



**MASSILLON DIGITAL ACADEMY  
STARK COUNTY**

**REGULAR AUDIT**

**FOR THE PERIOD JANUARY 12, 2004 THROUGH JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**MASSILLON DIGITAL ACADEMY  
STARK COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Massillon Digital Academy  
Stark County  
207 Oak Street SE  
Massillon, Ohio 44646

To the Board of Directors:

We have audited the accompanying basic financial statements of the Massillon Digital Academy, Stark County, Ohio, (the Academy) a component unit of the Massillon City School District for the period January 12, 2004 through June 30, 2004, 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Massillon Digital Academy, Stark County, Ohio, for the period January 12, 2004 through June 30, 2004, and the 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 February 18, 2005 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

**Betty Montgomery**  
Auditor of State

February 18, 2005

**Massillon Digital Academy**  
Stark County, Ohio

*Management's Discussion and Analysis*  
*For the Period January 12, 2004 through June 30, 2004*  
*Unaudited*

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 period January 12, 2004 through June 30, 2004, the first year of existence. 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 the period January 12, 2004 to June 30, 2004 are as follows:

- Net assets of business type activities decreased \$4,014.
- Operating revenues accounted for \$67,725 in revenue or 39.2% of all revenues.
- Capital asset additions of \$4,704 consisted of furniture and computer equipment.

**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.

The Academy is not required to present government-wide financial statements as the Academy is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis. The following tables represent the Academy's condensed financial information derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

**Reporting the Academy as a Whole**

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

Table 1 provides a summary of the Academy's net assets for 2004. As this is the Academy's first year, a comparison to last year is not made.

**Massillon Digital Academy**  
Stark County, Ohio

*Management's Discussion and Analysis*  
For the Period January 12, 2004 through June 30, 2004  
Unaudited

Table 1  
Net Assets

	<u>2004</u>
<b>Assets</b>	
Current Assets	\$ 85,415
Capital Assets	<u>11,382</u>
Total Assets	<u>\$ 96,797</u>
<b>Liabilities</b>	
Current Liabilities	\$ 83,450
<b>Net Assets</b>	
Invested in Capital Assets	\$ 11,382
Restricted (Deficit)	2,536
Unrestricted (Deficit)	<u>(571)</u>
Total Net Assets	<u>\$ 13,347</u>

*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 2004?" The Statement of Net Assets and the Statement of Revenue, 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.

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 Academy's, current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors. These statements can be found on pages 7 and 8 of this report.

The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**Financial Analysis**

Table 2 shows the changes in net assets for period January 12, 2004 to June 30, 2004. As this is the first year for the Academy, no comparison is made to the prior year.



**Massillon Digital Academy**  
Stark County, Ohio

*Management's Discussion and Analysis*  
*For the Period January 12, 2004 through June 30, 2004*  
*Unaudited*

Table 2  
Statement of Revenues, Expenses, and Changes  
in Net Assets

	2004
<b>Operating Revenue</b>	
Foundation Payments	\$ 67,725
<b>Total Operating Revenues</b>	67,725
<b>Operating Expenses</b>	
Purchased Services	173,256
Materials and Supplies	2,447
Depreciation Expense	1,078
Other Operating Expense	29
<b>Total Operating Expenses</b>	176,810
<b>Non-Operating Revenues</b>	
Federal Grants	105,000
Interest Income	71
<b>Total Non-Operating Revenues</b>	105,071
Change In Net Assets	\$ (4,014)

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by State and other funding.

The dependence upon state foundation revenues for operating activities is apparent. All monies were used for start up and instructional activities. The Academy's operating revenue is 39.2 percent of total revenue. State and Federal sources will be by far the primary support for Massillon Digital Academy.

**The Academy's Funds**

The Academy had total revenues of \$172,796 and expenses of \$176,810. The change in net assets for the year was a decrease of \$4,014. This decrease would be normal during start up phase until the Academy increases enrollment and begins normal operations.

**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. Fiscal year 2004 revenues and expenses varied significantly from corresponding projections included on the five-year projection. The main cause of these variations was that the community school did not begin educating students until January 12, 2004.

**Massillon Digital Academy**  
*Stark County, Ohio*

*Management's Discussion and Analysis*  
*For the Period January 12, 2004 through June 30, 2004*  
*Unaudited*

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of year 2004, the Academy had \$11,382 (net of \$1,192 in accumulated depreciation) invested in furniture and equipment. Table 3 shows year 2004 balances.

Table 3

Capital Assets as of June 30, 2004  
(Net of Depreciation)

	2004
Furniture	\$ 2,454
Computer Equipment	8,928
Total Capital Assets	<u>\$ 11,382</u>

***Debt Administration***

At June 30, 2004, the Academy had no debt.

