

**NEWARK DIGITAL ACADEMY  
LICKING COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2006**

**JULIE TAYLOR, TREASURER**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Newark Digital Academy, Licking County, prepared by Julian & Grube, Inc., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 28, 2007

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**NEWARK DIGITAL ACADEMY  
LICKING COUNTY**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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

### Independent Accountants' Report

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

We have audited the accompanying financial statements of Newark Digital Academy (the "NDA"), Licking County, Ohio, a component unit of Newark City School District, as of and for the fiscal year ended June 30, 2006, which collectively comprise the NDA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the NDA'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 *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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Newark Digital Academy, as of June 30, 2006, and the changes in financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006, on our consideration of the NDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Independent Auditor's Report  
Newark Digital Academy  
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a small flourish at the end.

Julian & Grube, Inc.  
November 3, 2006

**Newark Digital Academy  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006**

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The management's discussion and analysis of the Newark Digital Academy's (NDA) financial performance provides an overall review of the NDA's financial activities for the fiscal year ended June 30, 2006. Readers should also review the basic financial statements and notes to enhance their understanding of the NDA's financial performance.

The Management's Discussion and Analysis ("the MD & A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD & A.

**Highlights**

NDA opened for its first year of operation on August 25, 2003 as a kindergarten through twelfth grade online internet school. Each student was provided a computer, printer and scanner which were used to access a curriculum based on the state model and which used certified/licensed instructors. The average enrollment during fiscal year 2006 was 60.

**Using this Annual Financial Report**

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

The statement of net assets and the statement of revenues, expenses, and changes in fund net assets reflect how NDA did financially during the fiscal year ended June 30, 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

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

NDA uses enterprise presentation for all of its activities.



**Newark Digital Academy  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006**

Table 1 provides a summary of NDA's net assets as of June 30, 2006 and 2005:

**Table 1: Net Assets**

<b><u>Assets:</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Current and Other Assets	\$ 151,669	\$ 79,688
Depreciable Capital Assets, Net	<u>124,007</u>	<u>73,482</u>
Total Assets	\$ <u>275,676</u>	<u>153,170</u>
<b><u>Liabilities:</u></b>		
Current and Other Liabilities	<u>78,574</u>	<u>47,529</u>
Total Liabilities	<u>78,574</u>	<u>47,529</u>
<b><u>Net Assets:</u></b>		
Invested in Capital Assets	124,007	73,482
Unrestricted	<u>73,095</u>	<u>32,159</u>
<b>Total Net Assets</b>	<b><u>\$ 197,102</u></b>	<b><u>\$ 105,641</u></b>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the NDA's assets exceeded liabilities by \$197,102.

At year-end, capital assets represented 45% of total assets. Capital assets consisted principally of computer equipment for student use. There is no debt related to this capital assets. Capital assets are used to provide services to the students and are not available for future spending.

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2006 and 2005, as well as a listing of revenues and expenses.

**Table 2: Change in Net Assets**

	<b><u>2006</u></b>	<b><u>2005</u></b>
<b><u>Operating Revenues:</u></b>		
Foundation Payments	\$351,027	\$411,770
<b><u>Non-Operating Revenues:</u></b>		
Grants	215,858	118,000
Interest Income	<u>751</u>	<u>450</u>
<b>Total Revenues</b>	<b><u>567,636</u></b>	<b><u>530,220</u></b>
<b><u>Operating Expenses:</u></b>		
Salaries/Fringe Benefits	66,080	40,815
Purchased Services	290,097	396,052
Materials and Supplies	21,877	7,331
Depreciation	17,686	7,035
Other Operating Expenses	<u>80,435</u>	<u>23,827</u>
<b>Total Operating Expenses</b>	<b><u>476,175</u></b>	<b><u>475,060</u></b>
<b><u>Increase in Net Assets</u></b>	<b><u>\$ 91,461</u></b>	<b><u>\$ 55,160</u></b>

**Newark Digital Academy  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006**

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

**Budgeting**

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

**Capital Assets**

NDA had \$124,007 invested in capital assets (net of accumulated depreciation). Capital assets consist principally of computers used at our computer lab and those used by our students at their home.

**Debt**

NDA did not incur any debt during the fiscal year ended June 30, 2006.

