



**QUAKER DIGITAL ACADEMY  
TUSCARAWAS COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**QUAKER DIGITAL ACADEMY  
TUSCARAWAS COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Quaker Digital Academy  
Tuscarawas County  
248 Front Avenue, SW  
New Philadelphia, Ohio 44663

To the Board of Directors

We have audited the accompanying basic financial statements of the Quaker Digital Academy, Tuscarawas County, Ohio, (the Academy), a component unit of the New Philadelphia City School District, as of and for the year ended June 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these basic 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Quaker Digital Academy, Tuscarawas County, Ohio, as of June 30, 2004, and the changes in financial position and 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 November 16, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 16, 2004

**Quaker Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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The discussion and analysis of the Quaker Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (the "MD & A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD & A. However, because this is the first fiscal year of existence of the Academy and the first fiscal year of adoption of the new reporting model, comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

**Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2004, are as follows:

- Net assets totaled \$174,171
- Total assets were \$192,309
- Liabilities totaled \$18,138
- Operating revenues equaled \$100,643 and non-operating revenues were \$150,000
- Operating expenses amounted to \$126,472

**Using this Annual Report**

This annual report consists of the MD & A, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**Quaker Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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Table 1 provides a summary of the Academy's net assets for fiscal year 2004 as follows:

Table 1	
Net Assets at June 30,	
	<u>2004</u>
<b>Assets</b>	
Current Assets	<u>\$192,309</u>
<b>Liabilities</b>	
Current Liabilities	<u>18,138</u>
<b>Net Assets</b>	
Restricted for Other Purposes	96,458
Unrestricted	<u>77,713</u>
<b>Total Net Assets</b>	<u><u>174,171</u></u>

Total assets were \$192,309. Cash amounted to \$107,309 and intergovernmental receivable amounted to \$85,000.

Total liabilities were \$18,138 and were made up of accounts payable.

The net impact was an increase of net assets of \$174,171.



**Quaker Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as a listing of revenues and expenses.

Table 2  
Change in Net Assets

	2004
<b>Operating Revenues</b>	
Foundation Payments	\$100,643
<b>Non-Operating Revenues</b>	
Grants	150,000
<b>Total Revenues</b>	250,643
<b>Operating Expenses</b>	
Purchased Services	123,443
Materials and Supplies	3,029
<b>Total Operating Expenses</b>	126,472
<b><i>Increase in Net Assets</i></b>	<b>\$124,171</b>

The Academy's activities consist of enterprise activity. Community schools receive no support from taxes. The State Foundation Program and the Ohio Charter Schools Federal Sub-grant Program are, by far, the primary support for the Academy's students.

**For the Future**

The Academy began fiscal year 2004 with the Tri-Rivers Educational Computer Association providing most of its instructional, administrative, and fiscal services, much like a management company. The Academy will be working towards providing instructional, administrative, and fiscal services through the New Philadelphia City School District (the "Sponsor"). As the Academy takes on increasingly more of the instructional, administrative, and fiscal services through its Sponsor, its costs should be more effectively monitored and adjusted, as necessary. However, management still must diligently plan expenses, staying carefully within the Academy's five-year plan.

The Academy has entered into a service contract for fiscal year 2005 with its Sponsor. In agreement with this contract, the Academy will purchase the following services from its Sponsor: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel to provide instructional services to the Academy, hourly staff to provide support services to the Academy, marketing support, EMIS data transmission, insurance, and consulting. The total amount of these services will not exceed \$40,000 for fiscal year 2005.

**Quaker Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*Unaudited*

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The Academy received its initial State Foundation Program payment in March of 2004; therefore, the Academy only received four months of State Foundation Program payments in fiscal year 2004. For future fiscal years, the Academy will receive a full fiscal year's worth of State Foundation Program payments.

In addition, the Academy expects student enrollment for fiscal year 2005 to increase, and the Academy anticipates the student enrollment to continue growing in fiscal years after fiscal year 2005 until it reaches its ceiling. This growth will result in payments from the State School Foundation Program to increase substantially.

