AKRON DIGITAL ACADEMY
SUMMIT COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2008

Mary Taylor, CPA
Auditor of State

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Akron Digital Academy
Summit County
335 South Main Street
Akron, Ohio 44308

To the Board of Directors:

We have audited the accompanying basic 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, 2008 as listed in the Table of Contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Akron Digital Academy, Summit County, Ohio, as of June 30, 2008, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements. The Federal Awards Receipts and Expenditures Schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. We subjected the Federal Awards Receipts and Expenditure Schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 12, 2008

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, 2008. 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, 2008 are as follows:

- Total net assets increased $261,138. This is a 15.4 percent increase from fiscal year 2007.
- Total revenues increased to $5,238,573 from $4,071,434. This is an increase of $1,167,139 or 28.7 percent.
- Total expenses were $4,977,435. Total expenses increased from $3,503,401 from fiscal year 2007. This is an increase of $1,474,034 or 42.1 percent.

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 2008"? 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 2008 compared to fiscal year 2007 as follows:

Table 1
Net Assets at June 30,

	2008	2007
Assets		
Current Assets	$1,916,028	$1,705,546
Capital Assets, Net	129,411	36,339
Total Assets	2,045,439	1,741,885
Liabilities		
Current Liabilities	78,362	31,188
Long-Term Liabilities	12,291	17,049
Total Liabilities	90,653	48,237
Net Assets		
Invested in Capital Assets, Net of Related Debt	112,362	14,532
Restricted for Operating Grants	522,493	0
Unrestricted	1,319,931	1,679,116
Total Net Assets	$1,954,786	$1,693,648

Total assets increased $303,554.

Intergovernmental receivable increased $522,493. The Academy participated in the following federal grant programs which are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan: Part B-IDEA Special Education, Title I, Title V Innovative Programs, Title IV-A Safe and Drug-Free Schools, Title II-A Improving Teacher Quality, and Title II-D Technology during the current fiscal year. Fiscal year 2008 was the first fiscal year that the Academy participated in these programs. The Academy was awarded a total of $929,692 during the 2008 fiscal year for these programs and only received $407,199 of this award amount as of June 30, 2008 resulting in an intergovernmental receivable amount of $522,493 at June 30, 2008.

In addition, capital assets increased $93,072. During the current fiscal year, the Academy purchased several items of equipment, such as computers, servers, printers, routers and projectors. The change in capital assets will be discussed in greater detail later.

The increases in intergovernmental receivable and capital assets were offset by a $311,321 decrease in cash and cash equivalents. The decrease in cash and cash equivalents is mainly attributed to an increase in operating expenses. The following expenses increased, which accounts for the majority of the increase in operating expenses: reimbursements to the Sponsor for personnel and staff; payments to the Sponsor for management services, such as insurance coverage, human resources, payroll processing, use of the Sponsor's name and goodwill and consulting; payments in connection with operating leases for facilities space; and, purchases of supplies and materials. For further explanation of the payments to the Sponsor, see Note 6 of the notes to the basic financial statements.

Total liabilities increased $42,416. This increase is mostly attributed to a $53,053 increase in accounts payable. The majority of this increase is due to a purchase of six servers that amounted to $42,595. The liability of this purchase incurred prior to June 30, 2008 but the payment was not made until after June 30, 2008. There were no such significant liabilities for equipment as of June 30, 2007.

The change in accounts payable is offset by a decrease in intergovernmental payable of $5,879 and a decrease in capital leases payable of $4,758. The decrease in intergovernmental payable is attributed to a decrease in the amount of liabilities owed to the Sponsor as of June 30, 2008 than as of June 30, 2007. The decrease in capital leases payable resulted from the monthly principal lease payments made by the Academy for a scanner during the current fiscal year. These lease payments totaled $4,758 during fiscal year 2008.

The net impact of the assets increase and liabilities increase was an increase of net assets of $261,138.

