



Mary Taylor, CPA
Auditor of State

**MIAMISBURG SECONDARY DIGITAL ACADEMY CUMMUNITY SCHOOL
MONTGOMERY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2007	3
Statement of Net Assets – Cash Basis - As of June 30, 2007.....	7
Statement of Revenues, Disbursements, and Changes in Net Assets – Cash Basis - For the Fiscal Year Ended June 30, 2007	8
Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2007	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings.....	19
Schedule of Prior Audit Findings.....	20

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Miamisburg Secondary Digital Academy Community School
Montgomery County
540 E. Park Ave.
Miamisburg, Ohio 45342

To the Board of Directors:

We have audited the accompanying financial statements of Miamisburg Secondary Digital Academy Community School, Montgomery County, (the Academy) as of and for the year ended June 30, 2007. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Miamisburg Secondary Digital Academy Community School, Montgomery County, as of June 30, 2007, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2007, the Academy revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

February 27, 2008

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Miamisburg Secondary Digital Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key highlights for fiscal year 2007 are as follows:

In total, net assets increased by \$76,597 or 50%, a significant change from the prior fiscal year. This was due to 2006 being the first year of operations for the Academy and the program continuing to expand into the 2007 academic year. The Academy's general receipts, those being state foundation payments were \$501,036 or 79.7% of the total cash received during the fiscal year. Dependence on this revenue source is significant.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Academy's cash basis of accounting.

The Academy has elected to present its basic financial statements on a cash basis of accounting. This basis of accounting is other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the Academy's cash basis of accounting, receipts and disbursements and the related assets are recorded when they result in cash transactions.

The statement of net assets provides information about the cash activities of the Academy. The Statement of Revenues, Disbursements and Changes in Net Assets –Cash Basis provide a greater level of detail.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as Accounts Receivables) and certain liabilities and their related disbursements (such as Accounts Payable) are not reported in these basic financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of cash basis accounting.

The notes to the financial statements are an integral part of the financial statements and provide expanded explanations and details regarding the information reported in the statements.

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The Academy as a Whole

Table 1 provides a summary of the Academy's net assets for fiscal year 2007 compared to fiscal year 2006:

Table 1 Net Assets		
	2006	2007
Assets		
Cash	\$152,918	\$229,515
Total Assets	152,918	229,515
Net Assets		
Restricted for:		
Other Purposes	8,682	
Unrestricted	144,236	229,515
Total Net Assets	\$152,918	\$229,515

As mentioned previously, total net assets increased \$76,597 or 50 percent. The primary reason contributing to the increase in cash balances is that 2006 was the first year of operations for the Academy. As such, the program continued to grow through enrollment during the 2007 school year. The enrollment is expected to remain relatively constant over the next several years of the Academy. This also illustrates the Academy's extreme dependence on unrestricted state funding.

Table 2 reflects the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

Table 2 Change in Net Assets		
	2006	2007
Operating revenues:		
State Foundation payments	\$359,772	\$501,036
Total operating revenues	359,772	501,036
Operating disbursements:		
Purchased services	240,562	388,577
Materials and supplies	32,872	96,287
Capital outlay	155,950	63,072
Other	203	3,803
Total operating disbursements	429,587	551,739
Operating income	(69,815)	(50,703)
Nonoperating revenues:		
Federal & State Grants	171,220	127,300
Total nonoperating revenues	171,220	127,300
Change in net assets	\$101,405	\$76,597

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

State Foundation payments represent 79.7% of total revenues. These are unrestricted intergovernmental revenues, while non-operating revenues represent the remainder.

The major operating disbursement is purchased services. Purchased services are shown in greater detail in Table 3.