The Academy will apply for additional start-up monies of \$150,000 under the Ohio Charter Schools Federal Sub-grant Program during fiscal year 2005. The Academy anticipates receiving approval from the Ohio Department of Education for these grant monies. These grant funds may be used to enhance the operations of the Academy.

The Academy's management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. Financially, the future is not without challenges.

**Contacting the Academy's Management**

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Steven D. Sherer, Treasurer, at Quaker Digital Academy, 248 Front Avenue SW, New Philadelphia, Ohio 44663 or email at sherers@new-phila.k12.oh.us.

**Quaker Digital Academy**  
*Statement of Net Assets*  
*As of June 30, 2004*

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**Assets:**

**Current Assets**

Equity in Pooled Cash and Cash Equivalents	\$107,309
Receivables:	
Intergovernmental	<u>85,000</u>
<i>Total Assets</i>	<u>192,309</u>

**Liabilities:**

**Current Liabilities**

Accounts Payable	<u>18,138</u>
<i>Total Liabilities</i>	<u>18,138</u>

**Net Assets**

Restricted for Other Purposes	96,458
Unrestricted	<u>77,713</u>
<i>Total Net Assets</i>	<u><u>\$174,171</u></u>

See accompanying notes to the basic financial statements

**Quaker Digital Academy**  
*Statement of Revenues,  
Expenses and Changes in Net Assets  
For the Period January 15, 2004 Through June 30, 2004*

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<b>Operating Revenues</b>	
Foundation payments	<u>\$100,643</u>
<i>Total Operating Revenues</i>	<u>100,643</u>
<b>Operating Expenses</b>	
Purchased Services	123,443
Materials and Supplies	<u>3,029</u>
<i>Total Operating Expenses</i>	<u>126,472</u>
<i>Operating Loss</i>	<u>(25,829)</u>
<b>Non-Operating Revenues</b>	
Grants - Federal	<u>150,000</u>
<i>Change in Net Assets</i>	124,171
<i>Net Assets Beginning of Year</i>	<u>50,000</u>
<i>Net Assets End of Year</i>	<u><u>\$174,171</u></u>

See accompanying notes to the basic financial statements

**Quaker Digital Academy**  
*Statement of Cash Flows*  
*For the Period January 15, 2004 Through June 30, 2004*

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**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash received from Foundation Payments	\$100,643
Cash Payments for Goods and Services	<u>(108,334)</u>

<i>Net Cash Provided (Used) by Operating Activities</i>	<u>(7,691)</u>
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**CashFlows from Noncapital Financing Activities**

Grants Received	<u>65,000</u>
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<i>Net Increase in Cash and Cash Equivalents</i>	57,309
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<i>Cash and Cash Equivalents Beginning of Year</i>	<u>50,000</u>
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<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$107,309</u></u>
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**Reconciliation of Operating Loss to Net Cash  
Provided (Used) by Operating Activities**

Operating Income (Loss)	(\$25,829)
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Adjustments:

Increase (Decrease) in Liabilities:	
Accounts payable	<u>18,138</u>

<i>Net Cash Provided (Used) by Operating Activities</i>	<u><u>(\$7,691)</u></u>
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See accompanying notes to the basic financial statements

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**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Period January 15, 2004 Through June 30, 2004

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**Note 1 – Description of the Academy and Reporting Entity**

The Quaker Digital Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through the twelfth grade. The Academy is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the New Philadelphia City School District (“the Sponsor”) for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the Academy’s program.

The Academy was approved for operation under contract with the Sponsor for a period of five years commencing July 1, 2003. The Academy began operations on January 15, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Sponsor provided and maintained space at its Administration Building at no cost for the Academy during fiscal year 2004.

The Academy operates under the direction of a five-member Board of Directors appointed by the Sponsor. The Board consists of three members who hold administrative positions with the Sponsor, one public educator or public official not employed by the Sponsor, and one individual representing the interest of parents and students. 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.

