



**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Akron Digital Academy
Summit County
70 North Broadway Street
Akron, Ohio 44308

To the Board of Directors,

We have audited the accompanying financial statements of the Akron Digital Academy, Summit County, Ohio, (the Academy) a component unit of the Akron 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 Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy, 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 January 18, 2005, 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 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

January 18, 2005

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

The discussion and analysis of the Akron 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.

Financial Highlights

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

- Total net assets increased \$199,979. This is 95.6 percent increase from fiscal year 2003.
- Total revenues increased to \$1,789,924 from \$619,847. This is an increase of \$1,170,077 or 188.8 percent.
- Total operating expenses were \$1,589,945. Total operating expenses increased from \$410,657 from fiscal year 2003. This is an increase of \$1,179,288 or 287.2 percent. An \$876,185 increase in purchased services operating expenses reflects most of this change.

Using this Annual Report

This annual report consists of the Management's Discussion and Analysis, 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.

These two statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Nonfinancial factors include the Academy's facility conditions, required educational programs and other factors.

Table 1 provides a summary of the Academy's net assets for fiscal year 2004 compared to fiscal year 2003 as follows:

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

Table 1
Net Assets at June 30,

	2004	2003
Assets		
Current Assets	\$489,831	\$327,011
Capital Assets, Net	8,825	0
<i>Total Assets</i>	<i>498,656</i>	<i>327,011</i>
Liabilities		
Current Liabilities	89,487	117,821
Net Assets		
Invested in Capital Assets	8,825	0
Unrestricted	400,344	209,190
<i>Total Net Assets</i>	<i>\$409,169</i>	<i>\$209,190</i>

Total assets increased \$171,645.

Cash and cash equivalents increased \$203,908. The increase in cash and cash equivalents is attributed to an increase in foundation payments revenue from the State. The increase in foundation payments revenue is a result of increased student enrollment and the Academy being in existence for the entire 2004 fiscal year. Student enrollment increased to 366 in fiscal year 2004 from 147 in fiscal year 2003. The amount of foundation payments received from the State increases as student enrollment increases. The State remits foundation payments to community schools on a monthly basis. During fiscal year 2004, the Academy received twelve foundation payments as opposed to only receiving six foundation payments in fiscal year 2003. The Academy began operations during fiscal year 2003.

The increase in cash and cash equivalents is offset mainly by a decrease in intergovernmental receivable of \$45,838. The Academy was awarded a \$150,000 Federal Charter School Grant Program in fiscal year 2004 and a separate \$150,000 Federal Charter School Grant Program in fiscal year 2003. The Academy records an intergovernmental receivable for the amount of Federal Charter School Grant Program monies not received as of June 30 that were awarded for use in that particular fiscal year. The decrease in intergovernmental receivable is mostly due to a decrease in the amount of Federal Charter School Grant Program monies not received by the Academy as of June 30, 2004 as opposed to the amount of Federal Charter School Grant Program monies not received by the Academy as of June 30, 2003. In other words, the Academy received more of the 2004 fiscal year \$150,000 award amount by June 30, 2004 than it did by June 30, 2003 for the 2003 fiscal year \$150,000 award amount.

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

Total liabilities decreased \$28,334. Accounts payable decreased \$6,265 and intergovernmental payable decreased \$30,431. The decreases in accounts payable and intergovernmental payable were offset by an increase in deferred revenue of \$8,362. Deferred revenue is recorded when grants and entitlements are received before the eligibility requirements are met. This involves the aforementioned Federal Charter School Grant Program. The Academy received more of the Federal Charter School Grant Program before all of the eligibility requirements were met as of June 30, 2004 in fiscal year 2004 than it did in fiscal year 2003 as of June 30, 2003.

The net impact of the assets increase and liabilities decrease was an increase of net assets of \$199,979.

Table 2 shows the changes in net assets for fiscal years 2004 and 2003 as follows:

Table 2		
Change in Net Assets		
	2004	2003
Operating Revenues		
Foundation Payments	\$1,641,706	\$496,347
Non-Operating Revenues		
Interest	1,473	0
Grants	146,638	123,500
Other	107	0
Total Non-Operating Revenues	148,218	123,500
Total Revenues	1,789,924	619,847
Operating Expenses		
Purchased Services	1,276,958	400,773
Materials and Supplies	299,848	9,884
Depreciation	649	0
Other	12,490	0
Total Operating Expenses	1,589,945	410,657
Increase in Net Assets	\$199,979	\$209,190

The Academy's activities consist of enterprise activity. Community schools receive no support from taxes.

