



Dave Yost • Auditor of State

MARION CITY DIGITAL ACADEMY
MARION COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Marion City Digital Academy
Marion County
910 East Church Street
Marion, Ohio 43302

To the Board of Directors:

We have audited the accompanying basic financial statements of the Marion City Digital Academy, Marion County, Ohio (the Academy), a component unit of the Marion City School District, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 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 financial position of Marion City Digital Academy, Marion County, Ohio, as of June 30, 2012, and the changes in its financial position and its 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 March 25, 2013, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

March 25, 2013

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012

Unaudited

The management's discussion and analysis of Marion City Digital Academy's ("MCDA") financial performance provides an overall review of MCDA's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at MCDA's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the MCDA's financial performance.

HIGHLIGHTS

MCDA began operations in January 2003. MCDA is an online internet school and students attending annually have fluctuated since its inception. MCDA continues to contract with Tri-Rivers Educational Computer Association (TRECA) for many of the services it needs to educate the students.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of two parts – management's discussion and analysis and the basic financial statements. These statements are organized so the reader can understand the financial position of MCDA. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for MCDA. 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 MCDA finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

FINANCIAL ANALYSIS OF THE MCDA AS A WHOLE

MCDA is not required to present government-wide financial statements as MCDA is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent MCDA's condensed financial information for 2012 and 2011 derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

	Net Assets	
	2012	2011
Current and other assets	\$595,623	\$553,618
Capital assets, Net	6,517	10,165
Total assets	602,140	563,783
Other liabilities	95,734	61,451
Total liabilities	95,734	61,451
Net assets		
Invested in capital assets	6,517	10,165
Unrestricted	499,889	492,167
Total net assets	\$506,406	\$502,332

MARION CITY DIGITAL ACADEMY

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Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2012

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2012 and 2011:

	Change in Net Assets	
	2012	2011
Operating Revenues		
Foundation Payments	\$791,566	\$807,048
All Other Revenue	14,404	4,450
Total Operating Revenues	<u>805,970</u>	<u>811,498</u>
Operating Expenses		
Salaries and Wages	158,875	193,357
Fringe Benefits	47,090	46,201
Purchased Services	667,422	695,253
Supplies and Materials	56,432	2,527
Depreciation	3,648	18,468
Other Operating Expense	25	300
Total Operating Expenses	<u>933,492</u>	<u>956,106</u>
Operating Loss	<u>(127,522)</u>	<u>(144,608)</u>
Nonoperating Revenues (Expenses)		
Federal and State Restricted Grants	130,681	181,981
Investment Earnings	915	907
Total Nonoperating Revenues (Expenses)	<u>131,596</u>	<u>182,888</u>
Total Change in Net Assets	4,074	38,280
Net Assets Beginning of Year	<u>502,332</u>	<u>464,052</u>
Net Assets End of Year	<u>\$506,406</u>	<u>\$502,332</u>

MCDA operates as one business-type enterprise fund; therefore, no analysis of balances and transactions of individual funds are included in the discussion and analysis. Results of fiscal year 2012 indicate an increase in net assets of \$4,074 and ending net assets of \$506,406. The increase is the result of maintaining expenses below the level of grant revenue received. A review of the above table reflects that grant revenue decreased in fiscal year 2012 due to the end of stimulus monies. For expenses, activity was similar to fiscal year 2011 with a change in expenses of 2 percent.

BUDGET

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 MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budgetary process for MCDA. MCDA is required to develop a five year projection that is to be reviewed twice a year by the Board of Directors.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, MCDA had \$6,517 net of accumulated depreciation invested in equipment. The following table shows fiscal years 2012 and 2011:

	Business-Type Activities		Increase (Decrease)
	2012	2011	
Equipment	\$178,148	\$178,148	\$0
Less: Accumulated Depreciation	(171,631)	(167,983)	(3,648)
Totals	\$6,517	\$10,165	(\$3,648)

The decrease in capital assets is due to depreciation expense. Additional information on MCDA's capital assets can be found in Note 6.

Debt

The MCDA has not issued any debt.

ECONOMIC FACTORS

MCDA is sponsored by the Marion City School District. MCDA relies on State foundation funding as well as federal grants to provide the monies necessary to operate the technology oriented educational program. These funds will continue to help expand the current program.

