Massillon Digital Academy

Basic Financial Statements
June 30, 2006

Mary Taylor, CPA
Auditor of State

Board of Directors
Massillon Digital Academy
207 Oak Avenue SE
Massillon, Ohio 44646

We have reviewed the *Independent Auditors' Report* of the Massillon Digital Academy, Stark County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 22, 2007

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Massillon Digital Academy

For The Year Ended June 30, 2006

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Ciuni &
Panichi
CPAs and Business Advisors

Independent Auditors' Report

Board of Directors
Massillon Digital Academy
Massillon, Ohio

We have audited the accompanying basic financial statements of the Massillon Digital Academy (the "Academy") a component unit of the Massillon City School District, as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinion on these financial statements based on our audit. The financial statements of the Massillon Digital Academy as of June 30, 2005, were audited by other auditors whose report dated January 18, 2006 expressed an unqualified opinion on those statements.

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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Massillon Digital Academy as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2006, on our consideration of the Massillon Digital Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Board of Directors
Massillon Digital Academy

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ciuni & Panichi, Inc.

Cleveland, Ohio
December 19, 2006

The discussion and analysis of Massillon Digital Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2006 and 2005. 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 2006 are as follows:

- Net assets increased $189,435.
- Operating revenues accounted for $251,947 in revenue or 62 percent of all revenues.
- Capital asset additions of $123,399 consisted of 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 *Statements of Net Assets* represents the basic statement of position for the Academy.

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

Reporting the Academy as a Whole

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

Table 1 provides a summary of the Academy's net assets for 2006 compared to 2005 and 2004:

Table 1
Net Assets

	2006	2005	2004
Assets			
Current Assets	$ 282,690	$ 53,278	$ 85,415
Capital Assets	169,582	73,632	11,382
Total Assets	452,272	126,910	96,797
Liabilities			
Current Liabilities	147,185	11,258	83,450
Net Assets			
Invested in Capital Assets	169,582	73,632	11,382
Restricted	4,911	1,960	2,536
Unrestricted (Deficit)	130,594	40,060	(571)
Total Net Assets	$ 305,087	$ 115,652	$ 13,347

Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets and Statements of Cash Flows

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2006?" The Statements of Net Assets and the Statements 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 current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

Financial Analysis

Table 2 shows the changes in net assets for fiscal year 2006 compared to fiscal year 2005 and the period January 12, 2004 to June 30, 2004 (first year of operation):

Table 2
Changes in Net Assets

	2006	2005	2004
Operating Revenue			
Foundation Payments	$ 251,947	$ 195,272	$ 67,725
Operating Expenses			
Purchased Services	179,741	219,191	173,256
Materials and Supplies	3,634	16,118	2,447
Depreciation Expense	27,449	3,114	1,078
Other Operating Expense	5,553	7,944	29
Total Operating Expenses	216,377	246,367	176,810
Non-Operating Revenues			
Grants – Federal	153,000	153,000	105,000
Other	30	0	0
Interest Income	835	400	71
Total Non-Operating Revenues	153,865	153,400	105,071
Change In Net Assets	$ 189,435	$ 102,305	$ (4,014)

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

The dependence upon state foundation revenues for operating activities is apparent. All monies were used for purchase services. The Academy's operating revenue is 62 percent of total revenue. State and Federal sources are by far the primary support for the Massillon Digital Academy.

The Academy's Funds

The Academy had total revenues of $405,812 and expenses of $216,377. The change in net assets for the fiscal year ended June 30, 2006, was an increase of $189,435.

Budget

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the Academy had $201,337 (net of $31,755 in accumulated depreciation) invested in furniture and computer equipment. Table 3 shows fiscal year 2006 balances compared to 2005 and 2004. More detailed information is presented in Note 4 of the notes to the basic financial statements.

Table 3
Capital Assets (Net of Depreciation)

	2006	2005	2004
Furniture	$ 1,792	$ 2,123	$ 2,454
Computer Equipment	167,790	71,509	8,928
Total Capital Assets	$ 169,582	$ 73,632	$ 11,382

Debt Administration

At June 30, 2006, 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 Funds as well as the 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 Funds as no local revenue can be generated through tuition or property taxes. It is the intention of the management of the Academy to pursue other State and Federal grants as they become available.

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

Other Information

Management is currently aware that the Academy was not awarded any grant monies for fiscal year 2007.

