



Rea & associates *a brighter way*

# Massillon Digital Academy Stark County, Ohio

## *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2013





# Dave Yost • Auditor of State

Board of Directors and Management  
Massillon Digital Academy  
930 17th Street NE  
Massillon, Oh 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, 2012 through June 30, 2013. 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

December 24, 2013

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**Massillon Digital Academy**  
**Stark County, Ohio**  
*Table of Contents*  
*June 30, 2013*

	Page
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements:	
Statement of Net Position.....	9
Statement of Revenues, Expenses and Changes In Net Position.....	10
Statement of Cash Flows.....	11
Notes to the Basic Financial Statements.....	12
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.....	21
Independent Accountant's Report on Applying Agreed-Upon Procedure.....	23

December 2, 2013

To the Board of Directors and Management  
Massillon Digital Academy  
Stark County, Ohio  
930 17<sup>th</sup> Street NE  
Massillon, Oh 44646

## **INDEPENDENT AUDITOR'S REPORT**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Massillon Digital Academy, Stark County, Ohio (the "Academy"), a component unit of Massillon City School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massillon Digital Academy, Stark County, Ohio, as of June 30, 2013, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Academy's internal control over financial reporting and compliance.

*Rea & Associates, Inc.*

New Philadelphia, Ohio

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**Massillon Digital Academy**  
**Stark County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2013*

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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, 2013. 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 2013 are as follows:

- Net Position decreased \$11,071.
- Operating revenues accounted for \$695,814 in revenue or 91 percent of all revenues.
- There were \$18,185 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 position. The *Statement of Net Position* represents the basic statement of position for the Academy.

The *Statement of Net Position* and *Statement of Revenues, Expenses, and Changes in Net Position* 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**  
**Stark County, Ohio**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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**Reporting the Academy as a Whole**

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

Table 1 provides a summary of the Academy's net position for 2013 compared to 2012:

**Table 1**  
Net Position

	2013	2012
<b>Assets</b>		
Current Assets	\$ 828,504	\$ 847,308
Capital Assets	37,233	25,805
<i>Total Assets</i>	865,737	873,113
<b>Liabilities</b>		
Current Liabilities	10,376	6,681
<b>Net Position</b>		
Net Investment in Capital Assets	37,233	25,805
Restricted	45,398	72,449
Unrestricted	772,730	768,178
<i>Total Net Position</i>	\$ 855,361	\$ 866,432

Total assets decreased by \$7,376. Intergovernmental receivable also decreased by \$17,937 due to the completion of the Education Jobs grant in fiscal year 2013. Capital assets increased \$11,428 due to the Academy purchasing additional computer equipment. Liabilities increased by \$3,695 due to an increase in accounts payable.

***Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position 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 2013?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position 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**  
**Stark County, Ohio**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

These two statements report the Academy's *net position* and changes in net position. This change in net position 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 position for fiscal year 2013 compared to fiscal year 2012:

**Table 2**  
Changes in Net Position

	<b>2013</b>	<b>2012</b>
<b>Operating Revenue</b>		
Foundation Payments	\$ 686,972	\$ 774,042
Customer Sales and Services	8,842	4,891
<b>Total Operating Revenues</b>	695,814	778,933
<b>Operating Expenses</b>		
Purchased Services	756,015	593,883
Materials and Supplies	9,202	3,359
Depreciation Expense	6,757	2,881
Other Operating Expense	7,421	8,819
<i>Total Operating Expenses</i>	779,395	608,942
<b>Non-Operating Revenues</b>		
Federal and State Grants	82,105	64,372
Interest Income (Loss)	(9,595)	408
<i>Total Non-Operating Revenues</i>	72,510	64,780
<i>Change In Net Position</i>	\$ (11,071)	\$ 234,771

The Statement of Revenues, Expenses, and Changes in Net Position 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 decreased from 2012 to 2013. This decrease is due to a reduction of foundation money due to a decrease in enrollment.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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The dependence upon state foundation revenues for operating activities is apparent. The majority of monies were used for purchased services. Purchased services increased by \$162,132 due to rent costs and increase in technology related costs. The Academy's operating revenue is 91 percent of total revenue. State sources are by far the primary support for the Academy.