A service contract for fiscal year 2004 between the Academy and the Sponsor was also approved. In agreement with this contract, the Academy purchased the following services from the Sponsor: part-time personnel to administer and oversee the instruction and governance of the Academy, hourly staff to provide support to the Academy, and marketing support. The Academy paid the Sponsor \$33,092 during fiscal year 2004 for these services. All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.

All of the Academy’s personnel services, which provided services to 31 students, were purchased from outside organizations during fiscal year 2004.

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Period January 15, 2004 Through June 30, 2004

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**Note 2 – Summary of Significant Accounting Policies**

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to the enterprise activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, to its enterprise activities, subject to the same limitation. The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are described below.

***A. Basis of Presentation***

The Academy's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

***B. Measurement Focus***

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The Statement of Revenues, Expenses and 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 Academy finances and meets the cash flow needs of its enterprise activities.

***C. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy's basic 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.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.



**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Period January 15, 2004 Through June 30, 2004

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Expenses are recognized at the time they are incurred.

***D. Budgetary Process***

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore, no budgetary information is presented in the basic financial statements.

***E. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount reflected as Restricted for Other Sources represents a Charter Schools federal grant. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

***F. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

***G. Intergovernmental Revenues***

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The Academy also participates in the Federal Charter School Grant Program and the State Community Schools Start-up Grant through the Ohio Department of Education. Under these programs, the Academy was awarded \$150,000 and \$50,000, respectively, during the fiscal year ended June 30, 2004, to offset start-up costs of the Academy.

***H. Estimates***

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

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Period January 15, 2004 Through June 30, 2004

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**Note 3 – Deposits**

At fiscal year end, the carrying amount of the Academy's deposits was \$107,309 and the bank balance was \$108,531. Of the bank balance, \$100,000 was covered by federal depository insurance and \$8,531 was collateralized with securities held in a single financial institution collateral pool in the name of the respective depository bank and pledged as a pool of collateral against all the public monies it holds. Non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

**Note 4 – Receivables**

Receivables at June 30, 2004, consisted of intergovernmental federal grants and entitlements. All receivables are considered collectible in full due to the stable condition of the programs. All receivables are expected to be collected within one fiscal year.

**Note 5 – Risk Management**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, the Academy was covered under the Sponsor's insurance for property, liability, and inland marine coverage.

Settled claims of the Sponsor have not exceeded commercial coverage in any of the past three fiscal years, and there has not been a significant reduction in coverage from the prior fiscal year.

**Note 6 – State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**Note 7 – Agreements with the Tri-Rivers Educational Computer Association**

The Academy entered into agreements with the Tri-Rivers Educational Computer Association ("TRECA"), which is a data acquisition site and member of the Ohio Education Computer Network established in accordance with Ohio Revised Code Section 3301.075.

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Period January 15, 2004 Through June 30, 2004

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On September 18, 2003, the Academy entered into a Comprehensive Services Agreement with TRECA. This agreement's term includes the 2003-2004 and 2004-2005 school years. This agreement allowed the Academy to utilize TRECA's technical resources and experience in matters relating to the creation of an online community school, including the funding of such schools through available federal grant authority. TRECA provided the Academy with planning, design, and implementation services as necessary for the establishment of the Academy, including assistance in the preparation of any applications for funding from the Federal Charter School Grant Program. TRECA also provided planning, instructional, supervisory/administrative, special education and technical services sufficient to effectively implement the Academy's educational plan and assessment and accountability plan set forth in the contract with its Sponsor.

All personnel providing services to the Academy on behalf of TRECA under the Comprehensive Services Agreement are considered employees of TRECA, and TRECA shall be solely responsible for all payroll functions.

