

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF
NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO
BASIC
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

JULIE TAYLOR, TREASURER



Dave Yost • Auditor of State

Board of Directors
Newark Digital Academy
255 Woods Avenue
Newark, Ohio 43055

We have reviewed the *Independent Auditor's Report* of the Newark Digital Academy, Licking 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 Newark Digital Academy is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

February 29, 2012

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**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

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

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December 20, 2011

The Board of Directors
Newark Digital Academy
255 Woods Ave.
Newark, Ohio 43055

INDEPENDENT AUDITOR'S REPORT

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Newark Digital Academy, as of June 30, 2011, and the respective changes in financial position and the 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 20, 2011 on our consideration of the Digital 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 6 are not a required part of the basic financial statements but are 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.

**NEWARK DIGITAL ACADEMY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

The management's discussion and analysis of the Newark Digital Academy's (the "NDA") financial performance provides an overall review of the NDA's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the NDA'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 NDA's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- In total, net assets were \$1,399,509 at June 30, 2011.
- The NDA had operating revenues of \$1,602,800, operating expenses of \$1,350,050, and non-operating revenues of \$403,527 for fiscal year 2011. Total change in net assets for the fiscal year was an increase of \$656,277.

Using the Basic Financial Statements

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 NDA's financial activities. The statement of net assets and statement of revenues, expenses and changes in net assets provide information about the activities of the NDA, including all short-term and long-term financial resources and obligations.

Reporting the NDA's Financial Activities

These documents look at all financial transactions and ask the question, "How did we do financially during 2011?" The statement of net assets and statement of revenues, expenses and changes in net assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the NDA's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the NDA as a whole, the financial position of the NDA has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the NDA finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

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

The table below provides a summary of the NDA's net assets for fiscal year 2011 and 2010.

Net Assets		
	2011	2010
<u>Assets</u>		
Current assets	\$ 1,325,806	\$ 660,831
Capital assets, net	150,067	109,060
Total assets	1,475,873	769,891
<u>Liabilities</u>		
Current liabilities	76,364	26,659
Total liabilities	76,364	26,659
<u>Net Assets</u>		
Invested in capital assets	150,067	109,060
Restricted	100,858	48,591
Unrestricted	1,148,584	585,581
Total net assets	\$ 1,399,509	\$ 743,232

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the NDA's net assets totaled \$1,399,509. At year-end, capital assets represented 10.17% of total assets. Capital assets consisted of land, construction in progress, buildings, computers and other equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending. The increase in net assets is primarily attributable to the increase in cash and cash equivalents resulting from fiscal year 2011 operations.

The table below shows the changes in net assets for fiscal year 2011 and 2010.

Change in Net Assets		
	2011	2010
<u>Operating Revenues:</u>		
State foundation	\$ 1,602,800	\$ 1,084,416
Charges for services	-	9,155
Total operating revenue	1,602,800	1,093,571
<u>Operating Expenses:</u>		
Personal services	419,694	151,931
Purchased services	721,612	514,516
Materials and supplies	175,989	94,332
Other	15,066	76,142
Depreciation	17,689	18,166
Total operating expenses	1,350,050	855,087
Operating income	252,750	238,484