**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 2013, the Academy had \$37,233 (net of \$212,313 in accumulated depreciation) invested in furniture and fixtures and computer equipment. Table 3 shows fiscal year 2013 balances compared to 2012. More detailed information is presented in Note 4 of the notes to the basic financial statements.

**Table 3**  
**Capital Assets (Net of Depreciation)**

	<u>2013</u>	<u>2012</u>
Computer Equipment	<u>\$ 37,233</u>	<u>\$ 25,805</u>

*Debt Administration*

At June 30, 2013, the Academy had no debt.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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**Current Financial Related Activities**

The Academy is sponsored by the Massillon City School District. The Academy relies solely 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. Currently, the Academy receives Title I, Title II-A, and IDEA-B federal funds.

The Academy has committed itself to providing online educational opportunities to students.

**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. Sandy Moeglin, Treasurer of Massillon Digital Academy, 930 17<sup>th</sup> Street N. E., Massillon, Ohio 44646.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Statement of Net Position*  
*June 30, 2013*

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<b>Assets</b>	
Current Assets:	
Equity in Pooled Cash and Investments	\$ 784,366
Intergovernmental Receivable	<u>44,138</u>
<i>Total Current Assets</i>	<u>828,504</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net	<u>37,233</u>
<i>Total Assets</i>	<u>865,737</u>
<b>Liabilities</b>	
Current Liabilities:	
Accounts Payable	<u>10,376</u>
<b>Net Position</b>	
Net Investment in Capital Assets	37,233
Restricted For:	
Federally Fund Programs	44,198
State Fund Programs	1,200
Unrestricted	<u>772,730</u>
<i>Total Net Position</i>	<u>\$ 855,361</u>

See accompanying notes to the basic financial statements.

**Massillon Digital Academy**  
**Stark County, Ohio**

*Statement of Revenues, Expenses and Changes in Net Position*  
*For the Fiscal Year Ended June 30, 2013*

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<b>Operating Revenues</b>	
Foundation Payments	\$ 686,972
Customer Sales and Services	<u>8,842</u>
<i>Total Operating Revenues</i>	<u>695,814</u>
<b>Operating Expenses</b>	
Purchased Services	756,015
Materials and Supplies	9,202
Depreciation	6,757
Other	<u>7,421</u>
<i>Total Operating Expenses</i>	<u>779,395</u>
<i>Operating Loss</i>	<u>(83,581)</u>
<b>Non-Operating Revenues</b>	
Interest Income (Loss)	(9,595)
Federal and State Grants	<u>82,105</u>
<i>Total Non-Operating Revenues</i>	<u>72,510</u>
<i>Change in Net Position</i>	(11,071)
<i>Net Position Beginning of Year</i>	<u>866,432</u>
<i>Net Position End of Year</i>	<u><u>\$ 855,361</u></u>

See accompanying notes to the basic financial statements.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Statement of Cash Flows*  
For the Fiscal Year Ended June 30, 2013

<b>Cash Flows From Operating Activities</b>	
Cash Received from State Foundation	\$ 686,972
Customer Sales and Services	8,842
Cash Payments for Goods and Services	(751,604)
Cash Payments for Materials and Supplies	(9,202)
Cash Payments for Other Expenses	<u>(8,137)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(73,129)</u>
 <b>Cash Flows From Non-Capital Financing Activities</b>	
Grants Received	<u>100,042</u>
 <b>Cash Flows From Investing Activities</b>	
Interest on Investments	<u>(9,595)</u>
 <b>Cash Flows From Capital and Related Activities</b>	
Payments for Capital Acquisitions	<u>(18,185)</u>
<i>Net Decrease in Cash and Investments</i>	(867)
<i>Cash and Investments, Beginning of Year</i>	<u>785,233</u>
<i>Cash and Investments, End of Year</i>	<u><u>\$ 784,366</u></u>
 <b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>	
<i>Operating Loss</i>	\$ (83,581)
Adjustments:	
Depreciation	6,757
(Decrease) Increase in Liabilities	
Accounts Payable	4,710
Intergovernmental Payable	<u>(1,015)</u>
<i>Total Adjustments</i>	<u>10,452</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (73,129)</u></u>

See accompanying notes to the basic financial statements.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2013*

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**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**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Academy's accounting policies are described below.

