AKRON DIGITAL ACADEMY
SUMMIT COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2010

Mary Taylor, CPA
Auditor of State

Dave Yost • Auditor of State

February 8, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Reports completed prior to that date contain the signature of my predecessor.

DAVE YOST
Auditor of State

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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 (the Academy), Summit County, Ohio, a component unit of the Akron City School District, as of and for the year ended June 30, 2010, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Akron Digital Academy, Summit County, Ohio, as of June 30, 2010, 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 January 7, 2011, 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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Accounting principles generally accepted in the United States of America require this presentation to include the *Management's discussion and analysis,* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the 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. The Federal Awards Expenditure Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 7, 2011

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, 2010. 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, 2010 are as follows:

- Total net assets increased $1,165,019. This is a 66.4 percent increase from fiscal year 2009.

- Total revenues increased to $6,102,481 from $4,934,517. This is an increase of $1,167,964 or 23.7 percent.

- Total expenses were $4,937,462. Total expenses decreased from $5,133,667 from fiscal year 2009. This is a decrease of $196,205 or 3.8 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 2010"? 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 2010 compared to fiscal year 2009 as follows:

Table 1
Net Assets at June 30,

	2010	2009
Assets		
Current Assets	$2,875,527	$1,732,792
Capital Assets, Net	85,425	101,570
Total Assets	2,960,952	1,834,362
Liabilities		
Current Liabilities	37,522	71,193
Long-Term Liabilities	2,775	7,533
Total Liabilities	40,297	78,726
Net Assets		
Invested in Capital Assets, Net of Related Debt	77,892	89,279
Restricted for Operating Grants	691,852	485,691
Unrestricted	2,150,911	1,180,666
Total Net Assets	$2,920,655	$1,755,636

Total assets increased $1,126,590.

Cash increased $944,742. This increase is attributed to an increase in foundation payments operating revenue, an increase in grants non-operating revenue and a decrease in operating expenses. Foundation payments operating revenue increased because of a rise in student average daily membership. Student average daily membership increased to 739 in fiscal year 2010 from 665 in fiscal year 2009. The amount of foundation payments received from the State increases as student average daily membership increases.

Grants non-operating revenue increased primarily due to the Academy's participation in new federal grant programs passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan. Fiscal year 2010 was the first fiscal year for American Recovery and Reinvestment Act ("ARRA") Title I, ARRA McKinley-Vento Homeless Assistance Program and ARRA Part B-IDEA Special Education federal grant programs. The Academy was awarded a total of $349,316 during the fiscal year ended June 30, 2010 for these new federal grant programs. In addition, grants non-operating revenue increased because the Academy received State Fiscal Education Stabilization funds through the State Foundation Program for the first time in fiscal year 2010. These funds are recognized as grants non-operating revenue since they were earmarked to be federal support. The Academy received $312,122 State Fiscal Education Stabilization funds during fiscal year 2010. Also, grants non-operating revenue increased due to an increase in the award amounts of the consolidated federal grant programs passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan. The Academy was awarded $1,068,925 in fiscal year 2010 as compared to $730,615 of federal grant funds in fiscal year 2009.

The following expenses decreased, which accounts for the majority of the decrease in operating expenses: payments to the Akron City School District (the "Sponsor") for management services, materials and supplies, and other. Other operating expenses decreased from fiscal year 2009 to fiscal year 2010 due to the Academy returning $26,261 of federal Title I funds in fiscal year 2009 to the Ohio Department of Education resulting from an audit finding in the fiscal year 2008 audit.