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

Foundation payments increased from \$496,347 in fiscal year 2003 to \$1,641,706 in fiscal year 2004. Foundation payments comprised 91.7 percent of total revenues. This increase is due to, as previously discussed, a rise in student enrollment and the Academy being in existence for the entire 2004 fiscal year. Student enrollment increased to 366 in fiscal year 2004 from 147 in fiscal year 2003. The amount of foundation payments received from the State increases as student enrollment increases. The State remits foundation payments to community schools on a monthly basis. During fiscal year 2004, the Academy received twelve foundation payments as opposed to only receiving six foundation payments in fiscal year 2003. The Academy began operations during fiscal year 2003.

Total non-operating revenues increased from \$123,500 in fiscal year 2003 to \$148,218 in fiscal year 2004. This increase is mainly due to an increase in grants non-operating revenue of \$23,138. The Academy was awarded a \$150,000 Federal Charter School Grant Program in fiscal year 2004 and a separate \$150,000 Federal Charter School Grant Program in fiscal year 2003. As previously discussed, the Academy received more of the 2004 fiscal year \$150,000 award amount by June 30, 2004 than it did by June 30, 2003 for the 2003 fiscal year \$150,000 award amount.

The State Foundation Program and the Federal Charter School Grant Program are, by far, the primary support for the Academy's students. Combined, foundation payments and grants non-operating revenue comprised 99.9 percent of total revenues.

Operating expenses increased from \$410,657 in fiscal year 2003 to \$1,589,945 in fiscal year 2004, a 287.2 percent increase. This increase is a result of student enrollment increasing from 147 in fiscal year 2003 to 366 in fiscal year 2004 and the Academy being in existence for the entire 2004 fiscal year. The Academy began operations in fiscal year 2003. Because of the rise in student enrollment, more services were required to be purchased, especially from the Akron City School District (the "Sponsor"). The Academy paid the Sponsor \$1,114,735 for services in fiscal year 2004, an increase of \$1,055,689 or 1,787.9 percent from the prior fiscal year. Expenses paid to the Sponsor comprised 70.1 percent of total operating expenses of the Academy during fiscal year 2004.

Also, the rise in student enrollment caused the Academy to purchase more materials and supplies and additional computers, printers and furniture. Much of the costs of the additional computers, printers and furniture did not exceed the capitalization threshold of \$1,000. Therefore, these costs were expensed as materials and supplies operating expenses.

Capital Assets

At the end of fiscal year 2004, the Academy had \$8,825 invested in furniture and equipment. The Academy did not invest in any capital assets during fiscal year 2003. The Academy purchased a server and a scanner/fax/printer that both exceeded the capitalization threshold of \$1,000. The Academy recorded \$649 in depreciation operating expense during the current fiscal year.

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

For the Future

The Academy began fiscal year 2003 with the Tri-Rivers Educational Computer Association (“TRECA”) providing most of its instructional, administrative, and fiscal services, much like a management company. This was greatly reduced during the current fiscal year because the Academy was working towards providing instructional, administrative, and fiscal services through the Akron City School District (the “Sponsor”). Beginning in fiscal year 2005, the Academy will purchase instructional, administrative, and fiscal services solely through its Sponsor. This will help the Academy effectively monitor and adjust its costs, as necessary. However, management still must diligently plan expenses, staying carefully within the Academy’s five-year plan.

The Academy anticipates the student enrollment to continue growing in future fiscal years 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 grant 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 Todd Adkins, Treasurer, at Akron Digital Academy, 70 North Broadway, Akron, Ohio 44308-1999 or email at tadkins@akron.k12.oh.us.