**A. Basis of Presentation**

**Enterprise Accounting**

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses, and changes in net position, 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 position 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 position. The statement of revenues, expenses, and changes in net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. 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**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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**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 Investments**

Cash held by the Academy is reflected as "Equity in Pooled Cash and Investments" on the statement of net position. 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 2013, the Academy investments were limited to Federal Farm Credit System Bank Bonds.

**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 \$686,972 for the year ended June 30, 2013.

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 2013, 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, 2013, totaled \$82,105.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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**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 Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is 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, 2013, the Academy had unrestricted net position of \$772,730, \$44,198 and \$1,200 of restricted net position 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 position is 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**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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**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 2013.

**L. Implementation of New Accounting Policies**

For the fiscal year ended June 30, 2013, the Academy has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34," GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," and GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Academy.

GASB Statement No. 61 improves guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Academy.

GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Academy.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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**NOTE 3 – DEPOSITS AND INVESTMENTS**

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 2013, 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.

**Deposits with Financial Institutions**

At June 30, 2013, the carrying amount of the Academy’s deposits was \$296,531. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures,” as of June 30, 2013, \$56,368 of the Academy’s bank balance of \$306,368 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.

**Investments**

Investments are reported at fair value. As of June 30, 2013, the Academy had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity 48-60 Months</u>	<u>% of Investments</u>
Federal Farm Credit System Bank Bonds	<u>\$487,835</u>	<u>\$ 487,835</u>	<u>100.00%</u>

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

**Interest Rate Risk:** The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Academy's policy is to follow State statute which is to invest funds with the highest interest rate bid.

**Credit Risk:** Standard and Poor's has rated the Federal Farm Credit System Bank Bonds as AA+.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

**Concentration of Credit Risk:** The Academy places no limit on the amount that may be invested in any one issuer. The table above includes the percentage of total of each investment type held by the Academy at June 30, 2013.

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in capital assets during the fiscal year ended June 30, 2013 follows:

	Balance 07/01/2012	Additions	Reductions	Balance 06/30/2013
<i>Capital Assets, Being Depreciated:</i>				
Furniture and Fixtures	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	228,715	18,185	0	246,900
<i>Total Capital Assets, Being Depreciated</i>	<u>231,361</u>	<u>18,185</u>	<u>0</u>	<u>249,546</u>
<i>Less: Accumulated Depreciation</i>				
Furniture and Fixtures	(2,646)	0	0	(2,646)
Computer Equipment	(202,910)	(6,757)	0	(209,667)
<i>Total Accumulated Depreciation</i>	<u>(205,556)</u>	<u>(6,757)</u>	<u>0</u>	<u>(212,313)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>\$ 25,805</u>	<u>\$ 11,428</u>	<u>\$ 0</u>	<u>\$ 37,233</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:

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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- 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.

**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 renewed a 5-year sponsorship agreement commencing on the first day of the 2013 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 \$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, 2013, 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, 2013, purchased service expenses were recognized for professional services rendered by various vendors as follows:

Massillon Board of Education	\$ 607,830
SPARCC	32,147
Verizon	68,699
Other	47,339
Total Purchased Services	<u>\$ 756,015</u>

For the year ended June 30, 2013, the Academy recognized \$607,830 in expenses for educational services and curriculum provided by the Massillon Board of Education.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2013*

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**NOTE 9 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2013, if applicable, cannot be determined at this time.

**B. Litigation**

The Academy is not party to any claims or lawsuits that would, in the Academy's opinion, have a material effect of the basic financial statements.

**C. 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. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to state funding for fiscal year 2013, as a result of such review.

December 2, 2013

To the Board of Directors and Management  
Massillon Digital Academy  
Stark County, Ohio  
930 17<sup>th</sup> Street NE  
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, in accordance with the 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, the financial statements of Massillon Digital Academy, Stark County, Ohio (the "Academy"), a component unit of Massillon City School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated December 2, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

New Philadelphia, Ohio

December 2, 2013

To the Board of Directors and Management  
Massillon Digital Academy  
Stark County, Ohio  
930 17<sup>th</sup> Street NE  
Massillon, Ohio 44646

### **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 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 December 19, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act."

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 School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

*Rea & Associates, Inc.*

New Philadelphia, Ohio



# 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 7, 2014**