**NEWARK DIGITAL ACADEMY
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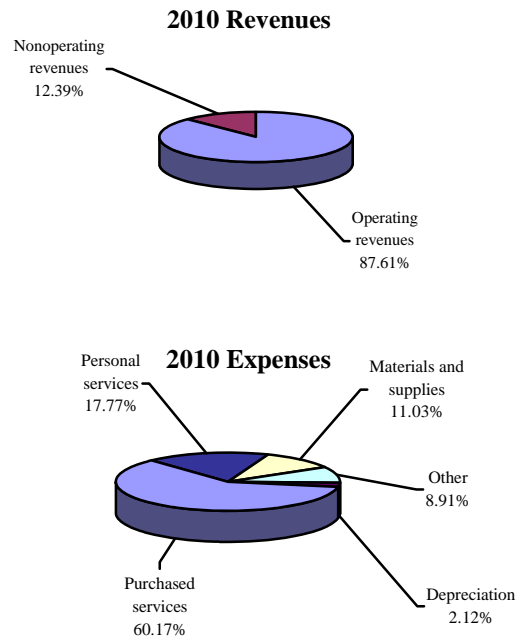
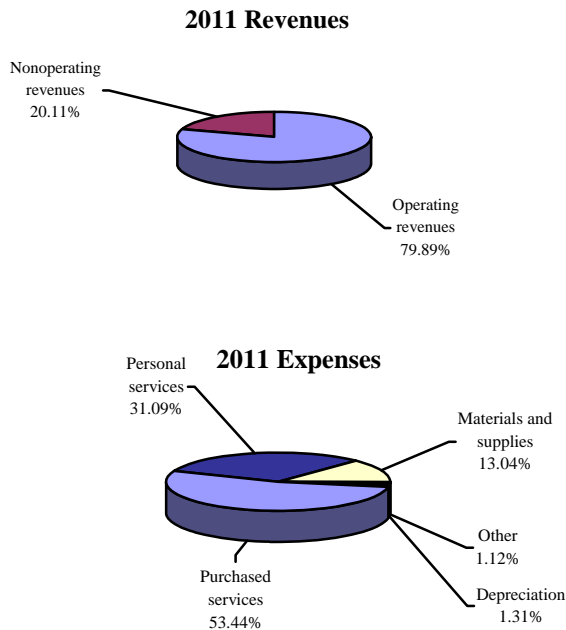
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

**Change in Net Assets
(Continued)**

	2011	2010
<u>Non-operating Revenues:</u>		
State and Federal grants	\$ 381,211	\$ 147,791
Interest revenue	1,348	1,650
Miscellaneous	20,968	5,239
Total non-operating revenues	403,527	154,680
Change in net assets	656,277	393,164
Net assets at beginning of year	743,232	350,068
Net assets at end of year	\$ 1,399,509	\$ 743,232

The increase in State foundation operating revenues and overall operating expenses was a result of an increase in student enrollment in fiscal year 2011. The NDA had an increase in operating revenues of \$509,229, or 46.57%, coupled with an increase in operating expenses of \$494,963, or 57.88%. In addition, the NDA received more federal grant funding in fiscal year 2011 versus 2010. State and federal grant funding increased \$233,420, or 157.94% over prior year.

The charts below illustrate the revenues and expenses for the NDA during fiscal year 2011 and 2010.



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

Capital Assets

At the end of fiscal 2011, the NDA had \$150,067 invested in land, construction in progress, a building and furniture and equipment. The following table shows fiscal year 2011 balances compared to 2010:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2011	2010
Land	\$ 6,630	\$ 6,630
Construction in progress	46,701	-
Building	76,394	78,378
Furniture and equipment	20,342	24,052
Total	\$ 150,067	\$ 109,060

During fiscal year 2011, the NDA began renovation work on the building that was purchased in fiscal year 2010. The construction in progress represents work incurred on the renovations which are expected to be completed in fiscal year 2012. See Note 5 to the basic financial statements for additional information on the NDA's capital assets.

Debt Administration

At June 30, 2011, the NDA had no outstanding debt at year-end.

Current Financial Related Activities

NDA began fiscal year 2004 with TRECA providing most of its instructional and administrative services. During fiscal year 2011, NDA utilized TRECA only for the services of a part-time technician. NDA utilized the Jefferson County Educational Service Center (ESC) to provide its online curriculum. NDA participates in the ESC's Virtual Learning Academy. In addition, the NDA offers non-digital curriculum, such as Calvert School Educational Services, the American School and several flex credit options. The cutting edge nature of this kind of instructional delivery makes for constant change of the NDA's operations.

Contacting the NDA's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the NDA's finances and to show the NDA's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Julie Taylor, Treasurer, at Newark Digital Academy, 255 Woods Ave., Newark, Ohio 43055 or email at jltaylor@laca.org.

