

NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF
NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO
BASIC
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

JULIE TAYLOR, TREASURER



Dave Yost • Auditor of State

Board of Directors
Newark Digital Academy
255 Woods Avenue
Newark, Ohio 43055

We have reviewed the *Independent Accountants' Report* of the Newark Digital Academy, Licking County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2011 through June 30, 2012. 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.

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

Dave Yost
Auditor of State

January 30, 2012

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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, 2012

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INDEPENDENT ACCOUNTANTS' REPORT

Newark Digital Academy
Licking County
255 Woods Avenue
Newark, Ohio 43055

To the Governing Board:

We have audited the accompanying basic financial statements of the Newark Digital Academy, Licking County (the Academy), a component unit of the Newark 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 Newark Digital Academy, 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 December 17, 2012, 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.



Kennedy Cottrell Richards LLC

December 17, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

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 year ended June 30, 2012. The intent of this discussion and analysis is to look at the NDA's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the NDA's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net assets were \$1,983,650 at June 30, 2012.
- The NDA had operating revenues of \$1,714,878, operating expenses of \$1,407,791, and non-operating revenues of \$277,054 for fiscal year 2012. Total change in net assets for the fiscal year was an increase of \$584,141.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the NDA's financial activities. The statement of net assets and statement of revenues, expenses and changes in net assets provide information about the activities of the NDA, including all short-term and long-term financial resources and obligations.

Reporting the NDA's Financial Activities

These documents look at all financial transactions and ask the question, "How did we do financially during 2012?" The statement of net assets and statement of revenues, expenses and changes in net assets answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the NDA's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the NDA as a whole, the financial position of the NDA has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

The table below provides a summary of the NDA's net assets for fiscal year 2012 and 2011.

	2012	2011
<u>Assets</u>		
Current assets	\$ 1,804,765	\$ 1,325,806
Capital assets, net	280,379	150,067
Total assets	2,085,144	1,475,873
<u>Liabilities</u>		
Current liabilities	101,494	76,364
Total liabilities	101,494	76,364
<u>Net Assets</u>		
Invested in capital assets	280,379	150,067
Restricted	120,157	100,858
Unrestricted	1,583,114	1,148,584
Total net assets	\$ 1,983,650	\$ 1,399,509

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the NDA's net assets totaled \$1,983,650. At year-end, capital assets represented 13.45% of total assets. Capital assets consisted of land, construction in progress, buildings, computers and other equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending. The increase in net assets is primarily attributable to the increase in cash and cash equivalents resulting from fiscal year 2012 operations.

The table below shows the changes in net assets for fiscal year 2012 and 2011.

	2012	2011
<u>Operating Revenues:</u>		
State foundation	\$ 1,714,878	\$ 1,602,800
Total operating revenue	1,714,878	1,602,800
<u>Operating Expenses:</u>		
Personal services	605,638	419,694
Purchased services	703,251	721,612
Materials and supplies	62,832	175,989
Other	25,435	15,066
Depreciation	10,635	17,689
Total operating expenses	1,407,791	1,350,050
Operating income	307,087	252,750

