Marion City Digital Academy

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Basic Financial Statements

June 30, 2007

Mary Taylor, CPA
Auditor of State

Board of Directors
Marion City School District Digital Academy
910 East Church Street
Marion, Ohio 43302

We have reviewed the *Independent Auditor's Report* of the Marion City School District Digital Academy, Marion County, prepared by Rea & Associates, Inc., for the audit period July 1, 2006 through June 30, 2007. 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 Marion City School District Digital Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 31, 2008

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Marion City Digital Academy
Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS
Focused on Your Future.

February 22, 2008

The Board of Directors
Marion City Digital Academy
910 East Church Street
Marion, Ohio 43302

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Marion City Digital Academy (the Digital Academy), as of and for the year ended June 30, 2007, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Marion City Digital Academy, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof 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 February 22, 2008 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 4 through 6 are not a required part of the basic financial statements but is supplementary information required by the 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.

The discussion and analysis of Marion City Digital Academy's (MCDA) financial performance provides an overall review of MCDA's financial activities for the fiscal year ended June 30, 2007. Readers should also review the basic financial statements and notes to enhance their understanding of MCDA's financial performance.

Highlights

MCDA began operations in January 2003. MCDA is an online internet school which served 185 students during fiscal year 2003, 169 students during fiscal year 2004, 247 students during fiscal year 2005, 248 students during fiscal year 2006, and 188 students during fiscal year 2007. MCDA continues to contract with Tri-Rivers Educational Computer Association (TRECA) for many of the services it needs to educate the students.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and change in net assets reflect how MCDA did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

Table 1 provides a summary of MCDA's net assets for fiscal year 2007 and fiscal year 2006:

Table 1
Net Assets

	2007	Restated 2006	Change
Assets:			
Current Assets	$283,876	$217,675	$66,201
Capital Assets, Net	114,044	63,059	50,985
Total Assets	397,920	280,734	117,186
Liabilities:			
Current Liabilities	78,604	93,938	15,334
Net Assets:			
Invested in Capital Assets	114,044	63,059	50,985
Unrestricted	205,272	123,737	81,535
Total Net Assets	$319,316	$186,796	$132,520

A review of the above table demonstrates a number of significant changes from the prior fiscal year. The increase in current and other assets includes an increase in cash and cash equivalents of almost $39,000 due to a reduction in spending for purchased services in fiscal year 2007. Intergovernmental receivables increased $27,000 from an increases Title I and Title VI-B grant resources. The increase in capital assets and invested in capital assets is the result of the purchase of computers and a networked managed video system.

Table 2 reflects the change in net assets for fiscal year 2007 and fiscal year 2006.

Table 2
Change in Net Assets

	2007	Restated 2006	Change
Operating Revenues:			
Foundation	$610,241	$732,860	($122,619)
Other Operating Revenues	650	111	539
Non-Operating Revenues:			
Operating Grants	219,598	207,663	11,935
Interest Revenue	1,464	1,289	175
Total Revenues	831,953	941,923	(109,970)
Operating Expenses:			
Salaries	147,212	19,711	(127,501)
Fringe Benefits	33,974	10,116	(23,858)
Purchased Services	417,419	667,370	249,951
Materials and Supplies	55,661	37,144	(18,517)
Depreciation	31,982	16,275	(15,707)
Other Operating Expenses	13,185	62,146	48,961
Total Expenses	699,433	812,762	113,329
Increase in Net Assets	132,520	129,161	3,359
Net Assets at Beginning of Year	186,796	57,635	129,161
Net Assets at End of Year	$319,316	$186,796	$132,520

Total revenues decreased almost 17 percent from fiscal year 2006. This is largely the result of MCDA being more selective of the students being allowed to enroll. There were 60 fewer students in fiscal year 2007. As a result, there was a decrease in State foundation revenues. Expenses decreased 14 percent from fiscal year 2006; the most notable decrease was in purchased services. In fiscal year 2007, employees were paid directly from MCDA; therefore, there was a reduction in costs paid to Marion City School District. This decrease, however, was offset by an increase in salaries and fringe benefits. The overall increase is net assets is obviously due to the increase in revenues exceeding the expenses.

Budgeting

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

Capital Assets

At the end of fiscal year 2007, MCDA had $114,044 invested in capital assets (net of accumulated depreciation). For further information regarding MCDA's capital assets, refer to Note 5 to the basic financial statements.

Current Issues

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

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

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

For the 2007/2008 school year, MCDA has started a professional development sequence for some teachers of our sponsoring district, the Marion City School District. The purpose of the professional development is to train Marion City School District staff to teach within a digital environment. The ultimate goal is to have Marion City School District staff teach online courses both within the sponsor district as well as MCDA. These teachers attend several face to face class sessions with an instructor as well as completing an online course and e-portfolio to demonstrate their mastery of the skills necessary to succeed pedagogically within this digital environment.

