

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
FRANKLIN COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
For The Fiscal Year Ended June 30, 2014**





# Dave Yost • Auditor of State

Governing Board  
Newark Digital Academy  
255 Woods Avenue  
Newark, Ohio 43055

We have reviewed the *Independent Auditor's Report* of the Newark Digital Academy, Licking County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2013 through June 30, 2014. 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 Newark 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

January 21, 2015

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Newark Digital Academy  
(A Component Unit of Newark City School District)  
LICKING COUNTY, OHIO

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## INDEPENDENT AUDITOR'S REPORT

Newark Digital Academy  
Licking County  
255 Woods Avenue  
Newark, Ohio 43055

To the Governing Board:

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

We have audited the accompanying financial statements of Newark Digital Academy, Licking County, Ohio (the Academy), a component unit of Newark City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newark Digital Academy, Licking County as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Kennedy Cottrell Richards LLC

November 24, 2014



**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

The management's discussion and analysis of the Newark Digital Academy's (the "NDA") financial performance provides an overall review of the NDA's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the NDA'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 NDA's financial performance.

**Financial Highlights**

Key financial highlights for 2014 are as follows:

- In total, net position was \$3,058,847 at June 30, 2014.
- The NDA had operating revenues of \$1,862,395, operating expenses of \$1,688,715 and non-operating revenues of \$225,786 for fiscal year 2014. Total change in net position for the fiscal year was an increase of \$399,466.

**Using the Basic Financial Statements**

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 NDA's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the NDA, including all short-term and long-term financial resources and obligations.

**Reporting the NDA's Financial Activities**

These documents look at all financial transactions and ask the question, "How did we do financially during 2014?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the NDA's net position and changes in that position. This change in net position is important because it tells the reader that, for the NDA as a whole, the financial position of the NDA has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 8 and 9 of this report.

The statement of cash flows provides information about how the NDA finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 10 of this report.

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

The table below provides a summary of the NDA's net position for fiscal year 2014 and 2013.

	2014	2013
<b><u>Assets</u></b>		
Current assets	\$ 1,771,739	\$ 2,306,300
Capital assets, net	1,500,717	432,145
Total assets	3,272,456	2,738,445
<b><u>Liabilities</u></b>		
Current liabilities	213,609	79,064
Total liabilities	213,609	79,064
<b><u>Net Position</u></b>		
Net investment in capital assets	1,409,458	417,977
Restricted	108,615	173,899
Unrestricted	1,540,774	2,067,505
Total net position	\$ 3,058,847	\$ 2,659,381

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the NDA's net position totaled \$3,058,847. At year-end, capital assets represented 45.86% of total assets. Capital assets consisted of land, construction in progress, buildings, computers and other equipment. There is no debt beyond accrued liabilities related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending. The increase in net position is primarily attributable to the increase in cash and cash equivalents resulting from fiscal year 2014 operations. During fiscal year 2014, the NDA continued renovations at the NDA's building. This accounts for the decrease in current assets as monies were expended on the project and the increase in capital assets, net which includes the construction in progress at year-end. Current liabilities increased primarily due to an increase in both accounts payable and contracts payable at year-end.

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

The table below shows the changes in net position for fiscal year 2014 and 2013.

