



**Mary Taylor, CPA**  
Auditor of State





# Dave Yost • Auditor of State

January 20, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

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

DAVE YOST  
Auditor of State

QUAKER DIGITAL ACADEMY  
TUSCARAWAS COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Quaker Digital Academy  
Tuscarawas County  
248 Front Avenue, SW  
New Philadelphia, Ohio 44663

To the Board of Directors:

We have audited the accompanying financial statements of the Quaker Digital Academy, Tuscarawas County, Ohio, (the Academy) a component unit of the New Philadelphia City School District as of and for the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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 the Quaker Digital Academy, Tuscarawas County, Ohio, as of June 30, 2010, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the Table of Contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential 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 consistence 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 other assurance.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

November 16, 2010

**Quaker Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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The discussion and analysis of the Quaker Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal years ended June 30, 2010 and 2009. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "MD & A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999.

**Financial Highlights**

Key financial highlights for fiscal year ended June 30, 2010 are as follows:

- Net assets totaled \$1,404,984, a decrease of \$54,441 over fiscal year 2009.
- Total assets were \$1,543,319, an increase of \$62,440 from fiscal year 2009.
- Liabilities totaled \$138,335, an increase of \$116,881 from fiscal year 2009.
- Operating revenues equaled \$1,994,290 and non-operating revenues were \$179,414.
- Operating expenses amounted to \$2,228,145.

Key financial highlights for the fiscal year ended June 30, 2009, are as follows:

- Net assets totaled \$1,459,425, an increase of \$195,386 over fiscal year 2008.
- Total assets were \$1,480,879, an increase of \$150,478 from fiscal year 2008.
- Liabilities totaled \$21,454, a decrease of 44,908 from fiscal year 2008.
- Operating revenues equaled \$1,320,776 and non-operating revenues were \$180,746.
- Operating expenses amounted to \$1,306,136.

**Using this Annual Report**

This annual report consists of the MD & A, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.



**Quaker Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during fiscal year 2010 and 2009?" The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the Academy's net assets for fiscal year 2010 and 2009 as follows:

Table 1  
Net Assets at June 30,

	2010	2009
<b>Assets</b>		
Current assets	\$ 1,543,319	\$1,480,879
<b>Liabilities</b>		
Current Liabilities	138,335	21,454
<b>Net Assets</b>		
Restricted for Other purposes	0	23,265
Unrestricted	1,404,984	1,436,160
<b>Total Net assets</b>	<b>\$ 1,404,984</b>	<b>\$ 1,459,425</b>

Total assets of \$1,543,319 in 2010 and \$1,480,879 in 2009 consisted almost entirely of cash.

Total liabilities of \$138,335 consisted of accounts payable, intergovernmental payable and accrued wages and benefits in 2010 and \$21,454 in 2009 were made up of accounts payable.

The net impact was a decrease in net assets of \$54,441 for 2010 and an increase of \$195,386 for 2009.

**Quaker Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2010 and 2009, as well as a listing of revenues and expenses.

Table 2  
Change in Net Assets

	2010	2009
<b>Operating Revenues</b>		
Foundation Payments	\$1,990,429	\$1,317,481
Charges for Services	1,277	3,295
Miscellaneous	2,584	
<b>Non-Operating Revenues</b>		
Grants - Federal	169,754	159,954
Investment Income	9,660	20,792
<b>Total Revenues</b>	2,173,704	1,501,522
<b>Operating Expenses</b>		
Instruction:		
Regular	969,895	274,179
Special	246,484	148,225
Other	20,439	1,671
Support Services:		
Instructional staff	19,528	12,204
Board of Education	87,252	161
Administration	641,791	656,702
Fiscal	184,699	174,090
Operation and Maintenance of Plant	57,972	38,904
Pupil Transportation	85	0
<b>Total Operating Expenses</b>	2,228,145	1,306,136
<i>Increase (Decrease) in Net assets</i>	(\$54,441)	\$195,386

The Academy's activities consist of enterprise activity. Community schools receive no support from taxes. The State Foundation Program and the Federal Title Grant Programs are, by far, the primary support for the Academy's students.

**Quaker Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2010*  
*Unaudited*

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**For the Future**

The Academy began fiscal year 2010 with the various vendors providing most of its instructional, services. The Academy will be working towards providing instructional, administrative, and fiscal services through the New Philadelphia City School District (the "Sponsor"). As the Academy takes on increasingly more of the instructional, administrative, and fiscal services through its Sponsor, its costs should be more effectively monitored and adjusted, as necessary. However, management still must diligently plan expenses, staying carefully within the Academy's five-year plan.

The Academy has entered into a service contract for fiscal year 2010 with its Sponsor. In agreement with this contract, the Academy will purchase the following services from its Sponsor: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel to provide instructional services to the Academy, hourly staff to provide support services to the Academy, marketing support, EMIS data transmission, insurance, and consulting. The total amount of these services will not exceed \$425,000 for fiscal year 2011.

