



**Auditor of State
Betty Montgomery**

NEWARK DIGITAL ACADEMY
LICKING COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Newark Digital Academy
Licking County
85 E. Main Street
Newark, Ohio 43055

To the Board of Directors:

We have audited the accompanying basic financial statements of Newark Digital Academy, Licking County, Ohio, (the School), a component unit of Newark City School District, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School'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 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 financial position of Newark Digital Academy, as of June 30, 2004, 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 September 15, 2004, on our consideration of the School'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.

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

Betty Montgomery
Auditor of State

September 15, 2004

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)**

The 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, 2004. 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. However, because this is the first fiscal year of the existence of NDA 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.

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. Enrollment varied through the year but averaged 50 students.

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 net assets reflect how NDA did financially during the fiscal year ended June 30, 2004. 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.

Table 1 provides a summary of NDA's net assets as of June 30, 2004:

**Table 1
Net Assets**

<u>Assets:</u>	
Current and Other Assets	\$27,677
Depreciable Capital Assets, Net	<u>42,008</u>
Total Assets	\$69,685
<u>Liabilities:</u>	
Current and Other Liabilities	\$19,204
<u>Net Assets:</u>	
Invested in Capital Assets	\$42,008
Restricted for Other Purposes	1,176
Unrestricted	<u>7,297</u>
Total Net Assets	<u>\$50,481</u>

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)**

Total assets were \$69,685. Cash amounted to \$20,231, intergovernmental receivable amounted to \$7,183, prepaid items amounted to \$263, and net capital assets totaled \$42,008.

Total liabilities were \$19,204. Accounts payable equaled \$1,054, accrued wages and benefits totaled \$1,460, and intergovernmental payable was \$14,779 and pension obligation payable of \$1,911.

The net impact was an increase of net assets equal to \$50,481.

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**

<u>Operating Revenues:</u>	
Foundation Payments	\$308,930
Miscellaneous Revenue	50
<u>Non-Operating Revenues:</u>	
Grants	<u>176,623</u>
<u>Total Revenues</u>	\$485,603
<u>Operating Expenses:</u>	
Salaries/Fringe Benefits	\$ 20,375
Purchased Services	395,950
Materials and Supplies	14,228
Depreciation	4,076
Other Operating Expenses	<u>493</u>
<u>Total Operating Expenses</u>	<u>\$435,122</u>
<u>Increase in Net Assets</u>	<u>\$ 50,481</u>

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.

Budgeting

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

Capital Assets

NDA had \$42,008 invested in capital assets (net of accumulated depreciation). Capital assets consist principally of computers used at our computer lab. All computer equipment used by the students were provided through Tri-Rivers Educational Computer Association (TRECA) per the contract agreement.

Debt

NDA did not incur any debt during the fiscal year ended June 30, 2004.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)**

For the Future:

NDA began fiscal year 2004 with TRECA providing most of its instructional and administrative services. We will continue to utilize TRECA for these services in fiscal year 2005.

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 2005.

NDA will apply for Phase II of the Federal Charter School Grant during fiscal year 2005 in the amount of \$150,000. These grant funds will be used to enhance the operations of the NDA.

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.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$20,231
Intergovernmental Receivable	7,183
Prepaid Items	263

Noncurrent Assets:

Depreciable Capital Assets, Net	<u>42,008</u>
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Total Assets	<u><u>\$69,685</u></u>
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LIABILITIES:

Current Liabilities:

Accounts Payable	\$1,054
Accrued Wages and Benefits	1,460
Intergovernmental Payable	14,779
Pension Obligation Payable	<u>1,911</u>

Total Liabilities	<u>19,204</u>
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NET ASSETS:

Invested in Capital Assets	42,008
Restricted for Other Purposes	1,176
Unrestricted	<u>7,297</u>

Total Net Assets	<u><u>\$50,481</u></u>
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See accompanying notes to the basic financial statements.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