The future of MCDA is dependent upon continued funding from the State as no local revenue can be generated through tuition or property taxes. MCDA has committed itself to providing state of the art technology based educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of MCDA.

MCDA continues with the professional development sequence initiated in prior years. The training was implemented as selected staff of the Marion City School District, as the sponsoring school district, will teach students of MCDA. These staff members have been trained to deliver instruction through a digital environment. This group of Marion City School District teachers is putting theory into practice by teaching selected colleagues in MCDA. All grade levels and subject areas are represented and taught by these teachers. These teachers continue to attend professional development training sessions to consult with experienced staff in this environment.

As stated in our original vision for this collaboration, it is anticipated that these teachers (and other teachers to follow) will instruct students online of both MCDA and Marion City School District.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012

Unaudited

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of MCDA's finances and to reflect MCDA'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 Hueston Lauderman, Treasurer, Marion City Digital Academy, 420 Presidential Drive, Suite B, Marion, Ohio 43302.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Statement of Net Assets June 30, 2012

Assets:

Current Assets:

Cash and Cash Equivalents	\$	563,123
Receivables:		
Intergovernmental		32,308
Prepaid Items		192
Total Current Assets		<u>595,623</u>

Non Current Assets:

Capital Assets, Net of Accumulated Depreciation		<u>6,517</u>
Total Assets		<u>602,140</u>

Liabilities:

Current Liabilities:

Accounts Payable		1,059
Accrued Wages and Benefits		23,680
Intergovernmental Payable		54,109
Due to Primary Government		1,552
Unearned Revenue		<u>15,334</u>
Total Liabilities		<u>95,734</u>

Net Assets

Invested in Capital Assets		6,517
Unrestricted		<u>499,889</u>
Total Net Assets	\$	<u>506,406</u>

See accompanying notes to the basic financial statements

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Statement of Revenues, Expenses and Changes in Net Assets For the Fiscal Year Ended June 30, 2012

Operating Revenues:	
Foundation Payments	\$ 791,566
All Other Revenue	14,404
Total Operating Revenues	805,970
Operating Expenses:	
Salaries and Wages	158,875
Fringe Benefits	47,090
Purchased Services	667,422
Supplies and Materials	56,432
Depreciation	3,648
Other Operating Expense	25
Total Operating Expenses	933,492
Operating Loss	(127,522)
Nonoperating Revenue (Expenses):	
Federal and State Restricted Grants	130,681
Investment Earnings	915
Total Nonoperating Revenues	131,596
Change in Net Assets	4,074
Net Assets Beginning of Year	502,332
Net Assets End of Year	\$ 506,406

See accompanying notes to the basic financial statements

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Statement of Cash Flows ***For the Fiscal Year Ended June 30, 2012***

<u>Cash Flows from Operating Activities:</u>	
Cash Received for School Foundation	\$778,948
Cash Received from Other Revenue	14,404
Cash Payments for Personal Services	(159,060)
Cash Payments for Fringe Benefits	(48,848)
Cash Payments for Goods and Services	(677,253)
Cash Payments for Other Expenses	(25)
Net Cash Used for Operating Activities	<u>(91,834)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Restricted Grants Received	<u>165,963</u>
Net Cash Provided by Noncapital Financing Activities	<u>165,963</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	<u>915</u>
Net Cash Provided by Investing Activities	<u>915</u>
Net Increase in Cash and Cash Equivalents	75,044
Cash and Cash Equivalents at Beginning of Year	<u>488,079</u>
Cash and Cash Equivalents at End of Year	<u><u>\$563,123</u></u>
<u>Reconciliation of Operating Loss to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Loss	(\$127,522)
Adjustments to Reconcile Operating Loss to	
Net Cash Used for Operating Activities:	
Depreciation Expense	3,648
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(2,396)
Decrease in Prepaid Items	153
Increase in Accounts Payable	259
Decrease in Accrued Wages and Benefits	(185)
Increase in Intergovernmental Payables	44,710
Decrease is Due to Primary Government	(279)
Decrease in Unearned Revenue	(10,222)
Total Adjustments	<u>35,688</u>
Net Cash Provided by Operating Activities	<u><u>(\$91,834)</u></u>

See accompanying notes to the basic financial statements

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MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements ***For the Fiscal Year Ended June 30, 2012***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Marion City Digital Academy (MCDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. MCDA 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 MCDA's tax exempt status. MCDA'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. MCDA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. MCDA may acquire facilities as needed and contract for any services necessary for the operation of the school.