Table 2 shows the changes in net assets for fiscal years 2008 and 2007 as follows:

Table 2
Change in Net Assets

	2008	2007
Operating Revenues		
Foundation Payments	$4,254,986	$3,977,534
Non-Operating Revenues		
Interest	48,415	88,606
Grants	934,692	5,000
Other	480	294
Total Non-Operating Revenues	983,587	93,900
Total Revenues	5,238,573	4,071,434

Operating Expenses		
Purchased Services	4,433,129	3,095,819
Materials and Supplies	516,645	387,605
Depreciation	11,665	8,623
Other	10,702	9,786
Total Operating Expenses	4,972,141	3,501,833
Non-Operating Expenses		
Loss on Disposal of Capital Assets	5,294	1,568
Total Expenses	4,977,435	3,503,401
Increase in Net Assets	$261,138	$568,033

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

Foundation payments increased from $3,977,534 in fiscal year 2007 to $4,254,986 in fiscal year 2008. Foundation payments comprised 81.2 percent of total revenues. There are 2 reasons for the increase in foundation payments. The first reason is a rise in student average daily membership. Student average daily membership increased to 660 in fiscal year 2008 from 644 in fiscal year 2007. The amount of foundation payments received from the State increases as student average daily membership increases. Secondly, the amount per pupil received from the State increased to $5,565 per pupil during the current fiscal year from $5,403 in the prior fiscal year.

The State Foundation Program is, by far, the primary support for the Academy's students.

Total non-operating revenues increased from $93,900 in fiscal year 2007 to $983,587 in fiscal year 2008. This increase is primarily due to an increase in grants non-operating revenue of $929,692. As previously discussed, this increase is because the Academy participated in several federal grant programs which are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan.

Total expenses increased from $3,503,401 in fiscal year 2007 to $4,977,435 in fiscal year 2008, a 42.1 percent increase. As previously discussed, this increase mainly is a result of the following expense increases: reimbursements to the Sponsor for personnel and staff; payments to the Sponsor for management services, such as insurance coverage, human resources, payroll processing, use of the Sponsor's name and goodwill and consulting; payments in connection with operating leases for facilities space; and, purchases of supplies and materials.

Purchased services operating expenses increased to $4,433,129 in fiscal year 2008 from $3,095,819 in fiscal year 2007. Reimbursements paid to the Sponsor for personnel and staff increased from $2,022,942 in the prior fiscal year to $2,607,857 in the current fiscal year. This increased because the number of personnel and staff used by the Academy increased, and the salaries and hourly pay rates of the individuals increased. In addition, payments to the Sponsor for management services, such as insurance coverage, human resources, payroll processing, use of the Sponsor's name and goodwill, and consulting increased to $1,216,978 in fiscal year 2008 from $716,419 in fiscal year 2007. For further explanation of the payments to the Sponsor, see Note 6 of the notes to the basic financial statements. Plus, the payments in connection with operating leases for facilities space increased. This increased because the Academy increased the amount of space used at the Evans Building location during the current fiscal year and because the Academy opened a new location in fiscal year 2008 at the Goodyear Heights United Methodist Church.

In addition, materials and supplies operating expenses increased to $516,645 in fiscal year 2008 from $387,605 in fiscal year 2007. This is due because the Academy spent more on the following items in fiscal year 2008 than in fiscal year 2007: computers and overhead projectors under the capitalization threshold of $1,000; software; 100 book challenge materials; Ohio Achievement Test books; furniture for the new location that opened in fiscal year 2008; and, furniture for the space expansion at the Evans Building.

Capital Assets

At the end of fiscal year 2008, the Academy had $129,411 invested in furniture and equipment. Table 3 shows fiscal year 2008 balances compared to fiscal year 2007 as follows:

Table 3
Capital Assets at June 30,
(Net of Depreciation)

	2008	2007
Furniture and Equipment	$129,411	$36,339

The Academy made acquisitions totaling $110,031 during fiscal year 2008. The Academy purchased 2 laptop computers, 9 servers, 8 printers, 4 bundle routers, 5 projectors, a digital video recorder used in connection with security cameras, and other computer-related equipment items. This is a significant increase in capital purchases from fiscal year 2007. These acquisitions were offset by $11,665 in depreciation operating expense recorded during the current fiscal year.