OPERATING REVENUES:	
Foundation Payments	\$308,930
Other Miscellaneous Revenue	<u>50</u>
Total Operating Revenues	<u>308,980</u>
OPERATING EXPENSES:	
Salaries	16,231
Fringe Benefits	4,144
Purchased Services	395,950
Materials and Supplies	14,228
Depreciation	4,076
Other	<u>493</u>
Total Operating Expenses	<u>435,122</u>
Operating (Loss)	(126,142)
NON-OPERATING REVENUES (EXPENSES):	
Federal and State Subsidies	<u>176,623</u>
Total Non-Operating Revenues	<u>176,623</u>
Net Change in Net Assets	50,481
Net Assets at Beginning of Year	<u>-</u>
Net Assets at End of Year	<u><u>\$50,481</u></u>

See accompanying notes to the basic financial statements.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Cash Flows from Operating Activities	
Received from School Foundation	\$ 301,747
Received from Other Operating Sources	50
Payments to Suppliers for Materials and Supplies	(13,718)
Payments for Purchased Services	(380,890)
Payments for Salaries and Benefits	(17,004)
Payments for Other Operating Expenses	<u>(493)</u>
Net Cash Used in Operating Activities	<u>(110,308)</u>
Cash Flows from Noncapital Financing Activities	
Received from Grants	<u>176,623</u>
Net Cash Provided by Noncapital Financing Activities	<u>176,623</u>
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	<u>(46,084)</u>
Net Cash Used in Capital and Related Financing Activities	(46,084)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>20,231</u>
Cash and Cash Equivalents Beginning of Year	<u>-</u>
Cash and Cash Equivalents End of Year	<u><u>20,231</u></u>
Reconciliation of Operating Income (Loss) to Net	
Cash Used in Operating Activities	
Operating Income (Loss)	(126,142)
Adjustments:	
Depreciation	4,076
(Increase) Decrease In Assets:	
Intergovernmental Receivable	(7,183)
Prepaid Items	(263)
Increase (Decrease) in Liabilities:	
Accounts Payable	1,054
Accrued Wages and Benefits	3,371
Intergovernmental Payable	<u>14,779</u>
Total Adjustments	<u>15,834</u>
Net Cash Used in Operating Activities	<u><u>\$ (110,308)</u></u>

See accompanying notes to the basic financial statements

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 Schools, 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 CSD (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 2004. See Note 7 for additional information regarding the sponsorship agreement with Newark CSD.

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. See Note 6 for additional information on the contract between TRECA and NDA.

According to the contract with Newark CSD, NDA should operate under the direction of a five-member Board of Directors made up of three members appointed by Newark City School District and two members from the public appointed by the board of NDA. For fiscal year ended June 30, 2004, NDA was operated by a four-member Board of Directors. In fiscal year 2005 NDA will appoint an additional member from public education or public official outside of Newark City School District as stated in the contract with Newark CSD. 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, and providing a fiscal officer. The academy was determined to be a component unit of Newark City Schools.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Newark Digital Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. NDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its basic financial statements 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 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
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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.

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, 2004.

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, 2004, 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.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 adopted by the NDA or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

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 the good or service that is 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the NDA's deposits was \$20,231 and the bank balance was \$37,010. 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.

NOTE 4 - RECEIVABLES

At June 30, 2004, receivables consisted of intergovernmental receivables of \$7,183 from the Community School Foundation Settlement. All receivables are considered collectible in full due to the ability to the stable condition of State programs.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at 6/30/03	Additions	Reductions	Balance at 6/30/04
Capital Assets:				
Furniture and Equipment	\$0	46,084	0	46,084
Less Accumulated Depreciation:				
Furniture and Equipment	0	(4,076)	0	(4,076)
Capital Assets, Net	<u>\$0</u>	<u>\$42,008</u>	<u>\$0</u>	<u>\$42,008</u>

NOTE 6 – CONTRACT WITH TRECA

NDA entered into a two-year contract on April 17, 2003, 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.
- 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.
- 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.
- In exchange for the services and support (including equipment) provided by TRECA, NDA payed TRECA a fee of \$60,000 for the 2002-2003 school year and \$25,000 for the 2003-2004 school year.
- NDA shall pay TRECA \$3,500 per full-time high school student and \$2,500 per full-time K-8 student enrolled in NDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.
- 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 \$247,017 was payable under this contract. All but \$14,779 of this amount was paid as of June 30, 2004.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 7—CONTRACT WITH NEWARK CSD