**NEWARK DIGITAL ACADEMY
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STATEMENT OF NET ASSETS
JUNE 30, 2011

Assets:	
Current assets:	
Cash and cash equivalents	\$ 1,217,453
Receivables:	
Intergovernmental.	<u>108,353</u>
Total current assets	<u>1,325,806</u>
Non-current assets:	
Land and construction in progress.	53,331
Depreciable capital assets, net	<u>96,736</u>
Total non-current assets.	<u>150,067</u>
Total assets.	<u>1,475,873</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	11,111
Intergovernmental payable	10,759
State foundation payable	<u>54,494</u>
Total current liabilities	<u>76,364</u>
 Net assets:	
Invested in capital assets	150,067
Restricted for:	
State funded programs.	2,173
Federally funded programs	98,685
Unrestricted.	<u>1,148,584</u>
Total net assets	<u>\$ 1,399,509</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEWARK DIGITAL ACADEMY
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STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Operating revenues:	
State foundation	\$ 1,602,800
Total operating revenues	<u>1,602,800</u>
Operating expenses:	
Personal services	419,694
Purchased services.	721,612
Materials and supplies	175,989
Other.	15,066
Depreciation	<u>17,689</u>
Total operating expenses.	<u>1,350,050</u>
Operating income	<u>252,750</u>
Non-operating revenues:	
Grants and subsidies.	381,211
Interest revenue	1,348
Other non-operating revenues	<u>20,968</u>
Total non-operating revenues	<u>403,527</u>
Change in net assets.	656,277
Net assets at beginning of year	<u>743,232</u>
Net assets at end of year.	<u><u>\$ 1,399,509</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Cash flows from operating activities:	
Cash received from state foundation	\$ 1,634,717
Cash payments for personal services.	(407,681)
Cash payments for purchased services	(716,978)
Cash payments for materials and supplies	(175,602)
Cash payments for other expenses	(15,313)
	<hr/>
Net cash provided by operating activities	319,143
	<hr/>
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	309,312
Cash received from miscellaneous receipts	20,968
	<hr/>
Net cash provided by noncapital financing activities	330,280
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(57,695)
	<hr/>
Net cash used in capital and related financing activities.	(57,695)
	<hr/>
Cash flows from investing activities:	
Interest received	1,348
	<hr/>
Net cash provided by investing activities	1,348
	<hr/>
Net increase in cash and cash equivalents	593,076
Cash and cash equivalents at beginning of year	624,377
Cash and cash equivalents at end of year	\$ 1,217,453
	<hr/> <hr/>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 252,750
Adjustments:	
Depreciation	17,689
Changes in assets and liabilities:	
Increase in accounts payable.	8,028
Increase in intergovernmental payable	8,759
Increase in State foundation payable	31,917
	<hr/>
Net cash provided by operating activities	\$ 319,143
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Noncash transactions:

The Academy purchased \$1,001 in capital assets on account at June 30, 2011.

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

NOTE 1 - DESCRIPTION OF THE SCHOOL

The Newark Digital NDA (NDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. NDA is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect NDA's tax exempt status. NDA's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. The students may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students with the Newark City School District, (sponsor of the NDA), that desire a specific course not currently offered but is available through online instruction.

NDA was created on February 11, 2003 by entering into a five year contract with the Newark City School District (the Sponsor) through fiscal year 2008. On May 13, 2008, the NDA entered into a new five year contract through fiscal year 2013. The Sponsor is responsible for evaluating the performance of the NDA and has the authority to deny renewal of the contract at its expiration.

NDA has entered into a purchased services agreement contract with the Tri-Rivers Educational Computer Association (TRECA) for use of a part-time technician. See Note 6.A for detail on NDA's service agreement contract with TRECA.

NDA has also entered into a purchased services agreement contract with the Jefferson County Educational Service Center (ESC) for participation in the Jefferson County ESC Virtual Learning Academy (VLA). See Note 6.B for detail on NDA's service agreement contract with the Jefferson County ESC.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

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

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

B. Measurement Focus and Basis of Accounting

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

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

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the NDA's contract with its Sponsor. The contract between NDA and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

D. Cash and Cash Equivalents

Cash received by NDA is reflected as "cash and cash equivalents" on the statement of net assets. NDA had no investments during the fiscal year ended June 30, 2011.

E. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The NDA maintains a capitalization threshold of one thousand dollars. The NDA does not possess any infrastructure.

All reported capital assets, except for land and construction in progress, are depreciated. Depreciation is computed using the straight-line method. Buildings are depreciated over forty years, furniture is depreciated over twenty years, and computers are depreciated over six years.

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LICKING COUNTY, OHIO**

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

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

F. Intergovernmental Revenue

The NDA currently participates in the State Foundation Program, the EMIS grant, the Data Communication grant, the Data Connectivity grant, the Education Jobs grant, the IDEA Part B grant, Education Stabilization grant, the Stimulus Title II-D grant, the Title I grant, the Drug Free School grant, and the Title II-A grant. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2011 school year excluding State and Federal grants totaled \$1,602,800.

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 NDA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the NDA on a reimbursement basis. State and Federal grants revenue for the fiscal year 2011 received was \$381,211.

G. 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 expenditure/expense is reported in the year which services are consumed. The NDA has no prepaid assets at June 30, 2011.

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 either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Amounts restricted include amounts restricted for State and Federally funded programs.

The NDA applies restricted resources first 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 NDA. Operating expenses are necessary costs incurred to provide goods or services that are the primary activity of the NDA. All revenues and expenditures not meeting this definition are reported as non-operating.

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

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

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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - CHANGES IN ACCOUNTING POLICIES

For fiscal year 2011, the NDA has implemented GASB Statement No. 59, "Financial Instruments Omnibus". GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the NDA.

NOTE 4 - DEPOSITS

At June 30, 2011, the carrying amount of all NDA deposits was \$1,217,453. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$1,050,517 of the NDA's bank balance of \$1,300,517 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the NDA's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the NDA. The NDA has no deposit policy for custodial credit risk beyond the requirement of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the NDA to a successful claim by the FDIC.

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

NOTE 5 - CAPITAL ASSETS

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

	Balance 06/30/10	Additions	Reductions	Balance 06/30/11
<i>Capital assets, not being depreciated:</i>				
Land	\$ 6,630	\$ -	\$ -	\$ 6,630
Construction in progress	<u>-</u>	<u>46,701</u>	<u>-</u>	<u>46,701</u>
Total capital assets, not being depreciated	<u>6,630</u>	<u>46,701</u>	<u>-</u>	<u>53,331</u>
<i>Capital assets, being depreciated:</i>				
Building	79,370	-	-	79,370
Furniture and equipment	<u>130,400</u>	<u>11,995</u>	<u>-</u>	<u>142,395</u>
Total capital assets, being depreciated	<u>209,770</u>	<u>11,995</u>	<u>-</u>	<u>221,765</u>
<i>Less: accumulated depreciation</i>				
Building	(992)	(1,984)	-	(2,976)
Furniture and equipment	<u>(106,348)</u>	<u>(15,705)</u>	<u>-</u>	<u>(122,053)</u>
Total accumulated depreciation	<u>(107,340)</u>	<u>(17,689)</u>	<u>-</u>	<u>(125,029)</u>
Capital assets, net	<u>\$ 109,060</u>	<u>\$ 41,007</u>	<u>\$ -</u>	<u>\$ 150,067</u>

NOTE 6 - SERVICE AGREEMENTS

A. TRECA

For fiscal year 2011, NDA utilized TRECA for the services of the part-time technician. The NDA's online curriculum was provided by the Jefferson County Educational Service Center (see below). During fiscal year 2011, NDA paid TRECA \$19,601 under this contract.

B. Jefferson County Educational Service Center

NDA entered into a one-year contract for fiscal year 2011 with the Jefferson County Educational Service Center (ESC) for participation in the Jefferson County ESC Virtual Learning Academy (VLA).

The VLA is an internet-based educational delivery system designed for grades 2-12, providing alternative educational options for credit deficiencies, alternative programs, students being schooled at home and summer school programs.