MCDA was approved for operation under a contract with the Marion City School District (the Sponsor) for a five-year period commencing on May 21, 2007. The Sponsor is responsible for evaluating the performance of MCDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of MCDA with the Assistant Treasurer of the Sponsor performing the role of Treasurer for MCDA.

MCDA operates under the direction of a five-member Board of Directors made up of community members within the area served by MCDA. The board members are appointed by the Marion City Board of Education. Because the Marion City Board of Education is financially accountable for MCDA, MCDA is considered a component unit of the Marion City School District. The Board of Directors of MCDA 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. During fiscal year 2012, MCDA purchased services from the Tri-Rivers Educational Computer Association (TRECA).

The accounting policies and financial reporting practices of the MCDA conform to generally accepted accounting principles as applicable 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 following is a summary of its significant accounting policies.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

MCDA's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and change in net assets, and a statement of cash flows. Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

C. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the MCDA finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," MCDA follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. MCDA has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its enterprise funds.

Revenues – Exchange and Non-exchange Transactions – 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.

Non-exchange transactions, in which MCDA receives value without directly giving equal value in return, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as unearned revenue.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which MCDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to MCDA on a reimbursement basis.

E. 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 MCDA's contract with its Sponsor. The contract between MCDA and its Sponsor does prescribe a budget requirement. MCDA is required to develop a five year projection that is to be reviewed twice a year by the Board of Directors.

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, and investments with original maturities of three months or less. During fiscal year 2012, MCDA had no investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. MCDA maintains a capitalization threshold of \$500. MCDA does not have 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.

1. Property, Plant and Equipment

Property, plant and equipment acquired by MCDA are stated at cost (or estimated historical cost). Contributed capital assets are recorded at fair market value at the date received.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation (Continued)

2. Depreciation

All capital assets are depreciated excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (in years)</u>
Furniture, Fixtures and Equipment	5 - 10

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by MCDA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

MCDA policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. MCDA did not have any restricted net assets at fiscal year end.

J. Estimates

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

K. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For MCDA, these revenues are foundation payments. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements ***For the Fiscal Year Ended June 30, 2012***

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

At year end the carrying amount of MCDA's deposits was of \$563,123 and the bank balance was \$600,829. The Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The remaining \$350,829 was uninsured and collateralized with securities held by the pledging institution's trust department, not in MCDA's name. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Custodial credit risk is the risk that, in the event of a bank failure, MCDA will not be able to recover deposits. 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 MCDA.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012 consisted of intergovernmental receivables. Of the total, \$29,912 is for federal restricted grants and \$2,396 is for State Foundation monies, all of which is considered collectible.

NOTE 4 - DEFINED BENEFIT PENSION PLANS

All of MCDA's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

A. School Employees Retirement System

Plan Description - MCDA contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 can be obtained on SERS' website, www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the MCDA is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

June 30, 2012, the allocation to pension and death benefits was 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. MCDA's contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$5,258, \$3,960 and \$4,340 respectively, which were equal to the required contributions for each year.

B. State Teachers Retirement System

Plan Description - MCDA 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.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 4 - DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Funding Policy - For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. MCDA was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2011, 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.

MCDA's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$20,063, \$19,756, and \$18,598 respectively; which were equal to the required contributions for each year

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2012, one member of the Board of Directors have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 5 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – MCDA participates in two cost-sharing multiple employer defined benefit OPEB 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 SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website, www.ohsers.org under Employers/Audit Resources.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 5 - POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 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 2012, 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.

MCDA's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$228, \$479, and \$156 respectively; which were equal to the required contributions for each year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The MCDA's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$311, \$255, and \$258 respectively; which were equal to the required contributions for each year.

B. State Teachers Retirement System

Plan Description – MCDA contributes to the cost sharing multiple employer defined benefit Health 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.