**Current Financial Related Activities**

The Academy is sponsored by the Massillon City School District. The Academy relies on the state foundation revenues as well as federal sub-grants to provide the monies necessary to begin start-up. The Academy will be eligible to apply for a third round of federal sub-grants after round two funds have been exhausted. These funds will help expand the current program.

The future of the Academy is dependent upon continued funding from the state foundation revenues as no local revenue can be generated through tuition or property taxes. The Academy has committed itself to providing online educational opportunities to students. Management will aggressively pursue adequate funding to secure the financial stability of the Academy.

**Other Information**

Management is currently unaware of any facts, decisions, or conditions that have occurred that are expected to have a significant effect on financial position or results of operations.

**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. Teresa Emmerling, Treasurer of Massillon Digital Academy, 207 Oak Street S. E., Massillon, Ohio 44646.

**MASSILLON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**Statement of Net Assets  
As of June 30, 2004**

Assets:

Current Assets:

Cash and Cash Equivalents with Fiscal Agent	\$ 85,415
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Total Current Assets	85,415
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Non-Current Assets:

Capital Assets, Net of Accumulated Depreciation	11,382
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Total Non-Current Assets	11,382
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Total Assets	\$ 96,797
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Liabilities:

Current Liabilities:

Accounts Payable	\$ 15,112
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Intergovernmental Payable	68,338
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Total Current Liabilities	83,450
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Net Assets:

Invested in Capital Assets	11,382
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Restricted	2,536
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Unrestricted	(571)
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Total Net Assets	\$ 13,347
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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 Period January 12, 2004 Through June 30, 2004**

<u>Operating Revenues:</u>	
Foundation Payments	\$ 65,162
Special Education	<u>2,563</u>
Total Operating Revenues	67,725
 <u>Operating Expenses:</u>	
Purchased Services	173,256
Materials and Supplies	2,447
Depreciation	1,078
Other Operating Expenses	<u>29</u>
Total Operating Expenses	<u>176,810</u>
Operating Loss	(109,085)
 <u>Non-Operating Revenues:</u>	
Federal Grants	105,000
Interest Income	<u>71</u>
Total Non-Operating Revenues	<u>105,071</u>
Change in Net Assets	(4,014)
Net Assets at Beginning of Year	<u>17,361</u>
Net Assets at End of Year	<u><u>\$ 13,347</u></u>

See Accompanying Notes to the Basic Financial Statements

**MASSILLON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**Statement of Cash Flows  
For the Period January 12, 2004 through June 30, 2004**

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

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 67,725
Cash Payments to Suppliers for Goods and Services	<u>(92,282)</u>

Net Cash Used In Operating Activities	<u>(24,557)</u>
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Cash Flows from Noncapital Financing Activities:

Federal Grants Received	105,000
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Cash Flows from Capital and Related Financing Activities:

Cash Payments for Capital Acquisitions	(4,704)
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Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>71</u>
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Net Increase in Cash and Cash Equivalents	75,810
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Cash and Cash Equivalents at Beginning of Year	<u>9,605</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$ 85,415</u></u>
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**Reconciliation of Operating Loss to Net  
Cash Used in Operating Activities**

Operating Loss	\$ (109,085)
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Adjustments to Reconcile Operating Loss  
to Net Cash Used for Operating Activities:

Depreciation	1,078
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Changes in Assets and Liabilities:

Increase in Accounts Payable	15,112
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Increase in Intergovernmental Payable	<u>68,338</u>
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Total Adjustments	<u>84,528</u>
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Net Cash Used in Operating Activities	<u><u>\$ (24,557)</u></u>
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See Accompanying Notes to the Basic Financial Statements

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**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Period January 12, 2004 through June 30, 2004*

**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 entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. 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% 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% or above and a graduation rate of 90% or above.

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

(a) Three persons 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 three members consist of the Assistant Superintendent, Director of Curriculum and Coordinator of State and Federal Grants and Programs.

(b) One person who is neither an officer nor employee of the Sponsor who shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy.

(c) One person who is a representative of Stark-Portage Area Computer Consortium (SPARCC) for a one-year period. After one year the SPARCC representative will be replaced by a person who represents the interest of parents and students served by the Academy.

(d) The Academy's Treasurer as a non-voting ex officio member who is also the Sponsor's Treasurer and serves the Board of Directors in his 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. Additionally, the Academy entered into a two-year contract on March 4, 2003, with SPARCC for management consulting services (See Note 8).

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Period January 12, 2004 through June 30, 2004*  
*(Continued)*

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

The financial statements of the Massillon Digital 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 Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its proprietary activities, subject to the 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 nonexchange 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.

**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, 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.



**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Period January 12, 2004 through June 30, 2004*  
*(Continued)*

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

**D. Cash and Cash Equivalents**

Cash held by the Academy is reflected as “Cash and Cash Equivalents” on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During year 2004, 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.

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.

The Academy also participates in the Federal Charter Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 to help defray operating costs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the year ended June 30, 2004, totaled \$172,725.

