

Massillon Digital Academy  
Stark County, Ohio

*Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2012





# Dave Yost • Auditor of State

Board of Directors  
Massillon Digital Academy  
930 17th Street NE  
Massillon, Ohio 44646

We have reviewed the *Independent Auditor's Report* of the Massillon Digital Academy, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Massillon Digital Academy is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

March 4, 2013

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**Massillon Digital Academy  
Stark County, Ohio**

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December 29, 2012

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

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the Massillon Digital Academy, Stark County, Ohio (the Academy), a component unit of the Massillon City School District, as of and for the year ended June 30, 2012, 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 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 the Academy, as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2012, 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. 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Rea & Associates, Inc.*



**Massillon Digital Academy**  
**Stark County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2012*

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The discussion and analysis of Massillon Digital Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2012 are as follows:

- Net assets increased \$234,771.
- Operating revenues accounted for \$778,933 in revenue or 92 percent of all revenues.
- There were \$23,396 of capital asset additions.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a financial whole, an entire operating entity.

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The *Statement of Net Assets* represents the basic statement of position for the Academy.

The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the Academy, presenting an aggregate view of the Academy's finances. In case of the Academy, there is only one fund presented.

The *Statement of Cash Flows* reflects how the Academy finances and meets its cash flow needs. Finally the notes to the basic financial statements are presented.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

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**Reporting the Academy as a Whole**

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

Table 1 provides a summary of the Academy's net assets for 2012 compared to 2011:

**Table 1**  
Net Assets

	2012	2011
<b>Assets</b>		
Current Assets	\$ 847,308	\$ 626,491
Capital Assets	25,805	5,290
<i>Total Assets</i>	873,113	631,781
<b>Liabilities</b>		
Current Liabilities	6,681	120
<b>Net Assets</b>		
Invested in Capital Assets	25,805	5,290
Restricted	72,449	50,789
Unrestricted	768,178	575,582
<i>Total Net Assets</i>	\$ 866,432	\$ 631,661

Total assets increased by \$241,332. Cash increased by \$208,142 which is due to revenues out pacing expenses. Intergovernmental receivable also increased by \$12,735 due to the Academy receiving additional federal funding. Capital assets increased \$20,515 due to the Academy purchasing additional computer equipment as a result of increased enrollment. Liabilities increased by \$6,561. This is mainly due to an increase in accounts payable.

***Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows***

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2012?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets answer this Question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

These two statements report the Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The Statement of Cash Flows provide information about how the Academy finances and meets the cash flow needs of its operations.

**Financial Analysis**

Table 2 shows the changes in net assets for fiscal year 2012 compared to fiscal year 2011:

**Table 2**  
Changes in Net Assets

	<b>2012</b>	<b>2011</b>
<b>Operating Revenue</b>		
Foundation Payments	\$ 774,042	\$ 567,376
Customer Sales and Services	4,891	0
<b>Total Operating Revenues</b>	778,933	567,376
<b>Operating Expenses</b>		
Purchased Services	593,883	473,678
Materials and Supplies	3,359	2,101
Depreciation Expense	2,881	14,077
Other Operating Expense	8,819	9,271
<i>Total Operating Expenses</i>	608,942	499,127
<b>Non-Operating Revenues</b>		
Grants – Federal and State	64,372	117,235
Interest Income	408	907
<i>Total Non-Operating Revenues</i>	64,780	118,142
 <i>Change In Net Assets</i>	 \$ 234,771	 \$ 186,391

The Statement of Revenues, Expenses, and Changes in Net Assets show the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating revenues associated with those expenses. That is, it identifies the amount of operating expenses supported by State and other funding. The Academy's revenue increased from 2011 to 2012. This increase is due to new foundation money and an increase in enrollment, which also directly caused the increase in expenses.

The dependence upon state foundation revenues for operating activities is apparent. The majority of monies were used for purchased services. The Academy's operating revenue is 92 percent of total revenue. State sources are by far the primary support for the Academy.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

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**Budget**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal year 2012, the Academy had \$25,805 (net of \$205,556 in accumulated depreciation) invested in furniture and fixtures and computer equipment. Table 3 shows fiscal year 2012 balances compared to 2011. More detailed information is presented in Note 4 of the notes to the basic financial statements.

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

	<u>2012</u>	<u>2011</u>
Furniture and Fixtures	\$ 0	\$ 137
Computer Equipment	25,805	5,153
Total Capital Assets	<u>\$ 25,805</u>	<u>\$ 5,290</u>

*Debt Administration*

At June 30, 2012, the Academy had no debt.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

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**Current Financial Related Activities**

The Academy is sponsored by the Massillon City School District. The Academy relies on State Foundation Funds.

The future of the Academy is dependent upon continued funding from the State Foundation Funds as no local revenue can be generated through tuition or property taxes. It is the intention of the management of the Academy to pursue other State and Federal grants as they become available.

The Academy has committed itself to providing online educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of the Academy.