Funding Policy – Ohio Revised Code Chapter 3307 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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The MCDA's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$1,543, \$1,520, and \$1,431 respectively; which were equal to the required contributions for each year.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 6 - CAPITAL ASSETS

Summary by category of changes in capital assets at June 30, 2012:

Historical Cost:

Class	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital Assets being depreciated:				
Equipment	\$178,148	\$0	\$0	\$178,148
Total Cost	\$178,148	\$0	\$0	\$178,148

Accumulated Depreciation:

Class	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Equipment	(\$167,983)	(\$3,648)	\$0	(\$171,631)
Total Depreciation	(\$167,983)	(\$3,648)	\$0	(\$171,631)
Net Value:	\$10,165			\$6,517

NOTE 7 – RELATED PARTY TRANSACTIONS

MCDA is a component unit of the Sponsor (Marion City School District). MCDA and Marion City School District entered into a five-year sponsorship agreement on May 21, 2007, whereby terms of the sponsorship were established. Pursuant to this agreement, Marion City School District's Assistant Treasurer serves as MCDA's fiscal officer.

In fiscal year 2012, other payments made by MCDA to the Sponsor totaled \$549,170. These represent payments of \$23,336 for administrative services provided by Marion City School District to MCDA and \$525,834 for reimbursements for supplies and equipment purchases made by Marion City School District for MCDA.

Payments made by MCDA to TRECA in fiscal year 2012 for purchased services were \$70,985. This consists of student charges and miscellaneous fees.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements ***For the Fiscal Year Ended June 30, 2012***

NOTE 8 – FISCAL AGENT

The sponsorship agreement states that if and agreed by MCDA and its Sponsor, the Sponsor shall be the fiscal agent of the Academy and shall provide the services of a qualified individual who shall serve as the Academy's fiscal officer. During 2012, the Sponsor's Assistant Treasurer served as the Academy's fiscal officer.

The Assistant Treasurer of the Sponsor shall perform the following functions while serving as the Treasurer of MCDA:

- 1) Maintain the financial records of MCDA in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- 2) Comply with the policies and procedures regarding internal financial control of MCDA; and
- 3) Comply with the requirements and procedures for financial audits by the Auditor of State.

NOTE 9 – CONTRACT WITH TRECA

MCDA entered into a contract on August 8, 2011, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- 1) TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement MCDA's educational plan and MCDA's assessment and accountability plan.
- 2) All personnel providing services to MCDA 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.
- 3) MCDA 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 MCDA.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2012

NOTE 9 – CONTRACT WITH TRECA (Continued)

- 4) Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- 5) In exchange for the services and support provided by TRECA, MCDA shall pay to TRECA \$3,000 per full-time student enrolled in MCDA per year plus fees for any additional services requested. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2012, \$70,985 was paid to TRECA.

To obtain TRECA's June 30, 2012, audited financial statements contact Scott Armstrong, Treasurer, at scott@treca.org.

NOTE 10 – RISK MANAGEMENT

MCDA 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 2012, MCDA obtained the following insurance coverage through Marion City School District's insurance policy.

Insurance Provider	Item Covered	Coverage Amount
Ohio Casualty	General Liability	\$1,000,000/per occurrence
Ohio Casualty	Aggregate	2,000,000

There has been no significant reduction in insurance coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 11 - CONTINGENCIES

A. Grants

MCDA receives financial assistance from federal 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of MCDA at June 30, 2012.

MARION CITY DIGITAL ACADEMY

(A Component Unit of Marion City School District)
MARION COUNTY, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

NOTE 11 - CONTINGENCIES (Continued)

B. Litigation

MCDA is not a party to any legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2012.

C. Full Time Equivalency

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. MCDA does not anticipate any material adjustments to state funding for fiscal year 2012 as a result of such review.



Dave Yost • Auditor of State

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

Marion City Digital Academy
Marion County
910 East Church Street
Marion, Ohio 43302

To the Board of Directors:

We have audited the financial statements of Marion City Digital Academy, Marion County, Ohio (the Academy), a component unit of the Marion City School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 25, 2013. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

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

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 25, 2013.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 25, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

Marion City Digital Academy
Marion County
420 Presidential Drive, Suite B
Marion, Ohio 43302

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Marion City Digital Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. In our report dated March 1, 2012, we noted the Board had not adopted an anti-harassment policy.
2. We inquired with the Board's management regarding the aforementioned policy. The Board adopted a policy on April 9, 2012. We read the policy, noting includes all the requirements listed in Ohio Rev. Code 3313.666.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and the Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 25, 2013

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www.ohioauditor.gov

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Dave Yost • Auditor of State

MARION CITY DIGITAL ACADEMY

MARION 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 16, 2013**