**Change in Net Position**

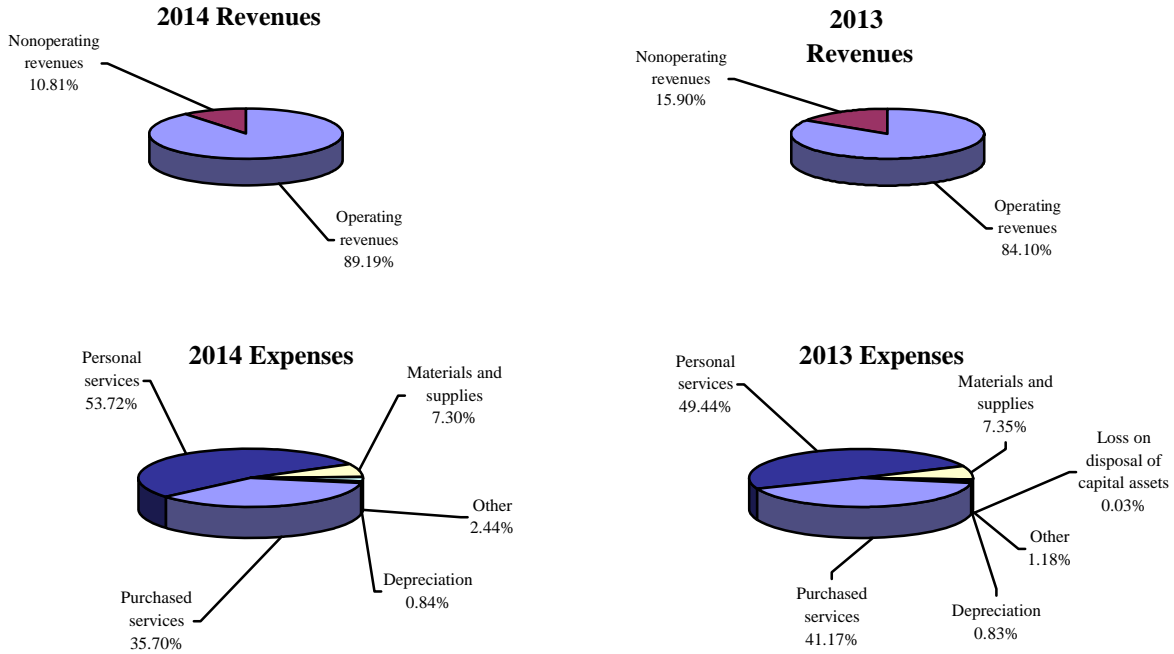
	<u>2014</u>	<u>2013</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 1,862,395	\$ 1,839,574
Total operating revenue	<u>1,862,395</u>	<u>1,839,574</u>
<b><u>Operating Expenses:</u></b>		
Personal services	907,201	747,294
Purchased services	602,831	622,285
Materials and supplies	123,289	111,123
Other	41,158	17,863
Depreciation	<u>14,236</u>	<u>12,523</u>
Total operating expenses	<u>1,688,715</u>	<u>1,511,088</u>
Operating income	<u>173,680</u>	<u>328,486</u>
<b><u>Non-operating revenues (expenses):</u></b>		
Grants and subsidies	\$ 214,068	\$ 288,662
Interest revenue	1,929	2,814
Other non-operating revenue	9,789	56,242
Loss on disposal of capital assets	<u>-</u>	<u>(473)</u>
Total non-operating revenues (expenses)	<u>225,786</u>	<u>347,245</u>
Change in net position	399,466	675,731
Net position at beginning of year	<u>2,659,381</u>	<u>1,983,650</u>
Net position at end of year	<u>\$ 3,058,847</u>	<u>\$ 2,659,381</u>

State foundation revenue increased \$22,821, or 1.24% from fiscal year 2013. Operating income decreased \$154,806 from fiscal year 2013 to fiscal year 2014 primarily due to an increase in personal services expenses. In addition, the NDA received less federal grant funding in fiscal year 2014 versus fiscal year 2013. Grants and subsidies decreased \$74,594, or 25.84% from 2013.

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

The charts below illustrate the revenues and expenses for the NDA during fiscal year 2014 and 2013.