For the Future

The Academy anticipates the student average daily membership will increase approximately 5 percent each fiscal year. This will result in payments from the State School Foundation Program to increase in future fiscal years.

The Academy plans to participate in the federal grant programs passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan every fiscal year in the future. These grant funds will enhance the operations of the Academy.

As a result, the Academy's management must diligently plan expenses, staying carefully within the Academy's five-year plan.

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, 2008

Assets	
Current Assets:	
Cash and Cash Equivalents	$1,381,972
Accounts Receivable	241
Intergovernmental Receivable	522,493
Prepaid Items	11,322
Total Current Assets	1,916,028
Noncurrent Assets:	
Depreciable Capital Assets	129,411
Total Assets	2,045,439
Liabilities	
Current Liabilities:	
Accounts Payable	66,513
Intergovernmental Payable	7,091
Capital Leases Payable, Current Portion	4,758
Total Current Liabilities	78,362
Long-Term Liabilities:	
Capital Leases Payable	12,291
Total Liabilities	90,653
Net Assets	
Invested in Capital Assets, Net of Related Debt	112,362
Restricted for Operating Grants	522,493
Unrestricted	1,319,931
Total Net Assets	$1,954,786

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, 2008

Operating Revenues	
Foundation Payments	$4,254,986
Total Operating Revenues	4,254,986
Operating Expenses	
Purchased Services	4,433,129
Materials and Supplies	516,645
Depreciation	11,665
Other	10,702
Total Operating Expenses	4,972,141
Operating (Loss)	(717,155)
Non-Operating Revenues (Expenses)	
Interest	48,415
Grants	934,692
Other	480
Loss on Disposal of Capital Assets	(5,294)
Total Non-Operating Revenues (Expenses)	978,293
Change in Net Assets	261,138
Net Assets at Beginning of Fiscal Year	1,693,648
Net Assets at End of Fiscal Year	$1,954,786

See accompanying notes to the basic financial statements

Akron Digital Academy

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2008

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Foundation Payments	$4,254,986
Cash Payments for Goods and Services	(4,955,158)
Net Cash (Used in) Operating Activities	(700,172)
Cash Flows from Noncapital Financing Activities	
Grants Received	412,199
Other Non-Operating Revenues	431
Net Cash Provided by Noncapital Financing Activities	412,630
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(67,436)
Principal Payments for Capital Leases	(4,758)
Net Cash (Used in) Noncapital Financing Activities	(72,194)
Cash Flows from Investing Activities	
Interest on Investments	48,415
Net (Decrease) in Cash and Cash Equivalents	(311,321)
Cash and Cash Equivalents at Beginning of Fiscal Year	1,693,293
Cash and Cash Equivalents at End of Fiscal Year	$1,381,972
Reconciliation of Operating (Loss) to Net Cash (Used in) Operating Activities	
Operating (Loss)	($717,155)
Adjustments:	
Depreciation	11,665
(Increase) Decrease in Assets:	
Accounts Receivable	(192)
Prepaid Items	931
Increase (Decrease) in Liabilities:	
Accounts Payable	10,458
Intergovernmental Payable	(5,879)
Total Adjustments	16,983
Net Cash (Used in) Operating Activities	($700,172)

Non-Cash Items

Capital assets purchased on accounts payable totaled $42,595

See accompanying notes to the basic financial statements

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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. In addition, the Academy was approved for operation under contract with the Sponsor for another period of five years commencing July 1, 2007.

The Academy operates under the direction of a seven-member Board of Directors appointed by the Sponsor. The Board consists of a Board President, three members who hold administrative positions with the Sponsor, a public official not employed by the Sponsor, and two individuals 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 660 students, were purchased from the Sponsor during fiscal year 2008.

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.

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 expense 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 traditional 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, except for Ohio Revised Code Section 5705.391 as it relates to five-year forecasts. 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 2008, 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.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008 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 four to ten years for furniture and equipment.

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 borrowing 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 Academy or through external restrictions imposed by creditors, grantors or laws or regulations of governments. Net assets restricted for operating grants are primarily for instruction of students through Federal programs that are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan.