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

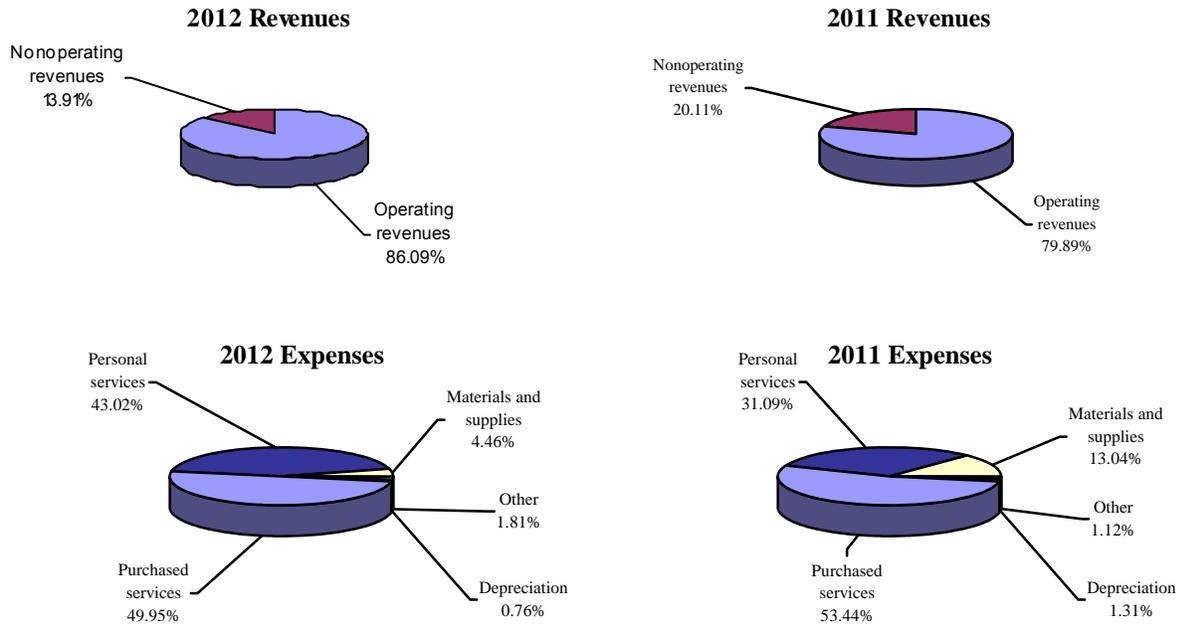
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

**Change in Net Assets
(Continued)**

	2012	2011
<u>Non-operating Revenues:</u>		
State and Federal grants	\$ 258,781	\$ 381,211
Interest revenue	2,234	1,348
Miscellaneous	16,039	20,968
Total non-operating revenues	277,054	403,527
Change in net assets	584,141	656,277
Net assets at beginning of year	1,399,509	743,232
Net assets at end of year	\$ 1,983,650	\$ 1,399,509

The increase in State foundation operating revenues and overall operating expenses was a result of an increase in student enrollment in fiscal year 2012. The NDA had an increase in operating revenues of \$112,078, or 6.99%, coupled with an increase in operating expenses of \$57,741, or 4.28%. In addition, the NDA received fewer federal grants funding in fiscal year 2012 versus 2011. State and federal grant funding decreased \$122,430, or 32.12% from the prior year.

The charts below illustrate the revenues and expenses for the NDA during fiscal year 2012 and 2011.



**NEWARK DIGITAL ACADEMY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Capital Assets

At the end of fiscal 2012, the NDA had \$280,379 invested in land, construction in progress, a building and furniture and equipment. The following table shows fiscal year 2012 balances compared to 2011:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2012	2011
Land	\$ 6,630	\$ 6,630
Construction in progress	47,534	46,701
Building	200,881	76,394
Furniture and equipment	25,334	20,342
Total	\$ 280,379	\$ 150,067

Construction in progress consists of a renovation project that is being performed in two phases. Phase 1 of the project was completed in fiscal year 2012 and Phase 2 of the project remains in progress at fiscal year end. Phase 2 is expected to be completed in fiscal year 2013.

See Note 5 to the basic financial statements for additional information on the NDA's capital assets.

Debt Administration

At June 30, 2012, the NDA had no outstanding debt at year-end.

Current Financial Related Activities

NDA began fiscal year 2004 with TRECA providing most of its instructional and administrative services. During fiscal year 2012, NDA utilized TRECA only for the services of a part-time technician. NDA has entered into a one-year contract for fiscal year 2012 with Ace Digital Academy for the provision of on-line curriculum. Ace Digital Academy is an internet-based educational delivery system designed for grades K-12, providing alternative educational options for credit deficiencies, alternative programs, students being schooled at home and summer school programs. In addition, the NDA offers non-digital curriculum, such as Calvert School Educational Services, the American School and several flex credit options. The cutting edge nature of this kind of instructional delivery makes for constant change of the NDA's operations.