**Capital Assets**

At the end of fiscal 2014, the NDA had \$1,500,717 invested in land, construction in progress, a building and furniture and equipment. The following table shows fiscal year 2014 balances compared to 2013:

**Capital Assets at June 30  
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Land	\$ 6,630	\$ 6,630
Construction in progress	1,129,314	61,025
Building	335,298	344,244
Furniture and equipment	<u>29,475</u>	<u>20,246</u>
Total	<u>\$ 1,500,717</u>	<u>\$ 432,145</u>

Construction in progress consists of a renovation project that is being performed in three phases. Phase 1 of the project was completed in fiscal year 2012. Phase 2 of the project was completed in fiscal year 2013 and Phase 3 of the project remains in progress at fiscal year-end. See Note 5 to the basic financial statements for additional information on the NDA's capital assets.

**NEWARK DIGITAL ACADEMY  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

**Debt Administration**

At June 30, 2014, the NDA had no outstanding debt at year-end.

**Current Financial Related Activities**

NDA began fiscal year 2004 with TRECA providing most of its instructional and administrative services. During fiscal year 2014, NDA utilized TRECA only for the services of a part-time technician. NDA has entered into a three-year contract through fiscal year 2015 with Ace Digital Academy for the provision of on-line curriculum. Ace Digital Academy is an internet-based educational delivery system designed for grades K-12, providing alternative educational options for credit deficiencies, alternative programs, students being schooled at home and summer school programs. In addition, the NDA offers non-digital curriculum, such as Calvert School Educational Services, the American School and several flex credit options. The cutting edge nature of this kind of instructional delivery makes for constant change of the NDA's operations.

**Contacting the NDA's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the NDA's finances and to show the NDA's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Julie Taylor, Treasurer, at Newark Digital Academy, 255 Woods Ave., Newark, Ohio 43055 or email at [jltaylor@laca.org](mailto:jltaylor@laca.org).

**BASIC  
FINANCIAL STATEMENTS**

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

**STATEMENT OF NET POSITION  
JUNE 30, 2014**

<b>Assets:</b>	
Current assets:	
Cash and cash equivalents . . . . .	\$ 1,649,088
Receivables:	
Intergovernmental . . . . .	122,038
Prepayments . . . . .	613
	<hr/>
Total current assets . . . . .	1,771,739
Non-current assets:	
Land and construction in progress. . . . .	1,135,944
Depreciable capital assets, net . . . . .	364,773
	<hr/>
Total non-current assets. . . . .	1,500,717
	<hr/>
Total assets. . . . .	3,272,456
 <b>Liabilities:</b>	
Current liabilities:	
Accounts payable. . . . .	62,458
Contracts payable . . . . .	91,259
Accrued wages and benefits . . . . .	44,744
Intergovernmental payable . . . . .	15,148
	<hr/>
Total current liabilities . . . . .	213,609
 <b>Net position:</b>	
Net investment in capital assets. . . . .	1,409,458
Restricted for:	
Federally funded programs . . . . .	108,615
Unrestricted . . . . .	1,540,774
	<hr/>
Total net position. . . . .	<u>\$ 3,058,847</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 1,862,395
Total operating revenues . . . . .	<u>1,862,395</u>
<b>Operating expenses:</b>	
Salaries and wages. . . . .	734,614
Fringe benefits. . . . .	172,587
Purchased services. . . . .	602,831
Materials and supplies . . . . .	123,289
Other. . . . .	41,158
Depreciation . . . . .	14,236
Total operating expenses. . . . .	<u>1,688,715</u>
Operating income . . . . .	<u>173,680</u>
<b>Non-operating revenues:</b>	
Grants and subsidies. . . . .	214,068
Interest revenue . . . . .	1,929
Other non-operating revenue. . . . .	9,789
Total nonoperating revenues . . . . .	<u>225,786</u>
Change in net position . . . . .	399,466
<b>Net position at beginning of year. . . . .</b>	<u>2,659,381</u>
<b>Net position at end of year . . . . .</b>	<u><u>\$ 3,058,847</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**NEWARK DIGITAL ACADEMY**  
**(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)**  
**LICKING COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