In addition, the Academy expects student enrollment for fiscal year 2011 to increase, and the Academy anticipates the student enrollment to continue growing in fiscal years after fiscal year 2011 until it reaches its ceiling. This growth will result in payments from the State School Foundation Program to increase substantially.

The Academy's management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. Financially, the future is not without challenges.

**Contacting the Academy's Management**

This financial report is designed to provide our citizens, 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 any questions about this report or need additional financial information, contact Steven D. Sherer, Treasurer, at Quaker Digital Academy, 248 Front Avenue SW, New Philadelphia, Ohio 44663 or email at [sherers@npschools.org](mailto:sherers@npschools.org).

**Quaker Digital Academy**

*Statement of Net Assets*

*June 30, 2010*

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**Assets:**

**Current Assets**

Equity in Pooled Cash and Cash Equivalents \$1,538,865

Receivables:

Intergovernmental 733

Accrued Interest 3,721

*Total Assets* 1,543,319

**Liabilities:**

**Current Liabilities**

Accounts payable 68,973

Accrued Wages and Benefits 26,686

Intergovernmental Payable 42,676

*Total Liabilities* 138,335

**Net Assets**

Unrestricted 1,404,984

*Total Net Assets* \$1,404,984

See accompanying notes to the basic financial statements

**Quaker Digital Academy**  
*Statement of Revenues,  
Expenses and Changes in Net Assets  
For the Fiscal Year Ended June 30, 2010*

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**Operating Revenues**

Foundation Payments	\$1,990,429
Charges for Services	\$1,277
Miscellaneous	2,584
<i>Total Operating Revenues</i>	<u>1,994,290</u>

**Operating Expenses**

Instruction:	
Regular	969,895
Special	246,484
Other	20,439
Support Services:	
Instructional staff	19,528
Board of Education	87,252
Administration	641,791
Fiscal	184,699
Operation and Maintenance of Plant	57,972
Pupil Transportation	85
<i>Total Operating Expenses</i>	<u>2,228,145</u>

*Operating Income(Loss)* (233,855)

**Non-Operating Revenues**

Grants - Federal	169,754
Investment Income	9,660

*Total Non-Operating Revenues* 179,414

*Change in Net Assets* (54,441)

*Net Assets Beginning of Year* 1,459,425

*Net Assets End of Year* \$1,404,984

See accompanying notes to the basic financial statements

**Quaker Digital Academy**  
*Statement of Cash Flows*  
*For the Fiscal Year Ended June 30, 2009*

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**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash received from Foundation Payments	\$1,990,429
Cash received for Services	3,861
Cash Payments for Goods and Services	<u>(2,111,264)</u>

*Net Cash Provided (Used) by Operating Activities* (116,974)

**CashFlows from Noncapital Financing Activities**

Grants Received	179,884
Investment Revenue	<u>7,977</u>

*Net Increase in Cash and Cash Equivalents* 70,887

*Cash and Cash Equivalents Beginning of Year* 1,467,978

*Cash and Cash Equivalents End of Year* \$1,538,865

**Reconciliation of Operating Loss to Net Cash  
Provided (Used) by Operating Activities**

Operating Income (Loss) (\$233,855)

Adjustments:

Increase (Decrease) in Liabilities:	
Accounts payable	47,519
Accrued wages and benefits	26,686
Intergovernmental payable	<u>42,676</u>

*Net Cash Provided (Used) by Operating Activities* (\$116,974)

See accompanying notes to the basic financial statements

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**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 1 – Description of the Academy and Reporting Entity**

The Quaker Digital Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through the twelfth grade. The Academy is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the New Philadelphia City School District (“the Sponsor”) for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the Academy’s program.

The Academy was approved for operation under contract with the Sponsor for a period of five years commencing July 1, 2003. The Academy began operations on January 15, 2004. The Sponsor renewed the contract for an additional five years on May 18, 2009. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy leases space from the Sponsor in the Sponsor’s Administration Building.

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

A service contract for fiscal years 2010-12 between the Academy and the Sponsor was approved. In agreement with this contract, the Academy purchased the following services from the Sponsor: part-time personnel to administer and oversee the instruction and governance of the Academy, hourly staff to provide support to the Academy, and marketing support. The Academy paid the Sponsor \$325,000 during fiscal year 2010 for these services. All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.

All of the Academy’s personnel services, which provided services to 320 students, were purchased from outside organizations during fiscal year 2010.

**Note 2 – Summary of Significant Accounting Policies**

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to the enterprise activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, to its enterprise activities, subject to the same limitation.



**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are described below.

***A. Basis of Presentation***

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

***B. Measurement Focus***

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

***C. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy's basic financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is 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 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.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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***Budgetary Process***

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore, no budgetary information is presented in the basic financial statements.