**For the Future:**

NDA began fiscal year 2004 with TRECA providing most of its instructional and administrative services. The same services were utilized in 2006. We will continue to utilize TRECA for these services in fiscal year 2007. In addition, we will offer non-digital curriculum, such as Calvert School Educational Services, Keystone National High School, and the American School.

Although NDA does not have a ceiling for student enrollment, we do not expect a large change (either increase or decrease) in enrollment for fiscal year 2007.

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

**Contacting the NDA's Financial Management:**

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

**NEWARK DIGITAL ACADEMY  
LICKING COUNTY**

***Statement of Net Assets  
June 30, 2006***

<b>ASSETS:</b>	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$151,369
Prepaid Items	300
Noncurrent Assets:	
Depreciable Capital Assets, Net:	<u>124,007</u>
 Total Assets	 <u>275,676</u>
 <b>LIABILITIES:</b>	
Current Liabilities:	
Accounts Payable	69,192
Accrued Wages and Benefits	5,602
Intergovernmental Payable	<u>3,780</u>
 Total Liabilities	 <u>78,574</u>
 <b>NET ASSETS:</b>	
Invested in Capital Assets	124,007
Unrestricted	<u>73,095</u>
 Total Net Assets	 <u><u>\$197,102</u></u>

See accompanying notes to the basic financial statements.

**Newark Digital Academy**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
**Proprietary Fund**  
*For the Fiscal Year Ended June 30, 2006*

OPERATING REVENUES:	
Foundation Payments	\$ 351,027
Total Operating Revenues:	<u>351,027</u>
OPERATING EXPENSES:	
Salaries	54,577
Fringe Benefits	11,503
Purchased Services	290,097
Materials and Supplies	21,877
Depreciation	17,686
Other	80,435
Total Operating Expenses	<u>476,175</u>
Operating Income (Loss)	<u>(125,148)</u>
NON-OPERATING REVENUES:	
Interest	751
Federal and State Subsidies	215,858
Total Non-Operating Revenues	<u>216,609</u>
Net Change in Net Assets	91,461
Net Assets at Beginning of Year	105,641
Net Assets at End of Year	<u>\$ 197,102</u>

**NEWARK DIGITAL ACADEMY  
LICKING COUNTY**

**Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2006**

Cash Flows from Operating Activities	
Received from Sales	\$351,027
Payments to Suppliers for Goods and Services	(22,051)
Payments for Contract Services	(292,154)
Payments to Employees for Services	(63,750)
Payments for Other Operating Expenses	(80,435)
Net Cash Used for Operating Activities	<u>(107,363)</u>
Cash Flows from Noncapital Financing Activities	
Received from Operating Grants	<u>215,858</u>
Net Cash Provided by Noncapital Financing Activities	<u>215,858</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	<u>(37,439)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(37,439)</u>
Cash Flows from Investing Activities	
Received for Interest on Investments	<u>751</u>
Net Cash Provided by Investing Activities	<u>751</u>
Net Increase in Cash and Cash Equivalents	71,807
Cash and Cash Equivalents Beginning of Year	79,562
Cash and Cash Equivalents End of Year	<u><u>\$151,369</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Income (Loss)	(125,148)
Adjustments:	
Depreciation	17,686
(Increase) Decrease In Assets:	
Prepaid Items	(174)
Increase (Decrease) in Liabilities:	
Accounts Payable	357
Accrued Wages and Benefits	2,330
Intergovernmental Payable	(2,414)
Net Cash Used for Operating Activities	<u><u>(\$107,363)</u></u>

Note: Capital assets addition of \$64,979 was included in accounts payable at June 30, 2006.

Note: Capital assets addition of \$34,207 was included in accounts payable at June 30, 2005.

See accompanying notes to the basic financial statements.

**Newark Digital Academy**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

**Note 1 - Description of the School Academy and Reporting Entity**

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 NDA, sponsor 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). The Sponsor is responsible for evaluating the performance of the NDA and has the authority to deny renewal of the contract at its expiration. The Sponsor provided and maintained space at its technology center at no cost for NDA during fiscal year 2006. NDA paid purchased services to Tri-Rivers Educational Computer Association (TRECA) for providing the planning, design, implementation, instructional, administrative and technical services during the fiscal year.

NDA operates under the direction of a five-member Board of Directors made up of three members from the Newark City School District and two members from the public. 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 generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. NDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. NDA has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the NDA's accounting policies.