<b>Cash flows from operating activities:</b>	
Cash received from state foundation . . . . .	\$ 1,862,395
Cash payments for personal services . . . . .	(904,063)
Cash payments for purchased services . . . . .	(590,700)
Cash payments for materials and supplies . . . . .	(81,051)
Cash payments for other expenses . . . . .	(41,074)
	<hr/>
Net cash provided by operating activities . . . . .	245,507
	<hr/>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from grants and subsidies . . . . .	277,604
Cash received from miscellaneous receipts . . . . .	10,368
	<hr/>
Net cash provided by noncapital financing activities . . . . .	287,972
	<hr/>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	(1,005,717)
	<hr/>
Net cash used in capital and related financing activities . . . . .	(1,005,717)
	<hr/>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	1,929
	<hr/>
Net cash provided by investing activities . . . . .	1,929
	<hr/>
Net decrease in cash and cash equivalents . . . . .	(470,309)
<b>Cash and cash equivalents at beginning of year . . .</b>	<b>2,119,397</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b><u><u>\$ 1,649,088</u></u></b>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 173,680
Adjustments:	
Depreciation . . . . .	14,236
Changes in assets and liabilities:	
Decrease in prepayments . . . . .	137
Increase in accounts payable . . . . .	53,764
Increase in accrued wages and benefits . . . . .	2,004
Increase in intergovernmental payable . . . . .	1,686
	<hr/>
Net cash provided by operating activities . . . . .	<u><u>\$ 245,507</u></u>

**Noncash Transactions:**

The Academy purchased \$91,259 and \$14,168 in capital assets on account at June 30, 2014 and June 30, 2013, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 1 - DESCRIPTION OF THE SCHOOL**

The Newark Digital Academy (NDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. NDA 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 NDA's tax exempt status. NDA'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. The students may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students with the Newark City School District, (sponsor of the NDA), that desire a specific course not currently offered but is available through online instruction.

NDA was created on February 11, 2003 by entering into a five year contract with the Newark City School District (the "Sponsor") through fiscal year 2008. On September 10, 2012, the NDA entered into a new five year contract through fiscal year 2017. The Sponsor is responsible for evaluating the performance of the NDA and has the authority to deny renewal of the contract at its expiration. The Sponsor receives payment from the NDA for oversight, monitoring and other purchased services (as agreed to between the NDA and the Sponsor). During fiscal year 2014, the NDA paid sponsorship fees of \$93,120 to its Sponsor. The NDA is considered a component unit of the Newark City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61.

NDA has entered into a purchased services agreement contracts with the Tri-Rivers Educational Computer Association (TRECA) for use of a part-time technician and with Ace Digital Academy (ADA) for the provision of on-line curriculum. See Note 6 for detail on NDA's purchased services agreement contracts.

NDA operates under the direction of a five-member Board of Directors. 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.

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

The basic financial statements of the NDA have been prepared in conformity with accounting principles generally accepted in the United States of America (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. The District's significant accounting policies are described below.

**A. Basis of Presentation**

The NDA's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

NDA uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

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

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

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

**C. 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 the NDA's contract with its Sponsor. The contract between NDA and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**D. Cash and Cash Equivalents**

Cash received by NDA is reflected as "cash and cash equivalents" on the statement of net position. NDA had no investments during the fiscal year ended June 30, 2014.

**E. Capital Assets**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The NDA maintains a capitalization threshold of one thousand dollars. The NDA does not possess any infrastructure.

All reported capital assets, except for land and construction in progress, are depreciated. Depreciation is computed using the straight-line method. Buildings are depreciated over forty years, furniture is depreciated over twenty years, and computers are depreciated over six years.

**NEWARK DIGITAL ACADEMY  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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

**F. Intergovernmental Revenue**

The NDA currently participates in the State Foundation Program, the Data Communication grant, the IDEA Part B grant, the Title I School Improvement grant, the Title I Disadvantaged Children grant and the Improving Teacher Quality grant. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2014 school year, excluding all other State and Federal grants, totaled \$1,862,395.

