Marion City Digital Academy
Marion County

General Purpose External Financial Statement
For the Fiscal Year Ended June 30, 2010

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Marion City Digital Academy, Marion County, prepared by Rea & Associates, Inc., for the audit period July 1, 2009 through June 30, 2010. 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 Digital Academy is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

February 16, 2011

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Marion City Digital Academy
General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2010

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

December 10, 2010

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"), a component unit of Marion City School District, as of and for the year ended June 30, 2010, which collectively comprise the Digital Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Digital Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Marion City Digital Academy, as of June 30, 2010, 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 December 10, 2010 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 is 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, 2010. Readers should also review the basic financial statements and notes to enhance their understanding of MCDA's financial performance.

Highlights

MCDA began operations in January 2003. MCDA is an online internet school and students attending annually have fluctuated from 169 students to 248 students since its inception. However, for fiscal year 2010, the student population dropped to 126 students. 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 2010. 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 2010 and fiscal year 2009:

Table 1
Net Assets

	2010	2009	Change
Assets:			
Current Assets	$553,022	$408,307	$144,715
Capital Assets, Net	28,113	61,362	(33,249)
Total Assets	581,135	469,669	111,466
Liabilities:			
Current Liabilities	117,083	53,341	(63,742)
Net Assets:			
Invested in Capital Assets	28,113	61,362	(33,249)
Unrestricted	435,939	354,966	80,973
Total Net Assets	$464,052	$416,328	$47,724

A review of the above table demonstrates a couple of noteworthy changes from the prior fiscal year. The increase in current and other assets is primarily due to an increase in cash and cash equivalents related to the increase State foundation revenues. The decrease in capital assets and invested in capital assets is due to annual depreciation expense. Lastly, the increase in current liabilities resulted from a large payable to the Marion City School District for the final service payment of fiscal year 2010.

Table 2 reflects the change in net assets for fiscal year 2010 and fiscal year 2009.

Table 2
Change in Net Assets

	2010	2009	Change
Operating Revenues:			
Foundation	$831,121	$696,738	$134,383
Other Operating Revenues	0	126	(126)
Non-Operating Revenues:			
Grants	154,130	48,838	105,292
Interest Revenue	947	1,835	(888)
Total Revenues	986,198	747,537	(238,661)
Operating Expenses:			
Salaries	175,561	165,239	(10,322)
Fringe Benefits	40,174	42,262	2,088
Purchased Services	684,407	479,943	(204,464)
Materials and Supplies	3,083	12,213	9,130
Depreciation	33,249	33,987	738
Other Expenses	2,000	0	(2,000)
Total Expenses	938,474	733,644	(204,830)
Increase in Net Assets	47,724	13,893	(33,831)
Net Assets at Beginning of Year	416,328	402,435	13,893
Net Assets at End of Year	$464,052	$416,328	$47,724

Overall, revenues increased significantly from fiscal year 2009 due to increases in both State foundation revenues and grants. State foundation resources continue to be MCDA's primary revenue source providing 84 percent of the revenues in fiscal year 2010. Title I and IDEA Part-B grants increased due to funds available through the American Reinvestment and Recovery Act. Expenses reflect a 28 percent increase from fiscal year 2009, the majority of which is reflected in the increase in purchased services. The increase in revenues available for programs also caused a corresponding increase in the costs to provide those services.

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 2010, MCDA had $28,113 invested in capital assets (net of accumulated depreciation). For further information regarding MCDA's capital assets, refer to Note 6 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.

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

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

Contacting MCDA's Financial Management

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

Marion City Digital Academy
Statement of Net Assets
June 30, 2010

Assets:	
Current Assets:	
Cash and Cash Equivalents	$462,785
Intergovernmental Receivable	89,740
Prepaid Items	497
Total Current Assets	553,022
Non-Current Assets:	
Depreciable Capital Assets, Net	28,113
Total Assets	581,135
Liabilities:	
Current Liabilities:	
Accounts Payable	800
Accrued Wages Payable	24,492
Due to Primary Government	71,798
Intergovernmental Payable	11,539
Deferred Revenue	8,454
Total Liabilities	117,083
Net Assets:	
Invested in Capital Assets	28,113
Unrestricted	435,939
Total Net Assets	$464,052

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, 2010

Operating Revenues:	
Foundation	$831,121
Operating Expenses:	
Salaries	175,561
Fringe Benefits	40,174
Purchased Services	684,407
Materials and Supplies	3,083
Depreciation	33,249
Other Operation Expenses	2,000
Total Operating Expenses	938,474
Operating Loss	(107,353)
Non-Operating Revenues	
Grants	154,130
Interest Revenue	947
Total Non-Operating Revenues	155,077
Change in Net Assets	47,724
Net Assets at Beginning of Year	416,328
Net Assets at End of Year	$464,052

See Accompanying Notes to the Basic Financial Statements

Marion City Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Foundation	$839,575
Cash Payments for Personal Services	(171,744)
Cash Payments for Fringe Benefits	(38,645)
Cash Payments for Goods and Services	(638,031)
Cash Payments for Other Operating Expenses	(2,000)
Net Cash Used for Operating Activities	(10,845)
Cash Flows from Noncapital Financing Activities:	
Cash Received from Grants	116,055
Cash Flows from Investing Activities:	
Cash Received from Interest	947
Net Increase in Cash and Cash Equivalents	106,157
Cash and Cash Equivalents at Beginning of Year	356,628
Cash and Cash Equivalents at End of Year	$462,785
Reconciliation of Operating Loss to Net Cash Used for Operating Activities:	
Operating Loss	($107,353)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	33,249
Changes in Assets and Liabilities:	
Increase in Prepaid Items	(483)
Decrease in Accounts Payable	(240)
Increase in Accrued Wages Payable	3,817
Increase in Due to Primary Government	71,798
Decrease in Intergovernmental Payable	(20,087)
Increase in Deferred Revenue	8,454
Net Cash Used for Operating Activities	($10,845)

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 May 21, 2007. The Sponsor is responsible for evaluating the performance of MCDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of MCDA with the Treasurer of the Sponsor performing the role of Treasurer for MCDA.

