

**NEWARK DIGITAL ACADEMY
(A Component Unit of Newark City School District)
LICKING COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

JULIE TAYLOR, TREASURER



Mary Taylor, CPA
Auditor of State

Board of Directors
Newark Digital Academy
85 East Main Street
Newark, Ohio 43055

We have reviewed the *Independent Auditor's Report* of the Newark Digital Academy, Licking County, prepared by Julian & Grube, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 23, 2008

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NEWARK DIGITAL ACADEMY
(A Component Unit of Newark City School District)
LICKING COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Board of Directors
Newark Digital Academy
85 East Main Street
Newark, Ohio 43055

We have audited the accompanying financial statements of the Newark Digital Academy (a component unit of Newark City School District), Licking County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise the Newark Digital Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Newark Digital 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 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 Newark Digital Academy, as of June 30, 2008, and the respective changes in financial position and its cash flows for the fiscal 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 November 26, 2008, on our consideration of the Newark 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.

The management's discussion and analysis on pages 2 - 4 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Julian & Grube, Inc.

Julian & Grube, Inc.
November 26, 2008

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The management's discussion and analysis of the Newark Digital Academy's (the "NDA") financial performance provides an overall review of the NDA's financial activities for the fiscal year ended June 30, 2008. Readers should also review the basic financial statements and notes to enhance their understanding of the NDA's financial performance.

The management's discussion and analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "basic financial statements and management's discussion and analysis - for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

Highlights

NDA opened for its first year of operation on August 25, 2003 as a kindergarten through twelfth grade online internet school. Each student was provided a computer, printer and scanner which were used to access a curriculum based on the State model and which used certified/licensed instructors. Non-digital curriculum, such as Calvert School Educational Services, Keystone National High School and the American School, are also offered. The average enrollment during fiscal year 2008 was 85.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses and changes in fund net assets reflect how NDA did financially during the fiscal year ended June 30, 2008. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

These statements report NDA's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of NDA has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

NDA uses enterprise presentation for all of its activities.

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LICKING COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Table 1 provides a summary of NDA's net assets as of June 30, 2008 and 2007:

Table 1: Net Assets

<u>Assets:</u>	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 178,820	\$ 73,675
Depreciable Capital Assets, Net	<u>62,184</u>	<u>73,671</u>
Total Assets	<u>241,004</u>	<u>147,346</u>
<u>Liabilities:</u>		
Current and Other Liabilities	<u>19,954</u>	<u>20,436</u>
Total Liabilities	<u>19,954</u>	<u>20,436</u>
<u>Net Assets:</u>		
Invested in Capital Assets	62,184	73,671
Unrestricted	<u>158,866</u>	<u>53,239</u>
Total Net Assets	<u>\$ 221,050</u>	<u>\$ 126,910</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the NDA's assets exceeded liabilities by \$221,050.

At year-end, capital assets represented 26% of total assets. Capital assets consisted principally of computer equipment for student use. There is no debt related to the capital assets. Capital assets are used to provide services to the students and are not available for future spending.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2008 and 2007, as well as a listing of revenues and expenses.

Table 2: Change in Net Assets

	<u>2008</u>	<u>2007</u>
<u>Operating Revenues:</u>		
Foundation Payments/Other	\$534,750	\$343,024
<u>Non-Operating Revenues:</u>		
Grants	45,399	31,133
Interest Income	<u>1,299</u>	<u>882</u>
<u>Total Revenues</u>	<u>581,448</u>	<u>375,039</u>
<u>Operating Expenses:</u>		
Salaries/Fringe Benefits	42,615	69,951
Purchased Services	362,348	273,633
Materials and Supplies	30,074	23,429
Depreciation	19,855	19,564
Other Operating Expenses	<u>32,416</u>	<u>27,882</u>
<u>Total Operating Expenses</u>	<u>487,308</u>	<u>414,459</u>
<u>Increase in Net Assets</u>	<u>\$ 94,140</u>	<u>\$(39,420)</u>

**NEWARK DIGITAL ACADEMY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Community schools receive no support from taxes. The State Foundation Program and the State and Federal Programs are the primary support for NDA's existence. NDA began receiving Title funds in fiscal year 2006.

Budgeting

NDA is not required to follow the budgetary provision set forth in Ohio Revised Code Chapter 5705.

Capital Assets

NDA had \$62,184 invested in capital assets (net of accumulated depreciation). Capital assets consist principally of computers used at our computer lab and those used by our students at their home.

Debt

NDA did not incur any debt during the fiscal year ended June 30, 2008.

For the Future:

NDA began fiscal year 2004 with TRECA providing most of its instructional and administrative services. The same services were utilized in 2008. We will continue to utilize TRECA for these services in fiscal year 2009. In addition, we offer non-digital curriculum, such as Calvert School Educational Services, Keystone National High School, and the American School.

Effective July 1, 2008, NDA instituted a ceiling of 130 students due to opening enrollment statewide. We expect a slight increase in enrollment for fiscal year 2009; however we are unsure if the maximum will be met because fiscal year 2009 is the first year we will accept open enrollment outside of Newark City Schools.