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

Statements of Net Assets

June 30, 2006 and 2005

	2006	2005
Assets		
Current Assets:		
Cash and Cash Equivalents with Fiscal Agents	$ 282,690	$ 53,278
Noncurrent Assets:		
Depreciable Capital Assets, Net	169,582	73,632
Total Assets	452,272	126,910
Liabilities		
Intergovernmental Payable	147,185	11,258
Net Assets		
Invested in Capital Assets	169,582	73,632
Restricted for Other Purposes	4,911	1,960
Unrestricted	130,594	40,060
Total Net Assets	$ 305,087	$ 115,652

The accompanying notes are an integral part of the financial statements.

Massillon Digital Academy

Statements of Revenues, Expenses and Changes in Net Assets

For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Foundation Payments	$ 251,947	$ 195,272
Operating Expenses		
Purchased Services	179,741	219,191
Materials and Supplies	3,634	16,118
Depreciation	27,449	3,114
Other	5,553	7,944
Total Operating Expenses	216,377	246,367
Operating Income (Loss)	35,570	(51,095)
Non-Operating Revenues		
Other	30	0
Interest	835	400
Federal and State Grants	153,000	153,000
Total Non-Operating Revenues	153,865	153,400
Change in Net Assets	189,435	102,305
Net Assets Beginning of Year	115,652	13,347
Net Assets End of Year	$ 305,087	$ 115,652

The accompanying notes are an integral part of the financial statements.

Massillon Digital Academy
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities		
Cash Received from State Foundation	$ 251,947	$ 195,272
Cash Payments for Goods and Services	(43,814)	(290,471)
Cash Payments for Materials and Supplies	(3,634)	(17,030)
Cash Payments for Other Expenses	(5,553)	(7,944)
Net Cash Provided by (Used for) Operating Activities	198,946	(120,173)
Cash Flows From Non-Capital Financing Activities		
Operating Grants Received	153,000	153,000
Other Non-Operating Revenues	30	0
Net Cash Provided by Non-Capital Financing Activities	153,030	153,000
Cash Flows From Investing Activities		
Interest on Investments	835	400
Cash Flows From Capital and Related Activities		
Payments for Capital Acquisitions	(123,399)	(65,364)
Net Increase (Decrease) in Cash and Cash Equivalents	229,412	(32,137)
Cash and Cash Equivalents Beginning of Year	53,278	85,415
Cash and Cash Equivalents End of Year	$ 282,690	$ 53,278

	2006	2005
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities		
Operating Income (Loss)	$ 35,570	$ (51,095)
Adjustments:		
Depreciation	27,449	3,114
Increase (Decrease) in Liabilities		
Accounts Payable	0	(15,112)
Intergovernmental Payable	135,927	(57,080)
Total Adjustments	163,376	(69,078)
Net Cash Provided by (Used for) Operating Activities	$ 198,946	$ (120,173)

The accompanying notes are an integral part of the financial statements.

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 percent or higher minimum percent designated by the Department of Education on the Ohio achievement test. Furthermore, the Academy will endeavor to achieve an overall attendance rate of 93 percent or above and a graduation rate of 90 percent or above.

The Academy 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 replace 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, 2005, with SPARCC for management consulting services (See Note 8).

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 also has the option to apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting

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

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

B. Measurement Focus and Basis of Accounting

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

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

D. Cash and Cash Equivalents

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 2006, the Academy had no investments.

E. Intergovernmental Revenues

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

The Academy received $251,947 and $195,272 for the years ended June 30, 2006 and 2005.

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 years ended June 30, 2006 and 2005, totaled $153,000 per year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Depreciation

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

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

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

Description	Estimated Lives
Furniture and Equipment	8
Computers	5

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. For the years ended June 30, 2006 and 2005, the Academy had unrestricted net assets of $130,594 and $40,060, respectively, and $4,911and $1,960 of restricted net assets, respectively.

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

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.

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal years 2006 and 2005.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE

The GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which requires the government to report the effect of capital asset impairment when it occurs and to account for insurance recoveries in a similar manner. The implementation of this statement has made no impact on the Academy's financial reporting or results of financial position for fiscal year 2006.

NOTE 4 - DEPOSITS

At year-end, the carrying amount of the Academy's deposits was $282,690. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as June 30, 2006, $185,743 of the Academy's bank balance of $285,743 was exposed to custodial risk while $100,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the Academy.

At June 30, 2005, the carrying amount of the Academy's deposits was $57,278. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as June 30, 2005, $38,181 of the Academy's bank balance of $138,181 was exposed to custodial risk while $100,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding the deposit and investment of funds by the Academy.