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 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, 2008 to offset costs for EMIS reporting. Revenues received from this program are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

In addition, the Academy participated in the following federal grant programs which are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan: Part B-IDEA Special Education, Title I, Title V Innovative Programs, Title IV-A Safe and Drug-Free Schools, Title II-A Improving Teacher Quality, and Title II-D Technology. The Academy was awarded a total of $929,692 during the fiscal year ended June 30, 2008 for these programs. 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 2008 fiscal year totaled $5,189,678.

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

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Academy's deposits was $1,857 and the bank balance was $284,916. Of the bank balance, $100,000 was covered by the Federal Deposit Insurance Corporation and $184,916 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in Academy's name.

The Academy has no deposit policy for custodial risk.

Investments As of June 30, 2008, the Academy had the following investment:

	Carrying Value	Maturity
Overnight Eurodollars	$1,380,115	July 1, 2008

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Academy has no investment policy that addresses interest rate risk.

The overnight Eurodollars carry a rating of AA- by Standard and Poor's and Aa2 from Moody's Investors Service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The overnight Eurodollars are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Academy's name. The Academy has no investment policy dealing with investment custodial risk.

Note 4 – Capital Assets

Capital asset activity for the fiscal year June 30, 2008, was as follows:

	Balance 6/30/2007	Additions	Deletions	Balance 6/30/2008
Capital Assets, being depreciated:				
Furniture and Equipment	$54,821	$110,031	($16,656)	$148,196
Less Accumulated Depreciation:				
Furniture and Equipment	(18,482)	(11,665)	11,362	(18,785)
Total Capital Assets, being depreciated, net	$36,339	$98,366	($5,294)	$129,411

Note 5 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2008, the Academy was covered under the Sponsor's insurance for property, inland marine, crime, general liability, equipment breakdown, educators legal liability and automobile coverage.

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

Note 6 – Agreement with the Akron City School District

A service contract for fiscal year 2008 between the Academy and the Sponsor was previously approved. This service contract which commenced on July 1, 2007 and ends June 30, 2009, which may be renewed by mutual agreement.

In agreement with the current service 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, and 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 $2,607,857 during fiscal year 2008 for these services.

In addition, in accordance with the current service contract, the Academy will remit an amount not to exceed $2,000 per 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 $1,216,978 during fiscal year 2008 for these services.

All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor. All of the Academy's personnel services were provided by the Sponsor during the 2008 fiscal year.

For the fiscal year ended June 30, 2008, the Academy paid the Sponsor the following expenses:

Operating Expenses	Amounts
Purchased Services	
Professional and technical services	$3,822,900
Communications	356
Supplies and Materials	985
Other	594
Total Operating Expenses	$3,824,835

Note 7 – Defined Benefit Pension Plans

A. School Employees Retirement System

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

Funding Policy Plan members are required to contribute 10 percent of their annual covered salary, and the Sponsor is required to contribute at an actuarially determined rate. The current Sponsor rate is 14 percent of annual covered payroll. A portion of the Sponsor's contributions is used to fund pension obligations with the remainder being used to fund health care benefits and Medicare Part B benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Sponsor's required contributions for pension obligations to SERS for the personnel provided to the Academy for the fiscal years ended June 30, 2008, 2007 and 2006 were $53,129, $44,517 and $48,911, respectively; 67.06 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description The Sponsor participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling toll free (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Sponsor was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations with the remainder being used to fund health care benefits. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Sponsor's required contributions for pension obligations to STRS Ohio for the DB Plan for the personnel provided to the Academy for the fiscal years ended June 30, 2008, 2007, and 2006 were $195,555, $145,913, and $93,924, respectively; 86.56 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. There were no contributions to the DC and Combined Plans for fiscal year 2008 by the Sponsor for the personnel provided to the Academy or made by the plan members.