The Community School Sponsorship Contract between NDA and Newark CSD outlined the payments that NDA had to make to the Newark CSD during FY 2004. The following payments were made in FY 2004 from NDA to Newark CSD:

Set chargeback amount of salaries and stipends of Newark CSD employees that work directly with NDA	\$100,452
Annual payments of 10% of funding provided by the Ohio Department of Education (building use, administrative costs, postage, meeting expense)	<u>\$ 30,175</u>
Total amount of payments made by NDA to Newark CSD in fiscal year 2004	<u>\$131,527</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. During fiscal year 2004, the NDA contracted for the following insurance coverages:

Coverages provided by Madison Collins Stephens Insurance are as follows:	
General NDA Liability	
Per Occurrence	\$1,000,000
Total per Year	\$3,000,000
Business Personal Property - Computers	\$45,000

The school was without liability or property insurance for the period February 11, 2003 through April 30, 2004. Management is unaware of any material pending claims that would effect this period.

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The NDA contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)

A. State Teachers Retirement System (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the NDA is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations for fiscal year 2004. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The NDA's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2004, the first year of operation, was \$1,680; 42 percent has been contributed for fiscal year 2004. The unpaid contribution for fiscal year 2004 is \$980, is recorded as a liability.

B. School Employees Retirement System

The NDA contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 10 percent of their annual covered salary and the NDA is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.5 percent was the portion used to fund pension obligations for fiscal year 2004. For fiscal year 2004, 7.7 percent 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 NDA's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2004, the first year of operation, was \$2,280; 94 percent has been contributed for fiscal year 2004. The unpaid contribution for fiscal year 2004 is \$877, is recorded as a liability.

NOTE 10 - 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 classified 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.

The State Teachers Retirement 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2,783 million at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$249,929,000, and STRS had 95,796 eligible benefit recipients.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, 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.

For this fiscal year, employer contributions to fund health care benefits were 8.5 percent of covered payroll, an increase from 6.3 percent for fiscal year 2004. 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 has been established at \$12,400.

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 at June 30, 2004, were \$126,380,984, and the target level was \$189.6 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 51,000 participants currently receiving health care benefits.

NOTE 11 – STATE SCHOOL FUNDING

A suit was filed in Franklin Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e. Charter) School program violates the state's Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appeal to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument November 18, 2003. The effect of this suit, if any, on NDA is not presently determinable.

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 plan 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..."

As of the date of these financial statements, the NDA is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under these programs and on its financial operations.

NOTE 12 – INTERGOVERNMENTAL REVENUE

As part of its Community School Foundation Settlements, NDA receives Disadvantage Pupil Impact Aid (DPIA). As of the Statement of Net Asset date NDA was due \$7,183 of DPIA monies. This amount is presented as "Intergovernmental Receivable" on the Statement of Net Assets.

NOTE 13 - 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 to NDA. 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, 2004.

**NEWARK DIGITAL ACADEMY
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

NOTE 13 – CONTINGENCIES (Continued)

B. Litigation

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

NOTE 14 – FULL TIME EQUIVALENCY

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the School. These reviews are conducted to ensure the school is reporting accurate student enrollment data to the State, upon which state foundation is calculated. The NDA was reviewed by the Ohio Department of Education on August 4, 2004 and found that NDA's original source documentation was in order. NDA does not anticipate any adjustments to state funding due to inaccurate reporting of enrollment data.



Auditor of State Betty Montgomery

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

Newark Digital Academy
Licking County
85 E. Main Street
Newark, Ohio 43055

To the Board of Directors:

We have audited the basic financial statements of Newark Digital Academy, Licking County, Ohio, (the School) a component unit of Newark City School District, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 15, 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 School's 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*. However, we noted a certain immaterial instance of noncompliance that we have reported to the School's management in a separate letter dated September 15, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the basic 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 basic 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. However, we noted certain other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the School's management in a separate letter dated September 15, 2004.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

September 15, 2004



**Auditor of State
Betty Montgomery**

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800-282-0370

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**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
NOVEMBER 16, 2004**