**Contacting the Academy's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Sandy Moeglin, Treasurer of Massillon Digital Academy, 930 17<sup>th</sup> Street N. E., Massillon, Ohio 44646.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Statement of Net Assets*  
*June 30, 2012*

	2012
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents with Fiscal Agent	\$ 785,233
Intergovernmental Receivable	62,075
<i>Total Current Assets</i>	847,308
Noncurrent Assets:	
Depreciable Capital Assets, Net	25,805
<i>Total Assets</i>	873,113
<b>Liabilities</b>	
Current Liabilities:	
Accounts Payable	5,666
Intergovernmental Payable	1,015
<i>Total Current Liabilities</i>	6,681
<b>Net Assets</b>	
Invested in Capital Assets	25,805
Restricted For:	
Federally Fund Programs	71,249
State Fund Programs	1,200
Unrestricted	768,178
<i>Total Net Assets</i>	\$ 866,432

See accompanying notes to the basic financial statements.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Statement of Revenues, Expenses and Changes in Net Assets*  
*For the Fiscal Year Ended June 30, 2012*

	2012
<b>Operating Revenues</b>	
Foundation Payments	\$ 774,042
Customer Sales and Services	4,891
<i>Total Operating Revenues</i>	778,933
<b>Operating Expenses</b>	
Purchased Services	593,883
Materials and Supplies	3,359
Depreciation	2,881
Other	8,819
<i>Total Operating Expenses</i>	608,942
<i>Operating Income</i>	169,991
<b>Non-Operating Revenues</b>	
Interest	408
Federal and State Grants	64,372
<i>Total Non-Operating Revenues</i>	64,780
<i>Change in Net Assets</i>	234,771
<i>Net Assets Beginning of Year</i>	631,661
<i>Net Assets End of Year</i>	\$ 866,432

See accompanying notes to the basic financial statements.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Statement of Cash Flows*  
For the Fiscal Year Ended June 30, 2012

	2012
<b>Cash Flows From Operating Activities</b>	
Cash Received from State Foundation	\$ 774,042
Customer Sales and Services	5,987
Cash Payments for Goods and Services	(588,217)
Cash Payments for Materials and Supplies	(3,359)
Cash Payments for Other Expenses	(7,924)
<i>Net Cash Provided by Operating Activities</i>	180,529
<b>Cash Flows From Non-Capital Financing Activities</b>	
Grants Received	50,601
<b>Cash Flows From Investing Activities</b>	
Interest on Investments	408
<b>Cash Flows From Capital and Related Activities</b>	
Payments for Capital Acquisitions	(23,396)
<i>Net Increase in Cash and Cash Equivalents with Fiscal Agent</i>	208,142
<i>Cash and Cash Equivalents with Fiscal Agent, Beginning of Year</i>	577,091
<i>Cash and Cash Equivalents with Fiscal Agent, End of Year</i>	\$ 785,233
<b>Reconciliation of Operating Income to</b>	
<b>Net Cash Provided by Operating Activities</b>	
<i>Operating Income</i>	\$ 169,991
Adjustments:	
Depreciation	2,881
(Increase) Decrease Assets	
Accounts Receivable	60
Intergovernmental Receivable	1,036
(Decrease) Increase in Liabilities	
Accounts Payable	5,666
Intergovernmental Payable	895
<i>Total Adjustments</i>	10,538
<i>Net Cash Provided by Operating Activities</i>	\$ 180,529

See accompanying notes to the basic financial statements.



**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2012*

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**NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Massillon Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3313 and 3314. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population predominately through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Massillon City School District (the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. Part of the contract contains a comprehensive plan requiring the Academy to assess achievement levels. The Academy will strive to obtain a student pass rate of 75 percent or higher minimum percent designated by the Department of Education on the Ohio achievement test. Furthermore, the Academy will endeavor to achieve an overall attendance rate of 93 percent or above and a graduation rate of 90 percent or above. The Academy has no paid employees.

The Academy operates under the direction of a six-member (five voting members) Board of Directors made up of:

- (a) Two people employed and serving in administrator positions within the Sponsor, whose positions have been identified by the Massillon City School District Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the Massillon City School District Board of Education and its interests. The two members consist of one (1) Assistant Principals – Washington High School and the other Director of Pupil Services.
- (b) Two people are neither an officer nor employee of the Sponsor. One individual is a community member the other is a recently retired assistant high school principal.
- (c) One person who is a representative of Stark-Portage Area Computer Consortium (SPARCC).
- (d) The Academy's Treasurer/CEO as a non-voting ex officio member who is also the Sponsor's Treasurer/CEO and serves the Board of Directors in her official capacity as a representative of the Massillon City School District Board of Education and its interests.

Therefore, the Academy is a component unit of the Sponsor.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

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

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy 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 has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The Academy also has the option to apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. 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**

**Enterprise Accounting**

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.

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or changes in net assets is appropriate for public policy, management control, accountability or other purposes.