Also, intergovernmental receivable increased $206,161 from the prior fiscal year. As previously discussed, the Academy participated in new federal grant programs passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan. Fiscal year 2010 was the first fiscal year for ARRA Title I, ARRA McKinley-Vento Homeless Assistance Program and ARRA Part B-IDEA Special Education federal grant programs. The Academy was awarded a total of $349,316 during the 2010 fiscal year for these programs and received $191,936 of this award amount as of June 30, 2010 resulting in an intergovernmental receivable amount of $157,380 at June 30, 2010. In addition, as previously discussed, the award amounts of the consolidated federal grant programs passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan increased. The Academy was awarded a total of $1,068,925 during the 2010 fiscal year for these consolidated programs and received $534,453 of this award amount as of June 30, 2010 resulting in an intergovernmental receivable of $534,472 at June 30, 2010. On the other hand, the Academy was awarded a total of $730,615 during the 2009 fiscal year for these consolidated programs and received $244,924 of this award amount as of June 30, 2009 resulting in an intergovernmental receivable of $485,691 at June 30, 2009.

Total liabilities decreased $38,429. This decrease is mostly attributed to a $22,749 decrease in accounts payable. Software purchases totaling $35,925 were included in accounts payable as of June 30, 2009; the Academy had no software purchases included in accounts payable at June 30, 2010. These $35,925 software purchases included in accounts payable as of June 30, 2009 were offset by a furniture purchase of $18,359 that was included in accounts payable as of June 30, 2010. There was no furniture purchases included in accounts payable at June 30, 2009.

In addition, intergovernmental payable decreased $10,922. This decrease is attributed to payments to the Sponsor being included in intergovernmental payable as of June 30, 2009, however, there were no payments to the Sponsor included in intergovernmental payable at June 30, 2010.

Plus, capital leases payable decreased $4,758. 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 2010.

The net impact of the assets increase and liabilities decrease was an increase of net assets of $1,165,019.

Table 2 shows the changes in net assets for fiscal years 2010 and 2009 as follows:

Table 2
Change in Net Assets

	2010	2009
Operating Revenues		
Foundation Payments	$4,543,485	$4,391,892
Non-Operating Revenues		
Interest	8,093	6,832
Grants	1,550,672	524,373
Other	231	11,420
Total Non-Operating Revenues	1,558,996	542,625
Total Revenues	6,102,481	4,934,517
Operating Expenses		
Purchased Services	4,529,051	4,673,481
Materials and Supplies	360,674	383,551
Depreciation	29,725	28,630
Other	17,540	45,212
Total Operating Expenses	4,936,990	5,130,874
Non-Operating Expenses		
Loss on Disposal of Capital Assets	472	2,793
Total Expenses	4,937,462	5,133,667
Increase/(Decrease) in Net Assets	$1,165,019	($199,150)

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

Foundation payments increased from $4,391,892 in fiscal year 2009 to $4,543,485 in fiscal year 2010. Foundation payments comprised 74.5 percent of total revenues. Foundation payments increased because student average daily membership increased to 739 in fiscal year 2010 from 665 in fiscal year 2009, as previously discussed.

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

Total non-operating revenues increased from $542,625 in fiscal year 2009 to $1,558,996 in fiscal year 2010. This increase is primarily due to an increase in grants non-operating revenue of $1,026,299. The increase in grants non-operating revenue, as previously discussed, is due to the Academy's participation in new ARRA federal grant programs passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan, the Academy received State Fiscal Education Stabilization funds through the State Foundation Program for the first time in fiscal year 2010, and an increase in the award amounts of the consolidated federal grant programs passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan.

Total expenses decreased from $5,133,667 in fiscal year 2009 to $4,937,462 in fiscal year 2010, a 3.8 percent decrease. As previously discussed, this decrease mainly is a result of the following expense decreases: payments to the Akron City School District (the "Sponsor") for management services, materials and supplies, and other.

Purchased services operating expenses decreased to $4,529,051 in fiscal year 2010 from $4,673,481 in fiscal year 2009. Reimbursements paid to the Sponsor for management services decreased from $1,219,854 in the prior fiscal year to $947,868 in the current fiscal year. For further explanation of the payments to the Sponsor, see Note 6 of the notes to the basic financial statements.

In addition, other operating expenses decreased to $17,540 in fiscal year 2010 from $45,212 in fiscal year 2009. This is mainly due to the Academy returning $26,261 of federal Title I funds to the Ohio Department of Education during fiscal year 2009 resulting from an audit finding in the fiscal year 2008 audit.