***D. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

***E. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

***F. Intergovernmental Revenues***

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

***J. Accrued Liabilities***

All payables and accrued liabilities are reported in the government –wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

***G. Estimates***

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

**Note 3 – Deposits**

At June 30, 2010, the carrying amount of the Academy’s deposits and bank balance was \$1,540,180. Of the bank balance, \$250,000 was covered by federal depository insurance and \$1,290,180 was collateralized with securities held in a single financial institution collateral pool in the name of the respective depository bank and pledged as a pool of collateral against all the public monies it holds. Non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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The Academy's investments consisted solely in repurchase agreements with a fair market value of \$1,290,180. The maturity of the repurchase agreements was less than six months.

Interest rates risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Academy's investment policy addresses interest risk by requiring the Academy's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

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.

Of the Academy's \$1,290,180 investment in repurchase agreements in 2010, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the Academy. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2%.

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 requirements of ORC 135.14(M)(2) which states, "Payment for investments shall be made upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

#### **Note 4 – Risk Management**

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. During fiscal year 2010 the Academy purchased its own insurance for property, liability, and inland marine coverage.

Building and Contents -	
replacement cost (\$1,000 deductible)	\$50,000
Inland Marine Coverage	0
Boiler and Machinery	0
Crime Insurance	0
Electronic data Processing (\$1000 deductible)	530,000
Automobile Liability (\$250/\$500 deductible)	1,000,000
Uninsured Motorists (\$0 deductible)	1,000,000

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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General Liability	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded this coverage in any of the past three years. There was no significant reduction in insurance coverage from the prior year.

**Note 5 – Agreements with the Curriculum Service Providers**

The Academy entered into agreements with the Curriculum Associates, BYU, Rosetta Stone, Calvert, and NNDS Management Foundation for the providing of curriculum, web based classes and textbook materials for the 2009-10 school year.

All personnel providing services to the Academy from these service providers are considered employees of the service provider.

Payments are made to the provider based on the number of students enrolled in their programs. For the 2009-10 school year the Academy paid, \$71,067 to Calvert, \$8,900 to Rosetta Stone, \$11,200 to Curriculum Associates, \$6,500 to BYU and \$353,910 to NNDS Management Foundation.

**Note 6 – Contingencies**

**A. Grants**

The Academy received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2010.

**B. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by 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 Academy was reviewed during the 2004 fiscal year of operations and zero errors were found in enrollment, withdrawals and attendance. The Academy does not anticipate any significant adjustments to state funding for fiscal years 2005 through 2010.

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 7 – Personnel Agreement**

The Academy entered into a service contract for fiscal year 2010 with its Sponsor for the following services: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel and staff to provide instructional services and support to the Academy, marketing support, EMIS data transmission, insurance, and consulting. The total amount paid for these services was \$325,000.

**Note 8 – Purchased Services**

For the fiscal year ended June 30, 2010, purchased services expenses were as follows:

Professional and Technical Services	\$1,223,621
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**Note 9 - Defined Benefit Pension Plans**

**A. School Employee Retirement System**

Plan Description - The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension 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 publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy'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 Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2010 was \$15,900 of which 50 percent has been contributed.

**B. State Teachers Retirement System**

Plan Description - The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008 were \$ 59,520; of which 83.3 percent has been contributed. Contributions to the DC and Combined Plans for fiscal year 2010 were \$59,520 made by the Academy and \$42,514 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2009, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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**Note 10 - Postemployment Benefits**

**A. School Employee Retirement System**

Plan Description – The Academy participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's 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 the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 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 2010, this amount was \$0.

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 Academy's contributions for health care for the fiscal year ended June 30, 2010 was \$753; of which 50 percent has been contributed.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal year ended June 30, 2010, was \$1,245; of which 50 percent has been contributed.

**B. State Teachers Retirement System**

Plan Description – The Academy contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2010

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Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy’s contributions for health care for the fiscal year ended June 30, 2010 was \$4,232; of which 83.3 percent has been contributed.

**Note 11 – Accountability and Compliance**

**Change in Accounting Principles**

For the fiscal year 2010, the Academy has implemented GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets”, GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instrument”, and GASB Statement no. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”. The implementation of these statements did not have an effect on the financial statements of the Academy.



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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Quaker Digital Academy  
Tuscarawas County  
248 Front Avenue, SW  
New Philadelphia, Ohio 44663

To the Board of Directors:

We have audited the financial statements of the enterprise fund of the Quaker Digital Academy, Tuscarawas County, (the Academy), a component unit of the New Philadelphia City School District, as of and for the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated November 16, 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Government'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 opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the Board of Directors, the Academy, the Academy's sponsor, and others within the Academy. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

November 16, 2010

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Mary Taylor, CPA  
Auditor of State

QUAKER DIGITAL ACADEMY

TUSCARAWAS 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 20, 2011