrease) Increase in Liabilities	
Intergovernmental Payable	(5,764)
<i>Total Adjustments</i>	7,217
<i>Net Cash Provided by Operating Activities</i>	\$ 75,466

See accompanying notes are an interal part of the financial statements.

Massillon Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Massillon Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3313 and 3314. 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 predominately 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, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Massillon City School District (the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. Part of the contract contains a comprehensive plan requiring the Academy to assess achievement levels. The Academy will strive to obtain a student pass rate of 75 percent or higher minimum percent designated by the Department of Education on the Ohio achievement test. Furthermore, the Academy will endeavor to achieve an overall attendance rate of 93 percent or above and a graduation rate of 90 percent or above. The Academy has no paid employees.

The Academy operates under the direction of a six-member (five voting members) Board of Directors made up of:

- (a) Two people employed and serving in administrator positions within the Sponsor, whose positions have been identified by the Massillon City School District Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the Massillon City School District Board of Education and its interests. The two members consist of one (1) Assistant Principals – Washington High School and the other Director of Pupil Services.
- (b) Two people are neither an officer nor employee of the Sponsor. One individual is a community member the other is a recently retired assistant high school principal.
- (c) One person who is a representative of Stark-Portage Area Computer Consortium (SPARCC).
- (d) The Academy's Treasurer/CEO as a non-voting ex officio member who is also the Sponsor's Treasurer/CEO and serves the Board of Directors in her official capacity as a representative of the Massillon City School District Board of Education and its interests.

Therefore, the Academy is a component unit of the Sponsor.

Massillon Digital Academy
Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Massillon Digital Academy applies generally accepted accounting principles (GAAP) that were issued prior to November 30, 1989 by the Financial Accounting Standards Board (FASB) to its governmental funds provided they not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The more significant of the Academy's accounting policies are shown below.

A. Basis of Presentation

Enterprise Accounting

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

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or changes in net assets is appropriate for public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

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

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, is 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 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 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.

Massillon Digital Academy
Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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 Rev. Code Chapter 5705, with the exception of 5705.391. All other budgetary provisions are required to be followed, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

D. Cash and Cash Equivalents with Fiscal Agent

Cash held by the Academy is reflected as "Cash and Cash Equivalents with Fiscal Agent" 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 2011, the Academy had no investments.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

The Academy received \$567,376 for the year ended June 30, 2011.

Grants and entitlements 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 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.

In fiscal year 2011, the Academy participated in several state and federal grant programs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts received under the grant programs for the year ended June 30, 2011, totaled \$117,235.

Massillon Digital Academy
Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five hundred 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 not capitalized.

All reported capital assets are depreciated. Capital leases are amortized over the life of the lease. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Fixtures	8
Computer Equipment	5

G. Accrued Liabilities

All payables and accrued liabilities are reported on the proprietary fund financial statements.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. For the year ended June 30, 2011, the Academy had unrestricted net assets of \$575,582 and \$50,789 of restricted net assets related to federal and state grants, respectively.

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

I. Operating Revenues and Expenses

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

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.

Massillon Digital Academy
Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2011.

L. Changes in Accounting Principles

For the year ended June 30, 2011, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 59, "*Financial Instruments Omnibus.*"

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the Academy.

NOTE 3 - DEPOSITS

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2011, the Academy and public depositories complied with the provisions of these statutes.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Academy's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

At June 30, 2011, the carrying amount of the Academy's deposits was \$577,091. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2011, \$335,438 of the Academy's bank balance of \$585,438 was exposed to custodial risk as discussed above, while \$250,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding deposit and investment of funds by the Academy.

Massillon Digital Academy
Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2011

NOTE 4 - CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2011:

	Balance 07/01/2010	Additions	Reductions	Balance 06/30/2011
<i>Capital Assets, Being Depreciated:</i>				
Furniture and Fixtures	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	204,321	998	0	205,319
<i>Total Capital Assets, Being Depreciated</i>	<u>206,967</u>	<u>998</u>	<u>0</u>	<u>207,965</u>
<i>Less: Accumulated Depreciation</i>				
Furniture and Fixtures	(2,178)	(331)	0	(2,509)
Computer Equipment	(186,420)	(13,746)	0	(200,166)
<i>Total Accumulated Depreciation</i>	<u>(188,598)</u>	<u>(14,077)</u>	<u>0</u>	<u>(202,675)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>\$ 18,369</u>	<u>\$ (13,079)</u>	<u>\$ 0</u>	<u>\$ 5,290</u>

NOTE 5 – FISCAL OFFICER

The sponsorship agreement states the Treasurer of the Massillon City School District shall serve as the Fiscal Officer of the Academy.

The Treasurer of Massillon City School District shall perform the following functions while serving as the fiscal officer of the Academy:

- A. Maintain the financial records of the Academy in conformance with generally accepted accounting principles as required by the State Auditor;
- B. Comply with the operating policies recommended by the State Auditor, including those related to the presentation, review, discussion, and approval or rejection of a line item budget and regular reports of current and encumbered expense;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

Massillon Digital Academy
Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2011

NOTE 6 - RELATED PARTY TRANSACTION

The Academy is a component unit of the Massillon City School District (the District). The District is the Academy's sponsor. The Academy and the District entered into a 5-year sponsorship agreement commencing on the first day of the 2007 academic year, whereby terms of the sponsorship were established. Pursuant to this agreement, the District's treasurer/CFO serves as the Academy's fiscal officer. The Academy is required to pay an initial payment of \$25,000 and \$150 per student per year to the District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. The Sponsor has waived the \$150 per student since the Academy's inception.

NOTE 7 - RISK MANAGEMENT

Insurance Coverage

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. For the year ended June 30, 2011, the Academy contracted with the Ohio Casualty Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

NOTE 8 – PURCHASED SERVICES

For the year ended June 30, 2011, purchased service expenses were recognized for professional services rendered by various vendors as follows:

	<u>2011</u>
Massillon Board of Education	\$ 428,113
SPARCC	21,075
Massillon Cable TV Inc.	20,075
Other	4,415
Total Purchased Services	<u>\$ 473,678</u>

For the year ended June 30, 2011, the Academy recognized \$428,113 in expenses for educational services and curriculum provided by the Massillon Board of Education.

Massillon Digital Academy
Notes to the Basic Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2011

NOTE 9 - 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 are 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, 2011.

B. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the 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. Upon final review of the state funding in 2011 it was found that the State under paid the Academy by \$1,036. This amount was recorded as an intergovernmental receivable as of June 30, 2011.

December 23, 2011

To the Board of Directors
Massillon Digital Academy
207 Oak Street S.E.
Massillon, OH 44646

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Massillon Digital Academy (the Academy) as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Academy is responsible for establishing and maintaining effective 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 expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

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

Hea & Associates, Inc.

MASSILLON DIGITAL ACADEMY
STARK COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**Not Corrected, Partially
 Corrected, Significantly
 Different Corrective Action Taken
 or Finding No Longer Valid**
(Explain)

Finding Number	Finding Summary	Fully Corrected?	<i>(Explain)</i>
2010-1	Audit adjustment for restatement of net assets	Yes	

Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Directors
Massillon Digital Academy
207 Oak Street S.E.
Massillon, Oh 44646

December 23, 2011

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

1. We noted the Academy amended its anti-harassment policy at its meeting on October 26, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



Dave Yost • Auditor of State

MASSILLON DIGITAL ACADEMY

STARK 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
JANUARY 26, 2012**