Note 8 - Postemployment Benefits Other Than Pension

A. State Teachers Retirement System

Plan Description The Sponsor contributes to the cost-sharing, multiple-employer defined benefit Health Plan administered by STRS Ohio for eligible, certificated retirees and their beneficiaries who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS Ohio based on authority granted by State statute. The Plan is included in the financial report of STRS Ohio. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy Ohio law authorizes STRS Ohio to offer the Health Plan and gives the STRS Retirement Board authority over how much, if any, of the health care costs will absorbed by STRS Ohio. Active employee members do not contribute to the Health Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Sponsor's contributions for health care for the personnel provided to the Academy for the fiscal years ended June 30, 2008, 2007 and 2006 were $15,043, $11,224 and $7,225, respectively; 86.56 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. School Employees Retirement System

Plan Description In addition to a cost-sharing, multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fess through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by SERS based on authority granted by State statute. The financial reports of both plans are included in the SERS Comprehensive Annual Financial Report. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Funding Policy State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation of statutorily required benefits, the SERS Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). For fiscal year 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2007 (the latest information available), this amount was $35,800.

Active employee members do not contribute to the Health Care Fund. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Sponsor's contributions for health care for the personnel provided to the Academy for the fiscal years ended June 30, 2008, 2007 and 2006 were $38,352, $32,854 and $28,970, respectively; 67.06 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The SERS Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2008, the actuarially required allocation was 0.66% of covered payroll. The Sponsor's contributions for Medicare Part B for the personnel provided to the Academy for the fiscal year ended June 30, 2008, 2007 and 2006 were $3,828, $3,027 and $3,030, respectively; 67.06 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 9 – Capital Leases

Capital lease obligations relate to a scanner for the Academy. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases." Capital assets acquired by an interest-free lease have been originally capitalized in the amount of $23,790.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2008:

Fiscal Year Ending June 30,	Principal Payments
2009	$4,758
2010	4,758
2011	4,758
2012	2,775
Total	$17,049

Note 10 – Operating Leases

The Academy leases facilities space, copiers and a postage meter under noncancelable operating leases. Total costs for such leases were $130,088 for the fiscal year ended June 30, 2008. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2009	$157,810
2010	152,781
2011	3,328
Total	$313,919

Note 11 - Contingencies

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, 2008.

Note 12 – Federal Tax-Exempt Status

The Academy is a nonprofit corporation that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

Note 13 – Related-Party Transaction

The Academy Director’s wife was hired as a consultant for programming and software support. The Academy paid her $38,235 for these consulting services during fiscal year 2008.

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass Through Grantor/ Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through the Ohio Department of Education:				
Special Education - Grants to States	2008	84.027	$88,974	$131,297
Title I Grants to Local Educational Agencies	2008	84.010	300,163	414,164
State Grants for Innovative Programs	2008	84.298	1,505	1,944
Safe and Drug-Free Schools and Communities-State Grants	2008	84.186	9,844	9,844
Education Technology State Grants	2008	84.318	599	3,560
Improving Teacher Quality State Grants	2008	84.367	6,114	25,942
Total Passed through the Ohio Department of Education			407,199	586,751
Total U.S. Department of Education			**$407,199**	**$586,751**

The accompanying notes to this schedule are an integral part of this schedule.

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) summarizes activity of the Academy's federal award programs. The Schedule has been prepared on the cash basis of accounting.

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

Akron Digital Academy
Summit County
335 South Main Street
Akron, Ohio 44308

To the Board of Directors:

We have audited the financial statements of the Akron Digital Academy, Summit County, Ohio, (the Academy) a component unit of the Akron City School District (the District) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain internal control matters that we reported to the Academy's management in a separate letter dated December 12, 2008.

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Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-001 thru 2008-003.

The Academy's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Directors, federal awarding agencies, pass-through entities and Akron City School District. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 12, 2008

Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Akron Digital Academy
Summit County
335 South Main Street
Akron, Ohio 44308

To the Board of Directors:

Compliance

We have audited the compliance of the Akron Digital Academy, Summit County, Ohio, (the Academy) a component unit of the Akron City School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2008. The summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs identifies the Academy's major federal program. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

As described in finding 2008-004 in the accompanying Schedule of Findings and Questioned Costs, the Academy did not comply with requirements regarding activities allowed or unallowed and eligibility applying to its Title 1 Grants to Local Educational Agencies program. Compliance with these requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Akron Digital Academy complied, in all material respects, with the requirements referred to above applying to its major federal program for the year ended June 30, 2008.