Contacting the NDA's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the NDA's finances and to show the NDA's accountability for the money it receives. If you have questions about this report or need additional financial information contact, Julie Taylor, Treasurer, at Newark Digital Academy, 255 Woods Ave., Newark, Ohio 43055 or email at jltaylor@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, 2012**

Assets:	
Current assets:	
Cash and cash equivalents	\$ 1,676,275
Receivables:	
Intergovernmental.	<u>128,490</u>
Total current assets	<u>1,804,765</u>
Non-current assets:	
Land and construction in progress.	54,164
Depreciable capital assets, net	<u>226,215</u>
Total non-current assets.	<u>280,379</u>
Total assets.	<u>2,085,144</u>
 Liabilities:	
Current liabilities:	
Accounts payable.	39,761
Accrued wages and benefits	20,605
Intergovernmental payable	8,432
State foundation payable	<u>32,696</u>
Total current liabilities	<u>101,494</u>
 Net assets:	
Invested in capital assets	280,379
Restricted for:	
State funded programs.	2,218
Federally funded programs	117,939
Unrestricted.	<u>1,583,114</u>
Total net assets	<u>\$ 1,983,650</u>

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, 2012

Operating revenues:	
State foundation	\$ 1,714,878
Total operating revenues	<u>1,714,878</u>
Operating expenses:	
Personal services	605,638
Purchased services.	703,251
Materials and supplies	62,832
Other.	25,435
Depreciation	10,635
Total operating expenses.	<u>1,407,791</u>
Operating income	<u>307,087</u>
Non-operating revenues:	
Grants and subsidies.	258,781
Interest revenue	2,234
Other non-operating revenues	16,039
Total non-operating revenues	<u>277,054</u>
Change in net assets.	584,141
Net assets at beginning of year	<u>1,399,509</u>
Net assets at end of year.	<u><u>\$ 1,983,650</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEWARK DIGITAL ACADEMY
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
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**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Cash flows from operating activities:	
Cash received from state foundation	\$ 1,687,979
Cash payments for personal services.	(588,411)
Cash payments for purchased services	(700,019)
Cash payments for materials and supplies	(58,028)
Cash payments for other expenses	(25,435)
	<hr/>
Net cash provided by operating activities	316,086
	<hr/>
Cash flows from noncapital financing activities:	
Cash received from grants and subsidies.	243,745
Cash received from miscellaneous receipts	16,039
	<hr/>
Net cash provided by noncapital financing activities	259,784
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(119,282)
	<hr/>
Net cash used in capital and related financing activities.	(119,282)
	<hr/>
Cash flows from investing activities:	
Interest received	2,234
	<hr/>
Net cash provided by investing activities	2,234
	<hr/>
Net increase in cash and cash equivalents	458,822
Cash and cash equivalents at beginning of year	1,217,453
Cash and cash equivalents at end of year	<u><u>\$ 1,676,275</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 307,087
Adjustments:	
Depreciation	10,635
Changes in assets and liabilities:	
Increase in intergovernmental receivable	(5,101)
Increase in accounts payable.	6,985
Increase in accrued wages and benefits	20,605
Decrease in intergovernmental payable	(2,327)
Decrease in State foundation payable	(21,798)
	<hr/>
Net cash provided by operating activities	<u><u>\$ 316,086</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Noncash transactions:

The Academy purchased \$22,666 and \$1,001 in capital assets on account at June 30, 2012 and June 30, 2011, respectively.

**NEWARK DIGITAL ACADEMY
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - DESCRIPTION OF THE SCHOOL

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. On May 13, 2008, the NDA entered into a new five year contract through fiscal year 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 receives payment from the NDA for oversight, monitoring and other purchased services (as agreed to between the NDA and the Sponsor). During fiscal year 2012, the NDA paid sponsorship fees of \$84,399 to its Sponsor.

NDA has entered into a purchased services agreement contracts with the Tri-Rivers Educational Computer Association (TRECA) for use of a part-time technician and with Ace Digital Academy (ADA) for the provision of on-line curriculum. See Note 6 for detail on NDA's purchased services agreement contracts.