The cutting edge nature of this kind of instructional delivery makes for constant change during the first few years of operation.

Contacting the NDA's Financial Management:

This financial report is designed to provide our citizens, investors and creditors with a general overview of NDA's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional information, contact Julie Taylor, Treasurer, at Newark Digital Academy, 85 East Main Street, Newark, Ohio 43055 or email at jtaylor@laca.org.

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2008

Assets:	
Current Assets:	
Cash and cash equivalents	\$ 178,629
Prepayments	191
Total current assets	178,820
Non-Current Assets:	
Capital assets, net	62,184
Total assets	241,004
Liabilities:	
Current liabilities:	
Accounts payable	14,019
Accrued wages and benefits.	2,796
Intergovernmental payable.	3,139
Total liabilities.	19,954
Net Assets:	
Invested in capital assets	62,184
Unrestricted (deficit)	158,866
Total net assets	\$ 221,050

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Operating revenues:	
State foundation	\$ 534,750
Total revenue	<u>534,750</u>
 Operating expenses:	
Personal services	42,615
Purchased services	362,348
Materials and supplies	30,074
Other operating expenses	32,416
Depreciation	19,855
Total expenses	<u>487,308</u>
 Operating Income	 <u>47,442</u>
 Non-operating revenues/(expenses):	
State and Federal grants	45,399
Interest revenue	1,299
Total other non-operating revenues/(expenses).	<u>46,698</u>
 Change in net assets	 94,140
 Net assets at beginning of year	 <u>126,910</u>
Net assets at end of year	<u><u>\$ 221,050</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEWARK DIGITAL ACADEMY
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**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Cash flows from operating activities:		
Cash received from foundation	\$	534,750
Cash payments for personal services.		(55,625)
Cash payments for purchased services		(356,535)
Cash payments to suppliers for materials and supplies		(30,023)
Cash payments for other expenses.		(25,843)
		<hr/>
Net cash provided by operating activities		66,724
Cash flows from noncapital financing activities:		
State and Federal grants		45,399
		<hr/>
Net cash provided by noncapital financing activities		45,399
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(8,368)
		<hr/>
Net cash used in capital and related financing activities		(8,368)
Cash flows from investing activities:		
Interest received		1,299
		<hr/>
Net cash provided by investing activities		1,299
Net decrease in cash and cash equivalents		105,054
Cash and cash equivalents at beginning of year		73,575
Cash and cash equivalents at end of year.	\$	178,629
		<hr/> <hr/>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income.	\$	47,442
Adjustments:		
Depreciation		19,855
Changes in assets and liabilities:		
Increase in prepayments		(91)
Increase in accounts payable		12,152
Decrease in accrued wages and benefits		(1,129)
Decrease in due to primary government		(11,881)
Increase in intergovernmental payable		376
		<hr/>
Net cash provided by operating activities.	\$	66,724
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEWARK DIGITAL ACADEMY
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Newark Digital Academy (NDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314. NDA is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect NDA's tax exempt status. NDA's objective is to deliver a comprehensive educational program of high quality, tied to State and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. The students may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students with the Newark City School District, (sponsor of the NDA), that desire a specific course not currently offered, but is available through online instruction.

NDA was created on February 11, 2003 by entering into a five year contract with the Newark City School District (the Sponsor) through fiscal year 2008. Then, on May 13, 2008, the NDA entered into a new five year contract for fiscal year 2009 through 2013. The Sponsor is responsible for evaluating the performance of the NDA and has the authority to deny renewal of the contract at its expiration. The Sponsor provided and maintained space at its technology center at no cost for NDA during fiscal year 2008, but NDA was responsible for all maintenance and utilities. NDA paid purchased services to Tri-Rivers Educational Computer Association (TRECA) for providing the planning, design, implementation, instructional, administrative and technical consulting services during the fiscal year.

NDA operates under the direction of a five-member Board of Directors. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Newark Digital Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. NDA 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. NDA has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the NDA's accounting policies.

A. Basis of Presentation

The NDA'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.

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

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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

B. Measurement Focus and Basis of Accounting

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

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

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the NDA's contract with its Sponsor. The contract between NDA and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

D. Cash and Cash Equivalents

Cash received by NDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. NDA had no investments during the fiscal year ended June 30, 2008.

E. Capital Assets

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

All reported capital assets are depreciated. Depreciation is computed using the straight-line method. Furniture is depreciated over twenty years, and computers are depreciated over six years.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the NDA or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

H. Restricted Net Assets

There are certain resources set aside due to restricted State and federal grant funding. The NDA had none at June 30, 2008.

I. Operating Revenues and Expenses

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

J. Estimates

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

NOTE 3 - CHANGES IN ACCOUNTING POLICIES

For fiscal year 2008, NDA has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of NDA; however, certain disclosures related to postemployment benefits have been modified to conform to the new reporting requirements.

**NEWARK DIGITAL ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 3 - CHANGES IN ACCOUNTING POLICIES - (Continued)

GASB Statement No. 48 establishes criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of NDA.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 did not have an effect on the financial statements of NDA.