Akron Digital Academy

Statement of Net Assets

June 30, 2004

Assets

Current Assets:

Cash and Cash Equivalents	\$410,919
Intergovernmental Receivable	74,162
Prepaid Items	<u>4,750</u>

Total Current Assets 489,831

Noncurrent Assets:

Depreciable Capital Assets	<u>8,825</u>
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Total Current Assets 498,656

Liabilities

Current Liabilities:

Accounts Payable	3,529
Intergovernmental Payable	11,796
Deferred Revenue	<u>74,162</u>

Total Current Liabilities 89,487

Net Assets

Invested In Capital Assets	8,825
Unrestricted	<u>400,344</u>

Total Net Assets \$409,169

See accompanying notes to the basic financial statements

Akron Digital Academy
*Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004*

Operating Revenues	
Foundation Payments	<u>\$1,641,706</u>
Operating Expenses	
Purchased Services	1,276,958
Materials and Supplies	299,848
Depreciation	649
Other	<u>12,490</u>
<i>Total Operating Expenses</i>	<u>1,589,945</u>
<i>Operating Income</i>	<u>51,761</u>
Non-Operating Revenues	
Interest	1,473
Grants	146,638
Other	<u>107</u>
<i>Total Non-Operating Revenues</i>	<u>148,218</u>
<i>Change in Net Assets</i>	199,979
<i>Net Assets at Beginning of Fiscal Year</i>	<u>209,190</u>
<i>Net Assets at End of Fiscal Year</i>	<u><u>\$409,169</u></u>

See accompanying notes to the basic financial statements

Akron Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Foundation Payments	\$1,656,706
Cash Payments for Goods and Services	<u>(1,630,742)</u>

<i>Net Cash Provided by Operating Activities</i>	<u>25,964</u>
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Cash Flows from Noncapital Financing Activities

Grants Received	185,838
Other Non-Operating Revenues	<u>107</u>

<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>185,945</u>
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**Cash Flows from Capital and
Related Financing Activities**

Payments for Capital Acquisitions	<u>(9,474)</u>
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Cash Flows from Investing Activities

Interest on Investments	<u>1,473</u>
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<i>Net Increase in Cash and Cash Equivalents</i>	203,908
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<i>Cash and Cash Equivalents at Beginning of Fiscal Year</i>	<u>207,011</u>
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<i>Cash and Cash Equivalents at End of Fiscal Year</i>	<u><u>\$410,919</u></u>
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**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating Income	<u>\$51,761</u>
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Adjustments:

Depreciation	649
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(Increase) Decrease in Assets:

Intergovernmental Receivable	15,000
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Prepaid Items	(4,750)
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Increase (Decrease) in Liabilities:

Accounts Payable	(6,265)
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Intergovernmental Payable	<u>(30,431)</u>
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Total Adjustments	<u>(26,446)</u>
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<i>Net Cash Provided by Operating Activities</i>	<u><u>\$25,964</u></u>
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See accompanying notes to the basic financial statements

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 1 – Description of the Academy and Reporting Entity

The Akron 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 Akron 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, 2002. The Academy began operations on October 7, 2002. 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 Academy operates under the direction of a seven-member Board of Directors appointed by the Sponsor. The Board consists of five 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.

All of the Academy's personnel services, which provided services to 366 students, were purchased from outside organizations during fiscal year 2004.

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 its proprietary 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 proprietary 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.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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.

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. Cash and Cash Equivalents

During fiscal year 2004, investments were limited to overnight Eurodollars. Investments with an original maturity of three months or less at the time they are purchased by the Academy are presented on the basic financial statements as cash equivalents.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

F. 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 the purchase and an expense is reported in the fiscal year in which the services are consumed.

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over three years for furniture and equipment.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation.

I. 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.

J. 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 through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 during the fiscal year ended June 30, 2004 to offset start-up costs of the Academy. In addition, the Academy participates in the State Education Management Information System ("EMIS") through the Ohio Department of Education. Under this program, the Academy was awarded \$5,000 during the fiscal year ended June 30, 2004 to offset costs for EMIS reporting. Revenues received from these programs are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Amounts received under these programs for the 2004 fiscal year totaled \$1,788,344.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

K. 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.

Note 3 – Deposits and Investments

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, “Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements”.

Deposits At fiscal year end, the carrying amount of the Academy’s deposits was (\$5,445), and the bank balance was \$8,504. The entire bank balance was covered by federal depository insurance.

Investments Investments are categorized to give an indication of the level of risk assumed by the Academy at fiscal year end. Category 1 includes investments that are ensured or registered or for which the securities are held by the Academy or its agent in the Academy’s name. Category 2 includes uninsured and unregistered investments which are held by the counterparty’s trust department or agent in the Academy’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Academy’s name.

	Category 3	Carrying and Fair Value
Overnight Eurodollars	\$416,364	\$416,364

The classification of cash and cash equivalents on the basic financial statements is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”.