The technical services provided by TRECA to the Academy includes access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning to TRECA any such equipment provided to students by TRECA and not promptly returned to TRECA by a student upon graduation, withdrawal, or expulsion from the Academy. In the event that the Academy is unable to recover such equipment or the equipment is recovered in other than good working condition, and provided the student has been enrolled in the Academy for fewer than twenty-one school days, the Academy shall reimburse TRECA for the costs of such equipment in the amount of \$1,500 per student.

The Academy paid TRECA a fee of \$60,000 for the 2003-2004 school year and will pay TRECA a fee of \$25,000 for the 2004-2005 school year. In addition, the Academy will pay TRECA \$3,500 per full-time high school student and \$2,500 per full-time kindergarten through eighth grade student enrolled in the Academy per school year. For fiscal year 2004, this amounted to \$20,000.

The Academy also contracted with TRECA for special education and related services provided to a student enrolled in the Academy with an Individual Education Plan. The Academy will pay TRECA for these services based on TRECA's actual costs instead of the per student amount described in the previous paragraph.

## **Note 8 – Contingencies**

### **A. Grants**

The Academy received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2004.

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Period January 15, 2004 Through June 30, 2004

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**B. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State laws. On April 21, 2003, the Common Pleas Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals; the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the states public educational system and the matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by 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 Academy was reviewed during the 2004 fiscal year of operations and zero errors were found in enrollment, withdrawals and attendance. The Academy does not anticipate any significant adjustments to state funding for fiscal year 2005, as a result of the reviews which have not yet been completed.

**Note 9 – Personnel Agreement**

The Academy entered into a service contract for fiscal year 2004 with its Sponsor for the following services: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel and staff to provide instructional services and support to the Academy, marketing support, EMIS data transmission, insurance, and consulting. The total amount paid for these services was \$29,860 for fiscal year 2004.

**Note 10 – Purchased Services**

For the Fiscal Year ended June 30, 2004, purchased services expenses were as follows:

Professional and Technical Services	\$118,371
Legal Services	5,000
Travel and Meetings	<u>62</u>
Total	<u><u>\$123,433</u></u>

**Note 11 – Defined Benefit Pension Plans**

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

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Period January 15, 2004 Through June 30, 2004

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**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion to fund pension obligations. For fiscal year 2003, 8.17 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations for the fiscal year ended June 30, 2004 were paid by TRECA and the Academy's Sponsor

**B. State Teachers Retirement System**

TRECA and the Academy's Sponsor contribute on behalf of the Academy to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling 614-227-4090.

Effective July 1, 2001, two new plans options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10 percent of earned compensation. The combined Plan offers features of the DC Plan and The DB Plan. In the combined plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during the fifth year of membership unless they permanently select the DC or Combined Plan.

**Quaker Digital Academy**  
Notes to the Basic Financial Statements  
For the Period January 15, 2004 Through June 30, 2004

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For the fiscal year ended June 30, 2004, plan members were required to contribute 10.0 percent of their annual covered salaries. The School District was required to contribute 14 percent: 13 percent was the portion used to fund pension obligations. As a comparison, 13 percent was used to fund pension obligations in 2003. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal year ended June 30, 2004 were paid by TRECA and the Academy's Sponsor.

**Note 12 - Postemployment Benefits**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2004, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.9 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was at \$14,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million.

At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS had approximately 50,000 participants currently receiving health care benefits. The Academy's costs were paid by TRECA and the Academy's Sponsor.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Quaker Digital Academy  
Tuscarawas County  
248 Front Avenue SW  
New Philadelphia, Ohio 44663

To the Board of Directors

We have audited the basic financial statements of the Quaker Digital Academy, Tuscarawas County, Ohio, (the Academy) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the Academy's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Tuscarawas County  
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Internal Control Required by *Government Auditing Standards*  
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This report is intended solely for the information and use of the management and the Board of Directors, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 16, 2004





**Auditor of State  
Betty Montgomery**

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**QUAKER DIGITAL ACADEMY  
TUSCARAWAS 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  
DECEMBER 28, 2004**