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 NDA have been prepared in conformity with accounting principles generally accepted in the United States of America (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) guidance issued on or before November 30, 1989, provided the guidance does not conflict with or contradict GASB pronouncements. NDA has elected not to apply FASB guidance issued after November 30, 1989. The FASB has codified its standards and the standards issued prior to November 30, 1989 which are included in the codification. 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
(A COMPONENT UNIT OF NEWARK CITY SCHOOL DISTRICT)
LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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. Revenues resulting from non-exchange 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, 2012.

E. Capital Assets

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital 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, except for land and construction in progress, are depreciated. Depreciation is computed using the straight-line method. Buildings are depreciated over forty years, furniture is depreciated over twenty years, and computers are depreciated over six years.

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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

F. Intergovernmental Revenue

The NDA currently participates in the State Foundation Program, the Data Communication grant, the Education Jobs grant, the IDEA Part B grant, the Title II-D Technology grant, the Title I grant and the Improving Teacher Quality grant. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for the 2012 school year, excluding all other State and Federal grants, totaled \$1,714,878.

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 the NDA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the NDA on a reimbursement basis. State and Federal grants revenue for the fiscal year 2012 received was \$258,781.

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 purchase and an expenditure/expense is reported in the year which services are consumed. The NDA has no prepaid assets at June 30, 2012.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Amounts restricted include amounts restricted for State and Federally funded programs.

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

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.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

J. Estimates

The preparation of financial statements in conformity with GAAP 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 2012, the NDA has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the NDA.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the NDA.

NOTE 4 - DEPOSITS

At June 30, 2012, the carrying amount of all NDA deposits was \$1,676,275. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$1,533,733 of the NDA's bank balance of \$1,783,733 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC).

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. The NDA has no deposit policy for custodial credit risk beyond the requirement of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the NDA to a successful claim by the FDIC.

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NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance <u>06/30/11</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 6,630	\$ -	\$ -	\$ 6,630
Construction in progress	<u>46,701</u>	<u>129,176</u>	<u>(128,343)</u>	<u>47,534</u>
Total capital assets, not being depreciated	<u>53,331</u>	<u>129,176</u>	<u>(128,343)</u>	<u>54,164</u>
<i>Capital assets, being depreciated:</i>				
Building	79,370	128,343	-	207,713
Furniture and equipment	<u>142,395</u>	<u>11,771</u>	<u>(101,851)</u>	<u>52,315</u>
Total capital assets, being depreciated	<u>221,765</u>	<u>140,114</u>	<u>(101,851)</u>	<u>260,028</u>
<i>Less: accumulated depreciation</i>				
Building	(2,976)	(3,856)	-	(6,832)
Furniture and equipment	<u>(122,053)</u>	<u>(6,779)</u>	<u>101,851</u>	<u>(26,981)</u>
Total accumulated depreciation	<u>(125,029)</u>	<u>(10,635)</u>	<u>101,851</u>	<u>(33,813)</u>
Capital assets, net	<u>\$ 150,067</u>	<u>\$ 258,655</u>	<u>\$ (128,343)</u>	<u>\$ 280,379</u>

Construction in progress consists of a renovation project that is being performed in two phases. Phase 1 of the project was completed in fiscal year 2012 and Phase 2 of the project remains in progress at fiscal year end. Phase 2 is expected to be completed in fiscal year 2013.

NOTE 6 - SERVICE AGREEMENTS

A. TRECA

For fiscal year 2012, NDA utilized TRECA for the services of the part-time technician. During fiscal year 2012, NDA paid TRECA \$18,500 under this contract.

B. ACE Digital Academy

NDA entered into a one-year contract for fiscal year 2012 with Ace Digital Academy (ADA) for the provision of on-line curriculum.

ADA is an internet-based educational delivery system designed for grades K-12, providing alternative educational options for credit deficiencies, alternative programs, students being schooled at home and summer school programs.

Under the contract, the following terms were agreed upon:

ADA shall provide NDA with the following services: development and maintenance of NDA's ADA database including registration of students and faculty, technology professional development, ADA technical support, marketing consultation, treasurer's office/EMIS support, and intervention support.