**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 depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
For the Period January 12, 2004 through June 30, 2004  
(Continued)

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

**G. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Academy had unrestricted net assets of (\$571) and \$2,536 of restricted net assets at year-end.

**H. 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.

**I. Estimates**

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

**NOTE 3 - DEPOSITS**

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year-end, the carrying amount of the Academy's deposits was \$85,415 while the bank balance of the Academy's deposits was \$86,075. The bank balance was covered entirely by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the Academy.

**NOTE 4 - CAPITAL ASSETS**

A summary of the Academy's capital assets at June 30, 2004:

	<b><u>Balance</u></b> <b><u>01/12/04</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>Balance</u></b> <b><u>06/30/04</u></b>
Furniture	\$2,646	\$ -	\$ -	\$2,646
Computer Equipment-	<u>5,224</u>	<u>4,704</u>	-	<u>9,928</u>
Totals at Historical Cost	<u>\$7,870</u>	<u>\$ 4,704</u>	\$ -	<u>\$12,574</u>
Less Accumulated Depreciation	<u>(114)</u>	<u>(1,078)</u>	-	<u>(1,192)</u>
Capital Assets, Net	<u>\$7,756</u>	<u>\$3,626</u>	<u>\$ -</u>	<u>\$11,382</u>

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Period January 12, 2004 through June 30, 2004*  
(Continued)

**NOTE 5 - FISCAL AGENT**

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.

**NOTE 6 - STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**NOTE 7 - 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 2002 academic year, whereby terms of the sponsorship were established. Pursuant to this agreement, the District's treasurer serves as the Academy's fiscal officer. The Academy is required to pay an initial payment of \$25,000 and \$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 waived the \$150 per student for the year 2004.

Payments made by the Academy to the Sponsor totaled \$63,385. This represents payment for office space rent, start-up costs, and other related services provided by the Sponsor.

**NOTE 8 - MANAGEMENT CONSULTING CONTRACT**

The Academy entered into a two-year contract on March 4, 2003, with Stark/Portage Area Computer Association (SPARCC), in partnership with Tri-Rivers Educational Computer Association (TRECA), for management consulting services. Under the contract, the following terms were agreed upon:

- 1. SPARCC shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Period January 12, 2004 through June 30, 2004*  
*(Continued)*

**NOTE 8 - MANAGEMENT CONSULTING CONTRACT – (Continued)**

2. All personnel providing services to the Academy on behalf of SPARCC under the agreement shall be employees of SPARCC and SPARCC shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure, which may be required by law.
3. The technical services provided by SPARCC to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
4. In exchange for the services and support (including equipment) provided by SPARCC, the Academy shall pay to SPARCC a fee of \$25,000 for the year 2004.
5. The Academy shall pay to SPARCC \$3,500 per full-time high school student and \$2,500 per full-time K – 8 students enrolled in the Academy per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

**NOTE 9 - 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 2004, the Academy contracted with the Indiana Insurance Company through its agent Leonard Insurance Services of Canton, Ohio.

**NOTE 10 - PURCHASED SERVICES**

For the period January 12, 2004 through June 30, 2004, purchased services expenses were payments for professional and technical services to SPARCC in the amount of \$25,000. Purchased services also included payments to Sponsor in the amount of \$63,385 for office space rent, start-up costs, and other related services provided by Sponsor to the Academy. The following is a breakdown of the total purchase services for year June 30, 2004:

Professional and Technical Services	\$171,008
Travel Mileage/Meeting Expense	442
Communications	<u>1,806</u>
Total Purchased Services	<u>\$ 173,256</u>

**NOTE 11 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

**Massillon Digital Academy**  
**Stark County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Period January 12, 2004 through June 30, 2004*  
*(Continued)*

**NOTE 11 – CONTINGENCIES – (Continued)**

**B. Litigation**

A suit was filed in Franklin County common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2004 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case is set for oral argument on November 18th, 2004. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State's educational system and the matter was sent to the Ohio Supreme Court. The effect, if any, on the Academy is not presently determinable.

**C. 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. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to state funding for period January 12, 2004 to June 30, 2004 as a result of such review.

**NOTE 12 – START-UP PERIOD**

The Academy began its start-up operations in February 2003. At January 12, 2004, the beginning net assets of \$17,361 was made up of Cash of \$9,605 and Capital Assets of \$7,756.

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Massillon Digital Academy  
Stark County  
207 Oak Street SE  
Massillon, Ohio 44646

To the Board of Directors:

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, for the period January 12, 2004 through June 30, 2004, and have issued our report thereon dated February 18, 2005. 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.

#### Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Academy's management in a separate letter dated February 18, 2005.

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Massillon Digital Academy  
Stark County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

February 18, 2005





**Auditor of State  
Betty Montgomery**

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**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  
APRIL 5, 2005**