MCDA operates under the direction of a five-member Board of Directors made up of community members within the area served by MCDA. The board members are appointed by the Marion City Board of Education. Because the Marion City Board of Education is financially accountable for MCDA, MCDA is considered a component unit of the Marion City School District. The Board of Directors of MCDA is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. During fiscal year 2010, MCDA purchased services from the Tri-Rivers Educational Computer Association (TRECA).

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

B. Measurement Focus

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

C. Basis of Accounting

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

D. Budgetary Process

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

E. Cash and Cash Equivalents

Cash held by MCDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2010, 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, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year 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 - Change in Accounting Principles

For fiscal year 2010, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, at fair value in the economic resources measurement focus financial statements. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements and the framework for selecting those principles. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' (AICPA) auditing literature into the GASB's accounting and financial reporting literature. This guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any changes to the financial statements.

Note 3 - Change in Accounting Principles (continued)

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and the participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any changes to the financial statements.

Note 4 - Deposits

At fiscal year end, the carrying amount of MCDA's deposits was $462,785 and the bank balance was $566,532. The entire bank balance was covered by federal depository insurance.

Note 5 - Receivables

At June 30, 2010, MCDA had intergovernmental receivables, in the amount of $89,740. The receivables are expected to be collected within one year.

	Amount
Idea Part - B	$46,594
Title I	41,389
Title II-A	1,208
Title II-D	190
Title IV-A	359
Total Intergovernmental Receivables	$89,740

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance at 6/30/09	Additions	Reductions	Balance at 6/30/10
Depreciable Capital Assets				
Equipment	$177,628	$0	$0	$177,628
Less Accumulated Depreciation	(116,266)	(33,249)	0	(149,515)
Capital Assets, Net	$61,362	($33,249)	$0	$28,113

Note 7 - 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 2010, MCDA obtained the following insurance coverage through Marion City School District's insurance policy.

Coverage provided by the Ohio School Plan:	
General Liability	
Each Occurrence	$1,000,000
Aggregate	2,000,000

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

Note 8 - Defined Benefit Pension Plans

A. State Teachers Retirement System

Plan Description - The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DCP allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The CP offers features of both the DBP and the DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. The DBP portion of the CP payment is payable to a member on or after age sixty; the DCP portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Note 8 - Defined Benefit Pension Plans (continued)

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the STRS Ohio Board upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 was $18,598, $18,187, and $14,781 respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. There were no contributions to the DCP and CP for fiscal year 2010 made by the School District or by the plan members.

B. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a stand-alone financial report that may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary and the School District was required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009, and 2008 was $4,340, $3,021, and $2,708 respectively; 30 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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, 2010, one of the Board of Education members has selected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 9 - Postemployment Benefits

A. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Health Care Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was $1,431, $1,399, and 1,137, respectively; 83 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

B. School Employees Retirement System

Plan Description - The School District contributes to two cost-sharing multiple-employer defined benefit OPEB plans administered by the School Employees Retirement System (SERS) for classified retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians fees through several types of plans including HMO's, PPO's, and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each fiscal year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For fiscal year 2010, .46 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount. For fiscal year 2010, the surcharge amount was $513.

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

The School District's contribution for health care for the fiscal years ended June 30, 2010, 2009, and 2008 was $156, $1,383, and $1,236 respectively; 30 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 9 - Postemployment Benefits (continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2010, this actuarially required allocation was .76 percent of covered payroll. The School District's contribution for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 was $258, $249, and $195 respectively; 30 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 10 - 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 11 - Contract with TRECA

MCDA entered into a contract on June 16, 2009, 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 11 - 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 $3,875 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 2010, $303,217 was paid to TRECA.

To obtain TRECA's June 30, 2010, audited financial statements contact Scott Armstrong, Treasurer, at scott@treca.org.

Note 12 - Related Party Transactions

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

In fiscal year 2010, other payments made by MCDA to Marion City School District were $313,588. These represent payments of $94,202 for administrative services provided by Marion City School District to MCDA and $219,386 for reimbursements for supplies and equipment purchases made by Marion City School District for MCDA.

Payments made by MCDA to TRECA in fiscal year 2010 for purchased services were $303,217. This consists of the $174,921 in student charges and $128,296 in miscellaneous fees.

Note 13 - 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, 2010.

B. Litigation

There are currently no matters in litigation with the School District as a defendant.

Note 13 - Contingencies (continued)

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The conclusions of this review could result in State funding being adjusted. MCDA received an overpayment of $8,454 in fiscal year 2010. This amounts has been recorded as deferred revenue in the accompanying financial statements.

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

December 10, 2010

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 financial statements of the Marion City Digital Academy, a component unit of Marion City School District, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 10, 2010. 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.

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

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

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.*

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

Rea & Associates, Inc.

MARION CITY DIGITAL ACADEMY

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 1, 2011