Table 3 Purchased Service Detail

	<u>2006</u>	<u>2007</u>
Instruction Services	\$145,618	\$237,222
Special Education Services	15,161	23,057
Other Instruction		342
Pupil Support Services	21,278	53,464
Instructional Support Services	21,000	6,500
Administrative Services	22,545	34,905
Fiscal Services	9,000	23,000
Support Services - Central	5,960	10,087
Total Purchased Services	<u>\$240,562</u>	<u>\$388,577</u>

Current Issues

The challenge for all Schools is to provide quality education with fewer monies available to spend. Online schools are able to capitalize upon this since fewer full time personnel are needed to educate students. Also, the Academy is able to provide individualized attention when needed.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Academy's finances and to reflect the Academy's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Mark Schiel, Treasurer, Miamisburg Secondary Digital Academy, 540 E. Park Ave., Miamisburg, Ohio 45342.

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MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
CASH BASIS
AS OF JUNE 30, 2007

	Assets	
Current assets		
Cash		<u>\$229,515</u>
Total assets		<u>229,515</u>
	Net Assets	
Unrestricted		<u>229,515</u>
Total net assets		<u>\$229,515</u>

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

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, DISBURSEMENTS AND CHANGES IN NET ASSETS
CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Operating revenues	
State Foundation payments	<u>\$501,036</u>
Operating disbursements	
Purchased services	388,577
Materials and supplies	96,287
Capital outlay	63,072
Other	<u>3,803</u>
Total operating disbursements	<u>551,739</u>
Operating (loss)	<u>(50,703)</u>
Nonoperating revenues	
Federal & State Grants	<u>127,300</u>
Change in net assets	76,597
Total net assets-beginning	<u>152,918</u>
Total net assets-ending	<u><u>\$229,515</u></u>

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

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE ENTITY

Miamisburg Secondary Digital Academy Community School (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the growing need for a comprehensive educational program delivered to students in the 7 – 12 population primarily through distance learning technologies and computer based classroom curriculum. The comprehensive educational program will address 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 some 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 was approved for operation under contract with the Miamisburg City School District (the Sponsor) for a period of five years commencing on the first day of 2005-2006 academic year. The Academy accepted students beginning August 23, 2005. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five-member Board of Directors. The Board is responsible for carrying out the 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.

The Board of Directors has entered into a one year service contract with Tri-river Educational Computer Association to provide instructional, administrative, and technical services required for the operation of the Academy. (See note 5). The Board of Directors has also entered into a one year service contract with Miamisburg City Schools to provide planning, instructional, administrative, and technical services required for the operation of the Academy. (See note 7).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Academy chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. The Academy recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

A. Basis of Presentation

Business Type Accounting

The Academy uses business type accounting to track and report on its financial activities. Business type 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.

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. 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 Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor or otherwise adopted by the Board of Directors. The contract also states the Academy will follow the operating procedures recommended by the Auditor of State, including those related to regular presentation, review, discussion, and approval or rejection of the budget and reports of current and encumbered expenses. The Academy did not adopt a spending plan as set forth in the Ohio Revised Code Section 5705.391

C. Cash

All monies received by the Academy are maintained in a demand deposit account.

D. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues from this program are recognized as operating revenues in the accompanying financial statements. The Academy also receives federal and state grant monies.

E. Net Assets

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. Net assets restricted for other purposes include resources restricted for federal and state grants restricted to cash disbursement for specified purposes. The Academy's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

3. DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end \$200,231 of the Academy's bank balance of \$300,231 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized.

The Academy has no deposit policy for custodial risk.

4. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. For fiscal year 2007, the Academy was insured for commercial inland marine, general liability, and property as part of the Miamisburg City School District policy. During fiscal year 2007, the Academy contracted with Indiana Insurance Company for building and property insurance. This policy has a limit of insurance in the amount of \$104,892,310 for property and a \$2,500 deductible. Indiana Insurance also covers auto insurance for actual cash value with a \$500 deductible. General liability insurance is under Indiana Insurance Company. The base policy has a \$1,000,000 per occurrence and \$1,000,000 aggregate limit. The treasurer is bonded separately

Settled claims have not exceeded commercial coverage for 2006-2007 fiscal year. There has been no significant reduction in insurance coverage from the prior fiscal year.