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Academy finances and meets its cash flow needs.

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

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

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

**C. Budgetary Process**

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, with the exception of 5705.391. All other budgetary provisions are required to be followed, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

**D. Cash and Cash Equivalents with Fiscal Agent**

Cash held by the Academy is reflected as "Cash and Cash Equivalents with Fiscal Agent" 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 2012, the Academy had no investments.

**E. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

The Academy received \$774,042 for the year ended June 30, 2012.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

In fiscal year 2012, the Academy participated in several state and federal grant programs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts received under the grant programs for the year ended June 30, 2012, totaled \$64,372.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

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

**F. Capital Assets and Depreciation**

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Capital leases are amortized over the life of the lease. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Fixtures	8
Computer Equipment	5

**G. Accrued Liabilities**

All payables and accrued liabilities are reported on the proprietary fund financial statements.

**H. Net 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. For the year ended June 30, 2012, the Academy had unrestricted net assets of \$768,178 and \$72,449 of restricted net assets related to federal and state grants, respectively.

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

**J. Estimates**

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

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

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

**K. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

**NOTE 3 - DEPOSITS**

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2012, the Academy and public depositories complied with the provisions of these statutes.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Academy's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

At June 30, 2012, the carrying amount of the Academy's deposits was \$785,233. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2012, \$550,799 of the Academy's bank balance of \$800,799 was exposed to custodial risk as discussed above, while \$250,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding deposit and investment of funds by the Academy.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

**NOTE 4 - CAPITAL ASSETS**

A summary of the Academy's capital assets at June 30, 2012:

	Balance 07/01/2011	Additions	Reductions	Balance 06/30/2012
<i>Capital Assets, Being Depreciated:</i>				
Furniture and Fixtures	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	205,319	23,396	0	228,715
<i>Total Capital Assets, Being Depreciated</i>	<u>207,965</u>	<u>23,396</u>	<u>0</u>	<u>231,361</u>
<i>Less: Accumulated Depreciation</i>				
Furniture and Fixtures	(2,509)	(137)	0	(2,646)
Computer Equipment	(200,166)	(2,744)	0	(202,910)
<i>Total Accumulated Depreciation</i>	<u>(202,675)</u>	<u>(2,881)</u>	<u>0</u>	<u>(205,556)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>\$ 5,290</u>	<u>\$ 20,515</u>	<u>\$ 0</u>	<u>\$ 25,805</u>

**NOTE 5 – FISCAL OFFICER**

The sponsorship agreement states the Treasurer of the Massillon City School District shall serve as the Fiscal Officer of the Academy.

The Treasurer of Massillon City School District shall perform the following functions while serving as the fiscal officer of the Academy:

- A. Maintain the financial records of the Academy in conformance with generally accepted accounting principles as required by the State Auditor;
- B. Comply with the operating policies recommended by the State Auditor, including those related to the presentation, review, discussion, and approval or rejection of a line item budget and regular reports of current and encumbered expense;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

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**NOTE 6 - RELATED PARTY TRANSACTION**

The Academy is a component unit of the Massillon City School District (the District). The District is the Academy's sponsor. The Academy and the District entered into a 5-year sponsorship agreement commencing on the first day of the 2008 academic year, whereby terms of the sponsorship were established. Pursuant to this agreement, the District's treasurer/CFO serves as the Academy's fiscal officer. The Academy is required to pay \$150 per student per year to the District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. The Sponsor has waived the \$150 per student since the Academy's inception.

**NOTE 7 - RISK MANAGEMENT**

**Insurance Coverage**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2012, the Academy contracted with the Ohio Casualty Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

**NOTE 8 – PURCHASED SERVICES**

For the year ended June 30, 2012, purchased service expenses were recognized for professional services rendered by various vendors as follows:

Massillon Board of Education	\$ 444,892
SPARCC	77,305
Verizon	54,606
Other	17,080
Total Purchased Services	<u>\$ 593,883</u>

For the year ended June 30, 2012, the Academy recognized \$444,892 in expenses for educational services and curriculum provided by the Massillon Board of Education.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2012*

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**NOTE 9 - CONTINGENCIES**

**A. Review of Statewide Attendance Data**

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

**B. Grants**

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

**C. Litigation**

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

**D. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. Upon final review of the state funding in 2012 it was found that the State over paid the Academy by \$1,015. This amount was recorded as an intergovernmental payable as of June 30, 2012.



December 29, 2012

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Massillon Digital Academy, Stark County, Ohio (the Academy), a component unit of the Massillon City School District, as of and for the year ended June 30, 2012, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Academy's internal control over financial reporting. Accordingly, we do not express an opinion 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, 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 material weaknesses as defined above.

Massillon Digital Academy  
Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards*  
December 29, 2012  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 we must report under *Government Auditing Standards*.

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

*Hea & Associates, Inc.*



# Dave Yost • Auditor of State

**MASSILLON DIGITAL ACADEMY**

**STARK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 14, 2013**