Additionally, MCDA is exploring the concept of a drop-out recovery focus for our school. The majority of our students meet most of the criteria for this type of school as defined statutorily by the State of Ohio. Therefore, this shift in focus may benefit our students.

Contacting MCDA's Financial Management

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

Marion City Digital Academy
Statement of Net Assets
June 30, 2007

Assets:	
Current Assets:	
Cash and Cash Equivalents	$210,614
Intergovernmental Receivable	73,140
Prepaid Items	122
Total Current Assets	283,876
Non-Current Assets:	
Depreciable Capital Assets, Net	114,044
Total Assets	397,920
Liabilities:	
Current Liabilities:	
Accounts Payable	55
Accrued Wages Payable	14,774
Due to Primary Government	37,600
Intergovernmental Payable	26,175
Total Current Liabilities	78,604
Net Assets:	
Invested in Capital Assets	114,044
Unrestricted	205,272
Total Net Assets	$319,316

See Accompanying Notes to Basic Financial Statements

Marion City Digital Academy
Statement of Revenues, Expenses, and Change in Net Assets
For the Fiscal Year Ended June 30, 2007

Operating Revenues:	
Foundation	$610,241
Other Operating Revenues	650
Total Operating Revenues	610,891
Operating Expenses:	
Salaries	147,212
Fringe Benefits	33,974
Purchased Services	417,419
Materials and Supplies	55,661
Depreciation	31,982
Other Operating Expenses	13,185
Total Operating Expenses	699,433
Operating Loss	(88,542)
Non-Operating Revenues	
Operating Grants	219,598
Interest Revenue	1,464
Total Non-Operating Revenues	221,062
Change in Net Assets	132,520
Net Assets at Beginning of Year - Restated (Note 3)	186,796
Net Assets at End of Year	$319,316

See Accompanying Notes to the Basic Financial Statements

Marion City Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Foundation	$608,580
Cash Received from Other Revenues	650
Cash Payments for Personal Services	(142,074)
Cash Payments for Fringe Benefits	(32,865)
Cash Payments for Goods and Services	(505,893)
Cash Payments for Other Expenses	(2,075)
Net Cash Used for Operating Activities	(73,677)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Operating Grants	194,043
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(82,967)
Cash Flows from Investing Activities:	
Cash Received from Interest	1,464
Net Increase in Cash and Cash Equivalents	38,863
Cash and Cash Equivalents at Beginning of Year	171,751
Cash and Cash Equivalents at End of Year	$210,614
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($88,542)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	31,982
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(1,661)
Increase in Prepaid Items	(122)
Decrease in Accounts Payable	(5,557)
Increase in Accrued Wages Payable	5,138
Decrease in Due to Primary Government	(22,426)
Increase in Intergovernmental Payable	7,511
Net Cash Used for Operating Activities	($73,677)

See Accompanying Notes to the Basic Financial Statements

Note 1 - Description of the School

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

MCDA was approved for operation under a contract with the Marion City School District (the Sponsor) for a five-year period commencing on August 26, 2002. The Sponsor is responsible for evaluating the performance of MCDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of MCDA with the Treasurer of the Sponsor performing the role of Treasurer for MCDA.

MCDA operates under the direction of a five-member Board of Directors made up of community members within the area served by MCDA. The board members are appointed by the Marion City Board of Education. Because the Marion City Board of Education is financially accountable for MCDA, MCDA is considered a component unit of the Marion City School District. The Board of Directors of MCDA is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. During fiscal year 2007, MCDA purchased services from the Tri-Rivers Educational Computer Association (TRECA).

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

B. Measurement Focus

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

C. Basis of Accounting

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

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budget requirement. A line item budget is to be presented to MCDA's Board of Directors at all regular board meetings. The budget is to be reviewed and accepted or rejected at each meeting.

E. Cash and Cash Equivalents

Cash held by MCDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2007, MCDA had no investments.

Note 2 - Summary of Significant Accounting Policies (continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

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

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

K. 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 adopted by MCDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. MCDA first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. MCDA did not have any restricted net assets at fiscal year end.

I. Intergovernmental Revenues

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

J. Operating Revenues and Expenses

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

H. Estimates

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

Note 3 - Correction of an Error and Restatement of Net Assets

In the prior fiscal year, the School District incorrectly recorded intergovernmental receivables.

	Governmental Activities
Net Assets at June 30, 2006	$140,872
Intergovernmental Receivable	45,924
Restated Net Assets at June 30, 2006	$186,796

Note 4 - Receivables

At June 30, 2007, MCDA had intergovernmental receivables, in the amount of $73,140. The receivables are expected to be collected within one year.