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. CONTRACT WITH TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION

The Academy entered into a one year contract on July 1, 2005, for fiscal year 2007, with Tri-Rivers Educational Computer Association (TRECA). Under the contract, the following terms were agreed upon:

- TRECA shall provide the Academy with instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
- All personnel providing services to the Academy on behalf of TRECA under the agreement shall be employees of TRECA and TRECA 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.
- The technical services provided by TRECA 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.
- The Academy shall secure the services of an Executive Director, who shall be the chief operating officer of the Academy, with primary responsibility for day-to day operations of the Academy.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- The Academy shall pay TRECA \$3,650 per full-time high school student. Part-time students may be enrolled on such terms as are agreed to by the parties.

In 2007 & 2006, the Academy paid TRECA \$ 134,514 and \$97,607 respectively.

To obtain TRECA's audited June 30, 2007, financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

6. RELATED PARTY TRANSACTIONS

Miamisburg City Schools (Sponsor) provides planning, instructional, administrative, and technical services required for the operation of the Academy. Additionally, employees of the Sponsor served as the Board of Directors for the Academy during the fiscal year.

Total payments made to the Miamisburg City School District equaled \$225,540 out of which \$220,1326 was for the use of facilities and personnel. See Note 7 for details.

7. CONTRACT WITH MIAMISBURG CITY SCHOOLS

- Miamisburg City Schools shall provide the Academy with education and meeting space, instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
- All personnel providing services to the Academy on behalf of Miamisburg City Schools under the agreement shall be employees of Miamisburg City Schools and Miamisburg City Schools 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.

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. CONTRACT WITH MIAMISBURG CITY SCHOOLS (Continued)

- The technical services provided by Miamisburg City Schools 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.

In 2007 & 2006, the Academy paid Miamisburg City Schools \$225,548 and \$123,858 respectively.

To obtain Miamisburg City Academy's audited June 30, 2007 financial statements please contact Mark Schiel, Treasurer, at mschiel@miamisburg.k12.oh.us

8. JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Cooperative Association - The Academy is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The Academy paid MDECA \$1,924 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

9. 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, 2007.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and fulltime 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 the fiscal year 2007 review resulted in the Academy owing \$14,128 which it will pay over eight months starting November 2007.

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. STATE SCHOOL FUNDING DECISION

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/ charter schools. The case is still currently pending, and the effect of this suit, if any, on the Miamisburg Secondary Digital Academy cannot presently be determined.

11. FISCAL AGENT

The Academy utilized the services of Miamisburg City Schools as its fiscal officer.

12. PURCHASED SERVICES

The major operating disbursements are purchased services. Purchased services are shown in greater detail below:

<u>Purchased Services Detail</u>	
Professional & Technical Services	\$199,941
Property Services	37,700
Travel and Meetings	111
Communications	126
Utilities	15,842
Tuition	<u>134,857</u>
Total Purchased Services	<u><u>\$388,577</u></u>

13. COMPLIANCE

The Academy did not comply with the requirements of Ohio Revised Code Section 5705.391 and Ohio Administrative Code Section 3301-92-04 regarding adopting and submitting a spending plan.

14. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. DEFINED BENEFIT PENSION PLANS (Continued)

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 Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2007 was \$10,705; 100 percent has been contributed for fiscal year 2007.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 member contributions and earned interest matched by STRS Ohio funds times 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. 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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligations to STRS Ohio for the fiscal year ended June 30, 2007 was \$14,819; 100 percent has been contributed for fiscal year 2007.

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

15. POST-EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled \$1,058 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$2,539.