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 6 - SERVICE AGREEMENTS - (Continued)

The student ADA license fees will be the responsibility of NDA at a rate of \$150 per student. Additional fees will be charged for students enrolled in specialized courses.

For fiscal year 2012, \$378,915 was paid by NDA under this contract.

NOTE 7 - PURCHASED SERVICES

For fiscal year ended June 30, 2012, purchased services expenses were as follows:

Professional and technical services	\$ 197,443
Property services	38,013
Travel mileage/meeting expenses	10,261
Communications	58,342
Utilities	10,013
Tuition and similar payments	10,264
Other purchased services	<u>378,915</u>
Total	<u>\$ 703,251</u>

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. Coverage was provided by various insurance carriers. During fiscal year ending June 30, 2012, the NDA contracted through Philadelphia Insurance for the following coverage amounts:

Per Occurance	\$ 1,000,000
Annual Aggregate	\$ 2,000,000

In addition, NDA purchased \$1,000,000 excess liability coverage through Lexington Insurance Company.

Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant changes in coverage at June 30, 2012.

NOTE 9 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The NDA contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor 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 "Employers/Audit Resources".

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 9 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the NDA is required to contribute at an actuarially determined rate. The current NDA rate is 14 percent of annual covered payroll. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. 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. The NDA's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$15,532, \$9,482 and \$3,477, respectively; 74.10 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The 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 website at www.strsoh.org, under "Publications".

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.

**NEWARK DIGITAL ACADEMY
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**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 9 - PENSION PLANS - (Continued)

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The 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.

The NDA's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$49,174, \$37,688 and \$13,917, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$6,533 made by the NDA and \$4,667 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2012, certain members of the Board of Directors have elected Social Security. The NDA's liability is 6.2 percent of wages paid.

NOTE 10- POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The 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, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. 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. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**NEWARK DIGITAL ACADEMY
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LICKING COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 10- POSTEMPLOYMENT BENEFITS - (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. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The NDA's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$1,061, \$1,475 and \$125, respectively; 74.10 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The NDA's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$917, \$610 and \$207, respectively; 74.10 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The 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, under "Publications" or by calling (888) 227-7877.

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 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The NDA's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$3,783, \$2,899 and \$1,071, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 11 - CONTINGENCIES

A. Grants and ADM

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the NDA at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The NDA is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

C. State Foundation Funding

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 conclusion of the fiscal year 2011 review resulted in a State Foundation payable of \$54,494 at June 30, 2011. This amount will be withheld from foundation settlements in fiscal years 2012 and 2013. During fiscal year 2012, \$21,798 was withheld from the foundation settlements leaving a remaining balance of \$32,696 at June 30, 2012 which will be withheld from foundation settlements fiscal year 2013. The conclusion of the fiscal year 2012 review resulted in a State Foundation receivable of \$5,101 at June 30, 2012. This amount will be added to the foundation settlements in fiscal years 2013 and has been recorded as an intergovernmental receivable at June 30, 2012.

NOTE 12 - RECEIVABLES

Receivables at June 30, 2012 consisted of intergovernmental grants. A summary of the principal items of receivables reported on the statement of net assets follows:

Intergovernmental	<u>\$ 128,490</u>
Total	<u>\$ 128,490</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

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

Newark Digital Academy
Licking County
255 Woods Avenue
Newark, Ohio 43055

To the Governing Board:

We have audited the financial statements the Newark Digital Academy, Licking County, (the Academy) a component unit of Newark City School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. 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 intend this report solely for the information and use of management, the Governing Board, the Academy's sponsor, and others within the Academy. We intend it for no one other than these specified parties.



Kennedy Cottrell Richards LLC

December 17, 2012

Independent Accountants' Report on Applying Agreed-Upon Procedures

Newark Digital Academy
Licking County
255 Woods Avenue
Newark, Ohio 43055

To the Governing Board:

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

1. We noted the Academy amended its anti-harassment policy at its meeting on June 11, 2012 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 Governing Board and the Academy's sponsor, is not intended to be and should not be used by anyone other than these specified parties.



Kennedy Cottrell Richards LLC

December 17, 2012



Dave Yost • 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
FEBRUARY 12, 2013**