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Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Academy's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to administer a federal program such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as finding 2008-004 to be a significant deficiency.

A material weakness is significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that the Academy's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We consider finding 2008-004 described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

The Academy's response to the finding we identified is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Academy's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, the Board of Directors, federal awarding agencies, pass-through entities and Akron City School District. It is not intended for anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 12, 2008

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2008

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unqualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	Yes
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	Yes
(d)(1)(iv)	**Were there any other significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Qualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Title 1 Grants to Local Educational Agencies (CFDA 84.010)
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2008-001

Finding for Recovery

Akron Digital Academy adheres to the Akron City School's cell phone policy. The **Akron City Schools Bylaws & Policies Section 7530.01 – Staff Use of Cellular Telephones** states, in pertinent part:

Board-owned cellular telephones may be used to place calls in emergency situations, to place calls for the purpose of communicating with the administration, other staff members, parents concerning classroom, school or District activities, or vendors/contractors. The Board will seek reimbursement for any additional charges resulting from personal calls. It is the employee's responsibility to reimburse the District on a monthly basis for personal use of District cell phones.

During the period of August 24, 2007 to October 18, 2008 Vicky Dixon incurred additional charges of $844.12 as a result of personal use of the Academy's cellular phone and made no reimbursement to the Academy. The additional charges incurred included $205.80 due to airtime charges, $137.08 due to directory assistance charges, $79.05 due to text messaging charges, and $422.19 due to games, ring tones and wall paper charges.

The Academy's Business Manager reviewed and initialed each invoice, and the Academy's Treasurer signed the payments for those cell phone invoices containing personal charges.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074: Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Vicky Dixon; Fred Lewis, Business Manager; Todd Adkins, Treasurer; and his bonding company, the Travelers Casualty and Surety Company of America, jointly and severally, in the amount of $844.12, and in favor of Akron Digital Academy's General Fund.

Fred Lewis and Todd Adkins shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Vicky Dixon.

As of the date of this report, $300 of the total finding amount noted above has been repaid to the Academy.

FINDING NUMBER 2008-001 (Continued)

Officials' Response: We are aware of this situation. Vicky Dixon has agreed to re-pay the entire $844.12 in monthly installments of $100.00 each. We have since collected all of the cell phones from our personnel and canceled our contracts with the cell phone provider.

FINDING NUMBER 2008-002

Noncompliance

Cellular Phone Usage

Akron Digital Academy adheres to the Akron City School District's cell phone policy. The following issues were noted during cellular telephone testing in direct noncompliance of the **Akron City Schools Bylaws & Policies Section 7530.01 – Staff Use of Cellular Telephones**:

- The Policy states the Superintendent or his/her designee is expected to see that cellular telephone service account invoices outlining the details of usage are received and reviewed for conformance with this policy. Although cellular phone invoices were found to be reviewed by the Business Manager, the Academy did not enforce the specific policies as documented below.

- The Policy states each Board-owned cellular telephone may receive a monthly detailed activity statement for all charges if the total costs go over the plan's normal charges. The employee issued the cellular telephone must review the monthly statement for billing accuracy. Our testing indicated approximately 60 instances that the plan's normal charges were exceeded and no review by the employee was evident. Additional charges incurred ranged from $0.15 through $159.25 per instance and totaled $708.35 for purposes including directory assistance, text messaging, excess air-time charges, games, ring tones and wallpaper.

- The Policy states the Board will seek reimbursement for any additional charges resulting from personal calls. Each employee may use his/her cellular telephone to make one personal call per day, if necessity exists. The policy further states it is the employee's responsibility to reimburse the District on a monthly basis for personal use of cellular telephones. Per review of various detail phone calls, numerous calls were made before and after normal work hours including weekends and at times such as 2:00-4:00 a.m. giving the appearance these were personal calls. Many of these calls were also long distance including out of state calls.