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. State and Federal grants revenue for the fiscal year 2014 received was \$214,068.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2014 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 which services are consumed.

**H. Net Position**

Net position represents the difference between assets and liabilities. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing or accrued liabilities used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the NDA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The NDA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the NDA. Operating expenses are necessary costs incurred to provide goods or services that are the primary activity of the NDA. All revenues and expenditures not meeting this definition are reported as non-operating.

**NEWARK DIGITAL ACADEMY  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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

**J. Estimates**

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

**NOTE 3 - CHANGES IN ACCOUNTING POLICIES**

For fiscal year 2014, the NDA has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the NDA.

**NOTE 4 - DEPOSITS**

At June 30, 2014, the carrying amount of NDA deposits was \$1,649,088. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$1,361,201 of the NDA's bank balance of \$1,661,358 was exposed to custodial risk as discussed below, while \$300,157 was covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial credit risk is the risk that, in the event of bank failure, the NDA's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the NDA. The NDA has no deposit policy for custodial credit risk beyond the requirement of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the NDA to a successful claim by the FDIC.

**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 06/30/13	Additions	Reductions	Balance 06/30/14
<i>Capital assets, not being depreciated:</i>				
Land	\$ 6,630	\$ -	\$ -	\$ 6,630
Construction in progress	<u>61,025</u>	<u>1,068,289</u>	<u>-</u>	<u>1,129,314</u>
Total capital assets, not being depreciated	<u>67,655</u>	<u>1,068,289</u>	<u>-</u>	<u>1,135,944</u>
<i>Capital assets, being depreciated:</i>				
Building	357,833	-	-	357,833
Furniture and equipment	<u>46,470</u>	<u>14,519</u>	<u>-</u>	<u>60,989</u>
Total capital assets, being depreciated	<u>404,303</u>	<u>14,519</u>	<u>-</u>	<u>418,822</u>
<i>Less: accumulated depreciation</i>				
Building	(13,589)	(8,946)	-	(22,535)
Furniture and equipment	<u>(26,224)</u>	<u>(5,290)</u>	<u>-</u>	<u>(31,514)</u>
Total accumulated depreciation	<u>(39,813)</u>	<u>(14,236)</u>	<u>-</u>	<u>(54,049)</u>
Capital assets, net	<u>\$ 432,145</u>	<u>\$ 1,068,572</u>	<u>\$ -</u>	<u>\$ 1,500,717</u>

Construction in progress consists of a renovation project at the NDA's building that is being performed in three phases. Phase 1 of the project was completed in fiscal year 2012, Phase 2 of the project was completed in fiscal year 2013 and Phase 3 of the project remains in progress at fiscal year-end.

**NOTE 6 - SERVICE AGREEMENTS**

**A. TRECA**

During fiscal year 2014, NDA utilized TRECA for the services of the part-time technician. During fiscal year 2014, NDA paid TRECA \$18,500 under this contract.

**B. ACE Digital Academy**

During fiscal year 2014, NDA is in the second year of a three Ace Digital Academy (ADA) for the provision of on-line curriculum. The contract with ADA runs through fiscal year 2015.

ADA is an internet-based educational delivery system designed for grades K-12, providing alternative educational options for credit deficiencies, alternative programs, students being schooled at home and summer school programs.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

**NOTE 6 - SERVICE AGREEMENTS - (Continued)**

Under the contract, the following terms were agreed upon:

ADA shall provide NDA with the following services: development and maintenance of NDA's ADA database including registration of students and faculty, technology professional development, ADA technical support, marketing consultation, treasurer's office/EMIS support, and intervention support.

The student ADA license fees will be the responsibility of NDA at a rate of \$150 per student. Additional fees will be charged for students enrolled in specialized courses.

For fiscal year 2014, \$252,672 was paid by NDA under this contract.