	Amount
Ohio Department of Education	$1,661
Idea Part - B	35,287
Title I	30,690
Title V	1,027
Safe and Drug Free Schools	1,152
Title II-A	2,338
Title II-D	985
Total Intergovernmental Receivables	$73,140

Note 5 - Capital Assets

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

	Balance at 6/30/06	Additions	Reductions	Balance at 6/30/07
Depreciable Capital Assets				
Equipment	$81,375	$82,967	$0	$164,342
Less Accumulated Depreciation	(18,316)	(31,982)	0	(50,298)
Capital Assets, Net	$63,059	$50,985	$0	$114,044

Note 6 - Risk Management

MCDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, MCDA obtained the following insurance coverage through Marion City School District's insurance policy.

Coverage provided by the Ohio School Plan:	
General Liability	
Each Occurrence	$1,000,000
Aggregate	3,000,000

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

Note 7 - Defined Benefit Pension Plans

A. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Note 7 - Defined Benefit Pension Plans (continued)

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2007, 2006 and 2005 was $14,859, $4,719, and $5,141, respectively; 81 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005.

B. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Note 7 - Defined Benefit Pension Plans (continued)

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute an actuarially determined rate. The rate for fiscal year 2007 was 14 percent of annual covered payroll; 10.68 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board.

The School District’s required contribution for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 was $2,949, $2,424, and $3,597, respectively; 56 percent has been contributed for the fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2007, none of the Board of Education members have elected Social Security. The Board’s liability is 6.2 percent of wages paid.

Note 8 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians’ fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2007, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount was $1,143.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was $4.1 billion at June 30, 2007. For the fiscal year ended June 30, 2007, net health care costs paid by STRS were $265,558,000, and STRS had 122,934 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member’s pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer’s SERS salaries. For the School District, the amount to fund health care benefits, including the surcharge, was $1,483 for fiscal year 2007.

Note 8 - Postemployment Benefits (continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2006 (the latest information available), were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

Note 9 - Fiscal Agent

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

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

A. Maintain the financial records of MCDA in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;

B. Comply with the policies and procedures regarding internal financial control of MCDA; and

C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

Note 10 - Contract with TRECA

MCDA entered into a contract on June 12, 2006, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

1. TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement MCDA's educational plan and MCDA's assessment and accountability plan.

2. All personnel providing services to MCDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions, and all other legal withholding and/or payroll taxes with respect to such personnel. All shall possess any certification or licensure which may be required by law.

3. The technical services provided by TRECA to MCDA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.

4. MCDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of MCDA.

Note 10 - Contract with TRECA (continued)

5. Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.

6. In exchange for the services and support (including equipment) provided by TRECA, MCDA shall pay to TRECA $3,650 per full-time student enrolled in MCDA per year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2007, $271,062 was paid to TRECA.

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

Note 11 - Related Party Transactions

MCDA is a component unit of the Sponsor (Marion City School District). MCDA and Marion City School District entered into a 5-year sponsorship agreement on August 26, 2002, whereby terms of the sponsorship were established. Pursuant to this agreement, Marion City School District's Treasurer serves as MCDA's fiscal officer.

In fiscal year 2007, other payments made by MCDA to Marion City School District were $84,975. These represent payments of $33,615 for administrative services provided by Marion City School District to MCDA and $13,580 for reimbursements for supplies and equipment purchases made by Marion City School District for MCDA. An additional $37,600, representing the fiscal year 2007 per pupil payment, was paid by MCDA to Marion City School District and is reflected in purchased services expense on the accompanying financial statements.

Payments made by MCDA to TRECA in fiscal year 2007 for purchased services were $358,411. This consists of the $271,062 in student charges and $87,349 in miscellaneous fees.

Note 12 - Contingencies

A. Grants

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

B. Litigation

A lawsuit was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on MCDA cannot presently be determined.

Note 12 - Contingencies (continued)

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The conclusions of this review could result in Sate funding being adjusted. As a result of this review, the adjustment for fiscal year 2007 for MCDA is a receivable for $1,661.

February 22, 2008

To the Board of Directors
Marion City Digital Academy
910 East Church Street
Marion, Ohio 43302

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 accompanying financial statements of the Marion City Digital Academy as of and for the year ended June 30, 2007, and have issued our report thereon dated February 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion City Digital Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marion City Digital Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marion City Digital Academy's internal control over financial reporting.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following deficiency to be a significant deficiency in internal control over financial reporting. A restatement of prior period's net assets was necessary to properly account for intergovernmental receivables. Because of this restatement, total net assets at June 30, 2006 increased by $45,924. We recommend that the treasurer monitor the accounting treatment and how it relates to intergovernmental receivables within the basic financial statements. The Treasurer agrees and will monitor the grants more closely to ensure that all necessary revenue accruals relating to intergovernmental receivables will be recorded in accordance with accounting principles generally accepted in the United States (GAAP).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We do not believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion City 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*. However, we noted certain immaterial instances of non-compliance that we have reported to management of Marion City Digital Academy in a separate letter dated February 22, 2008

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

Rea & Associates, Inc.

Mary Taylor, CPA
Auditor of State

MARION CITY SCHOOL DISTRICT DIGITAL ACADEMY

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 10, 2008

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