**A. Basis of Presentation**

The NDA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

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

**B. Measurement Focus**

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 finances meet its cash flow needs.

**Newark Digital Academy  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006**

**Note 2 - Summary of Significant Accounting Policies** (continued)

**C. Basis of Accounting**

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

**D. 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.

**E. 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, 2006.

**F. Capital Assets**

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

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

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006 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.

**H. Net Assets**

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

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

**Newark Digital Academy  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006**

**Note 2 - Summary of Significant Accounting Policies** (continued)

**I. Restricted Assets**

There are certain resources set aside due to restricted state and federal grant funding.

**J. 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.

**K. 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 - Deposits and Investments**

At fiscal year end, the carrying amount of the NDA's deposits was \$151,369. Based on the criteria in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$52,612 of the Academy's bank balance of \$152,612 was exposed to custodial risk as discussed below, while \$100,000 was covered by Federal Deposit Insurance Corporation. All of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

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

**Note 4 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance at 6/30/05	Additions	Reductions	Balance at 6/30/06
Capital Assets:				
Furniture and Equipment	\$84,593	68,211	0	\$152,804
Less Accumulated Depreciation:				
Furniture and Equipment	(11,111)	(17,686)	0	(28,797)
Capital Assets, Net	<u>\$73,482</u>	<u>\$50,525</u>	<u>\$0</u>	<u>\$124,007</u>

**Note 5 - Contract with TRECA**

NDA entered into a one-year contract on June 13, 2005, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

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



**Newark Digital Academy  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006**

**Note 5 - Contract with TRECA** (continued)

-All personnel providing services to NDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.

-The technical services provided by TRECA to NDA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation. In the event NDA is unable to recover such equipment or the equipment is not recovered in other than good working conditions, NDA shall reimburse TRECA for the cost of such equipment in the amount of \$1,500 per student, except that if the student has been enrolled in TRECA for at least 90 days, \$1,000, and if the student has been enrolled in TRECA for at least 180 days, \$500.

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

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

-NDA shall pay TRECA \$3,600 per full-time student. Part-time students may be enrolled on such terms as are agreed to by the parties.

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

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

For the initial period \$147,478 was payable under this contract. All but \$3,780 of this amount was paid as of June 30, 2006.

**Note 6 - Risk Management**

The NDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the NDA contracted for the following insurance coverages:

Coverages provided by Indiana Insurance are as follows:

General NDA Liability

Per Occurrence	1,000,000
Total per Year	3,000,000

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

**Newark Digital Academy**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

**Note 7 - Pension Plans**

**A. State Teachers Retirement System**

The NDA participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, 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 recommendation 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 the DB plan for the fiscal year ended June 30, 2006 and 2005, was \$7,366 and \$2,198, respectively. 96% has been contributed for fiscal year 2006 and 100% has been contributed for 2005. \$176 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability. The contributions made to the DC and Combined Plans were \$147 by the NDA and \$74 by employees for fiscal 2006.

**B. School Employees Retirement System**

The NDA contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**Newark Digital Academy**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

**B School Employees Retirement System** (continued)

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. A portion of the NDA's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2006 and 2005 was \$6,292 and \$1,560, respectively. 100% has been contributed for 2005, with 96% contributed for fiscal year 2006. \$224 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability.

**Note 8 – Postemployment Benefits**

The NDA 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 obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of 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 the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the NDA, this amount equaled \$267 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of 0.01 percent from fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, NDA paid \$919 to fund health care benefits, including the surcharge.

**Newark Digital Academy**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2006**

**Note 8 - Postemployment Benefits** (continued)

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, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**Note 9 - Contingencies**

**A. Grants**

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

Any disallowed claims resulting from such audits could become a liability; however, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the NDA at June 30, 2006.

**B. Litigation**

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the NDA is not presently determinable.

**C. State Foundation Funding**

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The NDA was reviewed two times during this initial year of operations and no errors were found in enrollment, withdrawals and attendance.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the Newark Digital Academy (the “NDA”), Licking County, Ohio, a component unit of Newark City School District, as of and for the fiscal year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newark Digital Academy’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Board of Directors  
Newark Digital Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newark Digital Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
November 3, 2006



**Mary Taylor, CPA**  
Auditor of State

**NEWARK DIGITAL ACADEMY**

**LICKING COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 13, 2007**