- The Policy states employees must safeguard any Board-owned cellular telephone in their possession. Reasonable precautions should be made to prevent equipment loss, damage, theft and vandalism. Our testing indicated that one cellular phone was stolen during fiscal year 2008. Additional charges incurred by the Academy to replace the stolen cellular phone totaled $107.66.

FINDING NUMBER 2008-002 (Continued)

Noncompliance

- The Policy states an annual review of the plans available shall be made to determine if the cellular telephone plan is the most economical and responsible available. Any change in provider and/or necessary adjustments/deletions to the plans shall be recommended for Board approval. Total cellular telephone charges for the fiscal year ended June 30, 2007 were approximately $600. Total charges for the fiscal year ended June 30, 2008 were approximately $5,100. No documentation was provided to indicate why such a large increase in service was necessary in one year and there was no Board approval of the change in plan.

In accordance with the Staff Use of Cellular Telephones policy and the following should be implemented:

- The cellular telephone service account invoices outlining the details of usage should be reviewed for conformance with the Staff Use of Cellular Telephone policy. Any instances of nonconformance should be communicated to the employee. Misuse of Board-owned cellular telephones should result in loss of the privilege (i.e., revocation) and possible disciplinary action against the employee.

- A monthly detailed activity statement for all charges should be reviewed by the user if the total costs go over the plan's normal charges to ensure the additional charges were incurred because of business use. Any personal use of Board-owned cellular telephones that results in additional charges should be reimbursed by the employee. Failure to reimburse the Academy as required should result in payroll deductions.

- The Board should seek reimbursement for any additional charges resulting from personal calls beyond the allowed one personal call per day. Failure to reimburse the Academy as required should result in payroll deductions.

- The Board should establish procedures to safeguard cellular phones to prevent equipment loss, damage, theft and vandalism.

The Academy should review the Staff Use of Cellular Telephones policy with all staff using Board-owned cellular telephones to ensure they understand the purpose and limitations of usage. The Academy should annually review the plans available to determine if the Academy's cellular telephone plan is the most economical and responsible available. Lastly, the Academy should establish a Board approved list of authorized cellular phone users. Any adjustments/deletions to the Academy's plan or users should be recommended for Board approval.

Officials' Response: We are aware of this situation. We have addressed this situation by collecting all of the cell phones from our personnel and canceling our contracts with the cell phone provider.

FINDING NUMBER 2008-003

Noncompliance

26 C.F.R. Section 1.61-21 generally requires fringe benefits be included in an employee's gross income. More specifically, Internal Revenue Code, **26 U.S.C. Section 280F(d)(4)(A)(v)** provides that cellular telephones are listed property that are susceptible to personal use that would constitute a taxable fringe benefit. Personal use of a business owned cellular telephone is a taxable fringe benefit even if it is not over the monthly plan amount paid by the employer. In addition, the substantiation rules per Internal Revenue Code **26 U.S.C. Section 274(d)** require the employee substantiate the business use of the cellular phone in order to exclude it from gross income.

Therefore, the employee is responsible for determining personal calls and reimbursing the employer. If the personal calls are not over the monthly plan amount then a pro-rated amount of the plan should be determine and reimbursed to the employer. If personal calls are not tracked then the entire bill is considered a taxable fringe benefit to be reported on the employee's Form W-2 or reimbursed to the employer.

During fiscal year 2008, the Academy provided cellular telephones to certain staff; however, the Academy did not include the fringe benefit from cellular phones on the W-2 Form nor was the Academy reimbursed by the staff for the personal use of cellular telephones. There was no documentation of which calls were business or personal related; however, based of the dates, times, and locations of phone calls, numerous calls appeared to be for personal use. The Academy should include fringe benefits from cellular telephones on the W-2 Form. In addition, the Academy should obtain the Taxable Fringe Benefits Guide created by the Internal Revenue Service office of Federal, State and Local Governments (FSLG) to provide governmental entities with a basic understanding of the tax issues related to employee fringe benefits and reporting under the Internal Revenue Code, regulations, and procedures.