A reconciliation between the classification of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$410,919	\$0
Overnight Eurodollars	(416,364)	416,364
GASB Statement No. 3	(\$5,445)	\$416,364

Note 4 – Receivables

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

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 5 – Capital Assets

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

	Balance 6/30/2003	Additions	Deletions	Balance 6/30/2004
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$0	\$9,474	\$0	\$9,474
Less Accumulated Depreciation:				
Furniture and Equipment	0	(649)	0	(649)
Total Capital Assets, being depreciated, net	\$0	\$8,825	\$0	\$8,825

Note 6 - 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 7 – 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 8 – Agreement with the Akron City School District

A service contract for fiscal year 2004 between the Academy and the Sponsor was previously approved. This service contract commenced on July 1, 2002 and ends on June 30, 2005 and may be renewed by mutual agreement.

In agreement with this contract, the Academy purchased the following services from the 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. The Academy is responsible for reimbursement of 100 percent of all costs incurred by the Sponsor related to these services. The Academy reimbursed the Sponsor \$601,735 during fiscal year for these services.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

In addition, in accordance with this service contract, the Academy will remit \$1,000 per each and every pupil enrolled in the Academy during the respective academic years for the following management services: marketing support, insurance coverage, human resource services, payroll processing, use of the Sponsor's name and goodwill, printing services, professional consulting related to curriculum, instruction, special education, finances, employee relations, and legal issues, professional development and training and instructional materials. The Academy paid the Sponsor \$513,000 during fiscal year 2004 for these services. This \$513,000 payment included pupils enrolled in the Academy during the 2002-2003 and 2003-2004 academic years.

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.

For the fiscal year ended June 30, 2004, the Academy paid the Sponsor the following expenses:

<u>Purchased Services Expenses</u>	<u>Amounts</u>
Professional and technical services	\$1,113,393
Communications	17
Contracted craft or trade services	<u>1,325</u>
Total Purchased Services Expenses	<u><u>\$1,114,735</u></u>

Note 9 – Purchased Services

A summary of the Academy's purchased services during fiscal year 2004 follows:

<u>Purchased Services Expenses</u>	<u>Amounts</u>
Professional and technical services	\$1,229,570
Property services	22,769
Travel mileage/meeting	844
Communications	21,074
Utilities	800
Contracted craft or trade services	<u>1,901</u>
Total Purchased Services Expenses	<u><u>\$1,276,958</u></u>

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

Note 10 - 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.

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 on November 18, 2003. On August 24, 2004, the Court of Appeals rendered decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

Note 11 – Federal Tax-Exempt Status

In accordance with the options granted under existing Ohio law, the Academy has filed for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy is still currently waiting for the Internal Revenue Service's determination of the Academy's tax-exempt status. The Academy currently operates as an Ohio not-for-profit corporation. The Academy has filed an Internal Revenue Service Form 990, "Return of Organization Exempt From Income Tax". Since the Academy has filed for tax-exempt status, no provision for a possible income tax liability has been made.

Note 12 – Contractual Commitments

On May 10, 2004, the Academy and GDC Investment Company, Ltd. signed a lease agreement for the Academy to use space at 1502 Brittain Road in Akron for classrooms and parking. The term of this lease is for twelve months commencing July 1, 2004. The Academy will make monthly installment payments amounting to \$1,450 each month and a security deposit of \$1,450 to GDC Investment Company, Ltd.

Also, on June 2, 2004, the Academy and Crossroads Land Company signed a lease agreement for the Academy to use space at 335 South Main Street in Akron for classrooms and administrative offices. The term of this lease is for three years commencing July 1, 2004. The Academy will make monthly installment payments amounting to \$3,300 each month to Crossroads Land Company.

In addition, on June 30, 2004, the Academy and St. John/St. Paul Lutheran Church ELCA ("the Church") signed a lease agreement for the Academy to use space at the Church in Akron for classrooms and parking. The term of this lease is for two years commencing July 1, 2004. The Academy will make quarterly installment payments amounting to \$4,375 each quarter to the Church.

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**Auditor of State
Betty Montgomery**

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

Akron Digital Academy
Summit County
70 North Broadway Street
Akron, Ohio 44308

To the Board of Directors:

We have audited the financial statements Akron Digital Academy, Summit County, Ohio, (the Academy) a component unit of Akron City School District, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 18, 2005. 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 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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www.auditor.state.oh.us

This report is intended solely for the information and use of 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

January 18, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

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AKRON DIGITAL ACADEMY

SUMMIT 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 17, 2005**