NOTE 4 - DEPOSITS

At June 30, 2008, the carrying amount of all NDA's deposits was \$178,629. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008 \$158,485 of the NDA's bank balance of \$258,485 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the NDA's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the NDA.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance at</u> <u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>06/30/08</u>
Capital Assets:				
Furniture and equipment	\$ 122,032	\$ 8,368	\$ -	\$ 130,400
Less accumulated depreciation				
Furniture and equipment	<u>(48,361)</u>	<u>(19,855)</u>	<u>-</u>	<u>(68,216)</u>
Capital Assets, Total	<u>\$ 73,671</u>	<u>\$ (11,487)</u>	<u>\$ -</u>	<u>\$ 62,184</u>

NOTE 6 - SERVICE AGREEMENT

NDA entered into a one-year contract on June 19, 2007 for fiscal year 2008, with Tri-Rivers Educational Computer Association (TRECA) for consulting services. Under the contract, the following terms were agreed upon:

TRECA shall provide NDA with the following consulting services: instructional, supervisory/administrative, and technical services sufficient to effectively implement the NDA's educational plan and NDA's assessment and accountability plan.

**NEWARK DIGITAL ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 6 - SERVICE AGREEMENT - (Continued)

All personnel providing services to NDA 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 NDA 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 the event NDA is unable to recover such equipment or the equipment is not recovered in other than good working conditions, NDA shall reimburse TRECA for the cost of such equipment in the amount of \$900 per student, except that if the student has been enrolled in the NDA for at least 90 days, \$700, and if the student has been enrolled in the NDA for at least 180 days, \$500.

NDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to-day operations of NDA.

Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.

NDA shall pay TRECA \$3,750 per full-time student. Part-time students may be enrolled on such terms as are agreed to by the parties.

NDA may receive a reduction in the above described fees by assuming additional responsibilities, such as by providing the computers and technology to individual students in lieu of TRECA providing said equipment or by providing overall support services which include application, orientation, scheduling/guidance, attendance monitoring, intervention, and student withdrawal services.

In addition to the base fees above, NDA shall pay TRECA, according to the tier fees, for services required for such students by virtue of their status as Disabled.

TRECA also provides a part-time technician for an annual fee of \$14,500.

For the period, \$219,358 was payable under this contract. All but \$3,139 of this amount was paid as of June 30, 2008.

NOTE 7 - PURCHASED SERVICES

For fiscal year ended June 30, 2008, purchased services expenses were as follows:

Professional and technical services	\$ 151,638
Travel and meetings	3,747
Other purchased services	<u>206,963</u>
Total	<u>\$ 362,348</u>

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 8 - RISK MANAGEMENT

The NDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During fiscal year 2008, the NDA contracted for the following insurance coverages:

Coverages provided by Indiana Insurance are as follows:

General NDA Liability

Per Occurrence	\$1,000,000
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Total per Year	3,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

NDA also carries Public Official Bonds through Travelers Casualty and Surety Company of America for the Treasurer, Superintendent and Board President.

NOTE 9 - PENSION PLANS

A. School Employees Retirement System

Plan Description - NDA 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 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Forms and Publications*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and NDA is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of NDA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. NDA's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$2,424, \$2,360 and \$3,213, respectively; 96.17 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 9 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - NDA participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2008, plan members were required to contribute 10 percent of their annual covered salaries. NDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

NDA's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007 and 2006 were \$2,682, \$2,520 and \$3,469, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006. No contributions were made to the DC and Combined Plans for fiscal year 2008.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - NDA participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

NDA's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$1,106, \$974, and \$919, respectively; 96.17 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2008, this actuarially required allocation was 0.66 percent of covered payroll. NDA's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007 and 2006 were \$175, \$160, and \$256, respectively; 96.17 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System of Ohio

Plan Description - NDA contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. NDA's contributions for health care for the fiscal years ended June 30, 2008, 2007 and 2006 were \$206, \$194, and \$267, respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

NOTE 11 - CONTINGENCIES

A. Grants

The NDA received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the NDA at June 30, 2008.

B. Litigation

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 currently pending, and the effect of this suit, if any, on the NDA cannot presently be determined.

There are currently no other matters in litigation with the NDA as defendant.

C. State Foundation Funding

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 NDA has an immaterial liability in the amount of \$6,443 due in fiscal year 2009, as a result of the reviews.



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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
Newark Digital Academy
85 East Main Street
Newark, Ohio 43055

We have audited the financial statements of the Newark Digital Academy (a component unit of Newark City School District), Licking County, Ohio, as of and for the fiscal year ended June 30, 2008, which collectively comprise Newark Digital Academy's basic financial statements and have issued our report thereon dated November 26, 2008. 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 Newark Digital Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Newark Digital Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Newark Digital Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Newark Digital Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Newark Digital Academy's financial statements that is more than inconsequential will not be prevented or detected by the Newark Digital Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Newark Digital Academy's internal control.

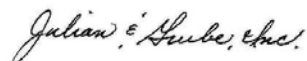
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Newark Digital Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Newark 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 that are required to be reported under *Government Auditing Standards*.

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



Julian & Grube, Inc.
November 26, 2008



Mary Taylor, CPA
Auditor of State

NEWARK DIGITAL ACADEMY

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 6, 2009**