This matter will be referred to the Internal Revenue Service.

Officials' Response: We are aware of this situation. We have addressed this situation by collecting all of the cell phones from our personnel and canceling our contracts with the cell phone provider.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	**2008-004**
CFDA Title and Number	Title I Grants to Local Educational Agencies / 84.010
Federal Award Year	2008
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Finding 2008-004 (Continued)

Questioned Cost/Material Weakness

20 USC 6315 (Title I, Section 1115 of ESEA) requires Title I, Part A funds to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas, a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by th school as failing, or most at risk of failing, to meet the States challenging student academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the Local Educational Agency and supplemented by the school. Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards and are thus eligible for Part A services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; children who received services under the Migrant Education Program under Title I, Part C at any time in the two preceding years; and children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services.

Ohio Rev. Code Section 3314.03(A)(11)(d) requires that each contract entered into between a sponsor and the governing authority of a community school shall specify that the school will comply with Section 149.43 of the Ohio Rev. Code. **Ohio Rev. Code Section 149.43(B)** states, in part, that all public records shall be promptly prepared and made available for inspection to any person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

It is the Academy's practice to use an Enrollment Application or Returning Enrollment Form to document the Title 1 eligibility determinations of the student, such as family size, annual and/or monthly income, or whether the family is receiving Public Assistance. For fifteen of the twenty-five (60%) Akron Digital Academy school applicants selected for testing, the Academy was unable to locate the student Enrollment Application or Returning Enrollment Form to verify the individual targeted assistance eligibility criteria. Consequently, the Academy may have received funding for students that did not meet the established eligibility requirements for targeted assistance programs.

Since the Digital Academy was unable to document the eligibility of fifteen students selected for testing who were served under the Title I, Part A program, we are questioning the approved per pupil amount of $1,750.71 for each of the fifteen students which equates to a $26,260.65 known questioned cost. Based on our 60% error rate, we are projecting a likely questioned cost of 60% of the total expenditures made from this grant during the audit period which equates to $248,499.

Finding 2008-004 (Continued)

Questioned Cost/Material Weakness (Continued)

Officials' Response: We are aware of this situation. Each school year, we send out an Enrollment Application or Returning Enrollment Form to every student enrolling with us for a given school year. This Enrollment Application or Returning Enrollment Form includes a questionnaire that is used to help determine Title I eligibility. In past school years, the questionnaire was not retained if there were no changes to the questionnaire received in previous school years, which was retained in the student's file. If there were changes to the questionnaire, then it was filed in the student's file, and the previous one was discarded. During the 2007-2008 school year, the Enrollment Applications and Returning Enrollment Forms were received from students before we decided to accept the federal Title I funding. In addition, fiscal year 2008 was the first fiscal year we received federal Title I funding. If we had known we were going to receive federal Title I funding sooner, we would have kept the new questionnaire each school year and replaced the previous questionnaire even if there were no changes to it. We have addressed this situation by always keeping the new questionnaire in the student's file and replacing the previous questionnaire even if there were no changes.

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
JUNE 30, 2008

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2008-004	We are aware of this situation. Each school year, we send out an Enrollment Application or Returning Enrollment Form to every student enrolling with us for a given school year. This Enrollment Application or Returning Enrollment Form includes a questionnaire that is used to help determine Title I eligibility. In past school years, the questionnaire was not retained if there were no changes to the questionnaire received in previous school years, which was retained in the student's file. If there were changes to the questionnaire, then it was filed in the student's file, and the previous one was discarded. During the 2007-2008 school year, the Enrollment Applications and Returning Enrollment Forms were received from students before we decided to accept the federal Title I funding. In addition, fiscal year 2008 was the first fiscal year we received federal Title I funding. If we had known we were going to receive federal Title I funding sooner, we would have kept the new questionnaire each school year and replaced the previous questionnaire even if there were no changes to it. We have addressed this situation by always keeping the new questionnaire in the student's file and replacing the previous questionnaire even if there were no changes.	Immediately	Mr. Bill Romano

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
FEBRUARY 19, 2009