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. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

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Mary Taylor, CPA

Auditor of State

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

Miamisburg Secondary Digital Academy Community School
Montgomery County
540 E. Park Ave.
Miamisburg, Ohio 45342

To the Board of Directors:

We have audited the financial statements of the business-type activities of Miamisburg Secondary Digital Academy Community School, Montgomery County, (the Academy) as of and for the year ended June 30, 2007, and have issued our report thereon dated February 27, 2008 wherein, we noted the Academy uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be significant a deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

**Internal Control Over Financial Reporting
(Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We do not believe the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the Academy's management in a separate letter dated February 27, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-002 and 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 27, 2008.

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



Mary Taylor, CPA
Auditor of State

February 27, 2008

MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2007-001

Significant Deficiency

There was no documentation regarding the Board receiving financial information to monitor the Academy's financial activity. Due to the sum of money controlled by the Treasurer's office and the small number of fiscal staff, the Board of Directors (the Board) should monitor the financial activity on a routine basis. Lack of financial monitoring could result in material misclassifications or misstatements in the annual financial report.

At each regular meeting, the Treasurer should provide the Board with detailed financial reports. The reports given should also include grant status, current expenditures, and the current fund cash balances. The Board should carefully review this information, make appropriate inquiries to determine the integrity of the information, and approve the reports in the minutes. In addition, these amounts should be reviewed to determine that the amounts budgeted at the beginning of the year are adequate for the operations of the Academy. These financial reports should be documented as approved by Board to indicate financial monitoring has occurred.

FINDING NUMBER 2007-002

Noncompliance

Ohio Admin. Code Section 117-2-03 (B) requires community schools to report (but not necessarily account) on a generally accepted accounting principles (GAAP) basis. Additionally, Exhibit 3 of the Academy's contract with its sponsor requires the School's records to conform to GAAP and all other appropriate guidelines established by the Auditor of State. The Academy prepared its financial statements on Other Comprehensive Basis of Accounting (OCBOA) that has been prescribed by the Auditor of State and American Institute of Certified Public Accountants (AICPA) for certain small local governments like villages and townships. The departure from GAAP resulted in an adverse opinion on the accompanying financial statements.

GAAP financial statements provide a more detailed overview of the Academy's financial condition. The Academy should consider presenting GAAP financial statements. Failure to do so would result in adverse opinions in future audits and may result in a lower credit rating if the Academy needs to borrow money.

FINDING NUMBER 2007-003

Noncompliance

Ohio Rev. Code Section 5705.391 and Ohio Admin. Code Section 3301-92-04 requires that school boards must adopt a spending plan and submit the plan to the Ohio Department of Education (ODE) as required by Ohio Rev. Code Section 3314.03(A)(11)(d).

The Academy did not adopt a spending plan, nor was a spending plan submitted to ODE for fiscal year 2007. The Academy should adopt a spending plan, at a regular board meeting, and submit the approved plan to ODE not later than October 31 of any fiscal year to be in compliance with the above Ohio Rev. Code sections. At a minimum, the plan which includes projections for five years, should include all revenues available for appropriation and their source, the nature and amount of expenditures, and any other information required to determine whether the Academy will incur expenses that will impair its ability to operate with the available revenue.

**MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-0001	Ohio Admin. Code Section 117-2-03 (B) – preparing GAAP financial statements.	No	Repeated as finding number 2007-002
2006-002	Ohio Rev. Code Section 3314.03(11)(b) – Purchasing liability insurance.	Yes	Fully corrected
2006-003	Ohio Rev. Code Section 117.38 – Filing annual report and publishing notice.	No	Partially corrected, repeated as management letter comment.
2006-004	Ohio Rev. Code Section 5705.391 and Ohio Admin. Code Section 3301-92-04 - Adopting spending plan and submitting it to the Ohio Department of Education	No	Repeated as finding number 2007-003



Mary Taylor, CPA
Auditor of State

MIAMISBURG SECONDARY DIGITAL ACADEMY COMMUNITY SCHOOL

MONTGOMERY 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 8, 2008**