Under the contract, the following terms were agreed upon:

The VLA shall provide NDA with the following services: development and maintenance of NDA's VLA database, technology professional development, daily on-line VLA technical support, marketing consultation, treasurer's office/EMIS support, and intervention support.

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

NOTE 6 - SERVICE AGREEMENTS - (Continued)

The student VLA license fees will be the responsibility of NDA at a rate of \$185 per student. Additional fees will be charged for students enrolled in specialized courses. Discounted rates will be charged to summer school students.

For fiscal year 2011, \$454,489 was paid by NDA under this contract.

NOTE 7 - PURCHASED SERVICES

For fiscal year ended June 30, 2011, purchased services expenses were as follows:

Professional and technical services	\$ 292,408
Property services	31,741
Travel mileage/meeting expenses	6,904
Communications	30,523
Utilities	9,005
Tuition and similar payments	31,049
Other purchased services	<u>319,982</u>
Total	<u>\$ 721,612</u>

NOTE 8 - RISK MANAGEMENT

The NDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Coverage was provided by Indiana Insurance.

During fiscal year 2011, the NDA contracted through Philadelphia Insurance for the following coverage amounts:

Per Occurrence	\$1,000,000
Annual Aggregate	\$2,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. The only significant reduction in insurance coverage was the annual aggregate decreased from \$3,000,000 at June 30, 2010 to \$2,000,000 at June 30, 2011.

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

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

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

NOTE 9 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The NDA contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Media/Financial Reports*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the NDA is required to contribute at an actuarially determined rate. The current NDA rate is 14 percent of annual covered payroll. A portion of the NDA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are 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. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The NDA's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$9,482, \$3,477 and \$2,031, respectively; 35.29 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The NDA participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. 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 (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org under *Publications*.

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

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

NOTE 9 - PENSION PLANS - (Continued)

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

Funding Policy - For fiscal year 2011, plan members were required to contribute 10 percent of their annual covered salaries. The NDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. 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 NDA's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010 and 2009 were \$37,688, \$13,917 and \$8,770, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$5,661 made by the NDA and \$4,043 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2011, certain members of the Board of Director have elected Social Security. The NDA's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The NDA participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Media/Financial Reports*.

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

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

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each 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 2011, 1.43 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned.

Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The NDA's contributions for health care (including surcharge) for the fiscal years ended June 30, 2011, 2010, and 2009 were \$1,475, \$125 and \$930, respectively; 35.29 percent has been contributed for fiscal year 2011 and 100 percent 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 B Fund. For fiscal year 2011, this actuarially required allocation was 0.76 percent of covered payroll. The NDA's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$610, \$207 and \$168, respectively; 35.29 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The NDA contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org under *Publications* or by calling (888) 227-7877.

Funding Policy - Ohio law 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 Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The NDA's contributions for health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$2,899, \$1,071 and \$675, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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

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

NOTE 11 - CONTINGENCIES

A. Grants

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

Any disallowed claims resulting from such audits could become a liability of the NDA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the NDA at June 30, 2011.

B. Litigation

The NDA is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

C. State Foundation Funding

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 conclusion of this review resulted in a State Foundation payable of \$54,494 at June 30, 2011. This amount will be withheld from foundation settlements in fiscal years 2012 and 2013.

December 20, 2011

To the Board of Directors
Newark Digital Academy
255 Woods Ave.
Newark, Ohio 43055

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 Newark Digital Academy (the "Digital Academy"), a component unit of Newark City School District, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 20, 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 Digital Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Digital Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Digital Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Digital 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 to be material weaknesses, as defined above.

Newark Digital Academy
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
December 20, 2011
Page 2

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Digital Academy in a separate letter dated December 20, 2011.

This report is intended solely for the information and use of the Board of Directors, sponsor and management and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

The Board of Directors
Newark Digital Academy
255 Woods Ave.
Newark, Ohio 43055

December 20, 2011

Independent Accountant's Report on Applying Agreed-Upon Procedure

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 Newark Digital Academy (the Digital Academy), a component unity of Newark City School District 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 Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying. Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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 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

NEWARK DIGITAL ACADEMY

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 13, 2012**