NOTE 5 - CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2006:

	Balance 06/30/05	Additions	Reductions	Balance 06/30/06
Furniture	$ 2,646	$ 0	$ 0	$ 2,646
Computer Equipment	75,292	123,399	0	198,691
Totals at Historical Cost	77,938	123,399	0	201,337
Less: Accumulated Depreciation	(4,306)	(27,449)	0	(31,755)
Capital Assets, Net	$ 73,632	$ 95,950	$ 0	$ 169,582

NOTE 6 – FISCAL OFFICER

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

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

A. Maintain the financial records of the Academy in conformance with generally accepted accounting principles as required by the State Auditor;

B. Comply with the operating policies recommended by the State Auditor, including those related to the presentation, review, discussion, and approval or rejection of a line item budget and regular reports of current and encumbered expense;

C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

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 years 2006 and 2005.

NOTE 8 - MANAGEMENT CONSULTING CONTRACT

The Academy entered into a two-year contract on March 4, 2005, with Stark/Portage Area Computer Consortium (SPARCC) for management consulting services. This contract was not renewed.

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 years ended 2006 and 2005, the Academy contracted with the Indiana Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in the prior fiscal years. There has not been a significant reduction in coverage from the prior year.

NOTE 10 – PURCHASED SERVICES

For the fiscal years ending June 30, 2006 and 2005, purchased service expenses were payments for professional and technical services to SPARCC in the amount of $300 and $25,000, respectively. The following is a breakdown of the total purchase services for year June 30, 2006:

	2006	2005
Professional and Technical Services	$ 179,741	$ 218,930
Travel Mileage/Meeting Expense	0	261
Total Purchased Services	$ 179,741	$ 219,191

NOTE 11 - DEFINED BENEFIT PENSION PLANS

The Academy has contracted with SPARCC and its Sponsor to provide employee services and to pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of Record and the Academy ultimately responsible for remitting contributions to each of the systems noted below:

A. School Employees Retirement System

SPARCC and the Academy's Sponsor contribute on behalf of the Academy to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 10.58 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The Academy's required contribution for pension obligations for the fiscal years ended June 30, 2006 and 2005, were paid by SPARCC and the Academy's Sponsor.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System of Ohio (STRSOhio)

SPARCC and the Academy's Sponsor contribute on behalf of the Academy to the State Teachers Retirement System of Ohio. STRSOhio is a cost-sharing multiple employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRSOhio issues a publicly available financial report. Additional information or copies of STRS Ohio's 2005 *Comprehensive Annual Financial Report* may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by visiting the STRSOhio website www.strsoh.org.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Benefits are increased annually by 3 percent of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law, health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to $2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Plan members were required to contribute 9.3 percent of their annual covered salary through June 30, 2005 and effective July 1, 2005 the member contribution rate increased to 10 percent and the SPARCC and the Academy's sponsor were required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Academy's contributions for pension obligations to STRSOhio for the fiscals ended June 30, 2006 and 2005 were paid by SPARCC and the Academy's Sponsor.

NOTE 12 - POSTEMPLOYMENT BENEFITS

SPARCC and the Academy' Sponsor provided comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRSOhio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS).

A. State Teachers Retirement System of Ohio

SPARCC and the Academy' Sponsor provided comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRSOhio). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare B premiums. Pursuant to the Revised Code (R. C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRSOhio. All benefits recipients pay a portion of the health care costs in the form of a monthly premium

The R.C. grants authority to STRSOhio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRSOhio funds shall be included in the employer contribution rate, currently 1 percent of covered payroll.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was $3.3 billion at June 30, 2005 (the latest information available). For year June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS had 111,395 eligible benefit recipients.

B. State Employees Retirement System

Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this period, employer contributions to fund health care benefits were 3.42 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For year 2006, the minimum pay had been established at $27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Net expenses for health care at June 30, 2005 (the latest information available) were $178,221,113 and the target level was 150% percent of the projected claims less premium contribution for the next fiscal year. As of June 30, 2005, the value of the health care fun was $267.5 million, which is about 168% of next year's projected net health costs of $158,776,151. The number of benefit recipients currently receiving health care benefits is approximately 58,123.

NOTE 13 - 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, 2006 and 2005.

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, 2005 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, 2005. On August 24, 2005, 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 Count. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. 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 significant adjustments to state funding for fiscal year 2006 and 2005, as a result of such review.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Massillon Digital Academy
Massillon, Ohio

We have audited the financial statements of the Massillon Digital Academy (the "Academy") a component unit of the Massillon City School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Massillon Digital Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Massillon Digital Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under Government Auditing Standards.

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Board of Directors
Massillon Digital Academy

This report is intended solely for the information and use of the Finance Committee, Board of Education, Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ciuni & Panichi, Inc.

Cleveland, Ohio
December 19, 2006

Mary Taylor, CPA
Auditor of State

MASSILLON DIGITAL ACADEMY

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 1, 2007

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