**NOTE 7 - PURCHASED SERVICES**

For fiscal year ended June 30, 2014, purchased services expenses were as follows:

Professional and technical services	\$ 248,163
Property services	19,944
Travel mileage/meeting expenses	16,393
Communications	85,194
Utilities	16,907
Tuition and similar payments	5,959
Other purchased services	<u>210,271</u>
Total	<u>\$ 602,831</u>

**NOTE 8 - RISK MANAGEMENT**

The NDA 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. Coverage was provided by various insurance carriers. During fiscal year ending June 30, 2014, the NDA contracted through Philadelphia Insurance for the following coverage amounts:

Per Occurrence	\$ 1,000,000
Annual Aggregate	\$ 2,000,000

In addition, NDA purchased \$1,000,000 excess liability coverage through Lexington Insurance Company.

Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant changes in coverage at June 30, 2014.

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 9 - PENSION PLANS**

**A. School Employees Retirement System**

Plan Description - The NDA contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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 NDA Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Employers/Audit Resources*".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the NDA is required to contribute at an actuarially determined rate. The current NDA rate is 14 percent of annual covered payroll. A portion of the NDA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2014, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 14 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 NDA's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2014, 2013 and 2012 were \$19,096, \$14,828 and \$15,532, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**B. State Teachers Retirement System of Ohio**

Plan Description - The NDA 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 website at [www.strsoh.org](http://www.strsoh.org), under "*Publications*".



**NEWARK DIGITAL ACADEMY  
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)  
LICKING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 9 - PENSION PLANS - (Continued)**

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 fiscal year 2014, plan members were required to contribute 11 percent of their annual covered salaries. The NDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The NDA's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013 and 2012 were \$76,270, \$63,485 and \$49,174, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012. Contributions to the DC and Combined Plans for fiscal year 2014 were \$7,316 made by the NDA and \$5,748 made by the plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2014 certain members of the Board of Education have elected Social Security. The NDA's liability is 6.2 percent of wages paid.

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Plan Description - The NDA participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, [www.ohsers.org](http://www.ohsers.org), under "*Employers/Audit Resources*".

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 105(e). For 2014, 0.14 percent of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2014, the actuarially determined amount was \$20,250.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The NDA's contributions for health care (including surcharge) for the fiscal years ended June 30, 2014, 2013 and 2012 were \$1,892, \$1,531 and \$1,061, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)**

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The NDA's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,108, \$838 and \$917, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**B. State Teachers Retirement System of Ohio**

Plan Description - The NDA contributes to the cost sharing, multiple employer defined benefit Health Plan (the "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), under "Publications" or by calling (888) 227-7877.

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 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The NDA's contributions for health care for the fiscal years ended June 30, 2014, 2013 and 2012 were \$5,867, \$4,883 and \$3,783, respectively; 100 percent has been contributed for fiscal years 2014, 2013 and 2012.

**NOTE 11 - CONTINGENCIES**

**A. Grants**

The NDA 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 general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the NDA at June 30, 2014, if applicable, cannot be determined at this time.

**B. Litigation**

The NDA is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

**NEWARK DIGITAL ACADEMY  
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LICKING COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 11 - CONTINGENCIES - (Continued)**

**C. State Foundation Funding**

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 fiscal year 2014 review has not been completed as of the date of this report; however, the NDA does not anticipate a material impact on the financial statements as a result of the review.

**NOTE 12 - RECEIVABLES**

Receivables at June 30, 2014 consisted of intergovernmental grants in the amount of \$122,038. These intergovernmental receivables are expected to be collected in the subsequent year.

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

Newark Digital Academy  
Licking County  
255 Woods Avenue  
Newark, Ohio 43055

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Newark Digital Academy, Licking County, (the Academy), a component unit of the Newark City School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated November 24, 2014.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

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

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

***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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kennedy Cottrell Richards LLC*

Kennedy Cottrell Richards LLC  
November 24, 2014



# Dave Yost • Auditor of State

**NEWARK DIGITAL ACADEMY**

**LICKING 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  
FEBRUARY 17, 2015**