Also, materials and supplies operating expense decreased to $360,674 in fiscal year 2010 from $383,551 in fiscal year 2009. The Academy simply spent less on instructional materials, supplies and software in the current fiscal year than in the prior fiscal year.

Capital Assets

At the end of fiscal year 2010, the Academy had $85,425 invested in furniture and equipment. Table 3 shows fiscal year 2010 balances compared to fiscal year 2009 as follows:

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

	2010	2009
Furniture and Equipment	$85,425	$101,570

Depreciation operating expense of $29,725 accounts for the majority of the decrease in capital assets. Depreciation operating expense was offset by purchases amounting to $14,052 during the current fiscal year. The Academy purchased 2 free standing partitions, 3 catalyst switches and a laminator during the 2010 fiscal year. For further information on capital assets, see Note 4 of the notes to the basic financial statements.

For the Future

The Academy's focus will be to maintain its current enrollment. Therefore, the Academy does not anticipate significant changes in revenues and expenses.

The Academy will continue to receive ARRA funds and State Fiscal Education Stabilization funds in fiscal year 2011 from the federal government that will aid in maintaining current revenue levels. However, it is unknown if these revenue sources will continue after fiscal year 2011. This uncertainty makes it difficult to forecast revenues after fiscal year 2011.

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 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, 2010

Assets	
Current Assets:	
Cash	$2,177,666
Accounts Receivable	31
Intergovernmental Receivable	691,852
Prepaid Items	5,978
Total Current Assets	2,875,527
Noncurrent Assets:	
Depreciable Capital Assets	85,425
Total Assets	2,960,952
Liabilities	
Current Liabilities:	
Accounts Payable	32,764
Capital Leases Payable, Current Portion	4,758
Total Current Liabilities	37,522
Long-Term Liabilities:	
Capital Leases Payable	2,775
Total Liabilities	40,297
Net Assets	
Invested in Capital Assets, Net of Related Debt	77,892
Restricted for Operating Grants	691,852
Unrestricted	2,150,911
Total Net Assets	$2,920,655

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, 2010

Operating Revenues	
Foundation Payments	$4,543,485
Total Operating Revenues	4,543,485
Operating Expenses	
Purchased Services	4,529,051
Materials and Supplies	360,674
Depreciation	29,725
Other	17,540
Total Operating Expenses	4,936,990
Operating (Loss)	(393,505)
Non-Operating Revenues (Expenses)	
Interest	8,093
Grants	1,550,672
Other	231
Loss on Disposal of Capital Assets	(472)
Total Non-Operating Revenues (Expenses)	1,558,524
Change in Net Assets	1,165,019
Net Assets at Beginning of Fiscal Year	1,755,636
Net Assets at End of Fiscal Year	$2,920,655

See accompanying notes to the basic financial statements

Akron Digital Academy

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2010

Increase (Decrease) in Cash	
Cash Flows from Operating Activities	
Cash Received from Foundation Payments	$4,543,485
Cash Payments for Goods and Services	(4,932,768)
Net Cash (Used in) Operating Activities	(389,283)
Cash Flows from Noncapital Financing Activities	
Grants Received	1,344,511
Other Non-Operating Revenues	231
Net Cash Provided by Noncapital Financing Activities	1,344,742
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(14,052)
Principal Payments for Capital Leases	(4,758)
Net Cash (Used in) Capital and Related Financing Activities	(18,810)
Cash Flows from Investing Activities	
Interest on Investments	8,093
Net Increase in Cash	944,742
Cash at Beginning of Fiscal Year	1,232,924
Cash at End of Fiscal Year	$2,177,666
Reconciliation of Operating (Loss) to Net Cash (Used in) Operating Activities	
Operating (Loss)	($393,505)
Adjustments:	
Depreciation	29,725
(Increase) Decrease in Assets:	
Accounts Receivable	(31)
Prepaid Items	8,199
Increase (Decrease) in Liabilities:	
Accounts Payable	(22,749)
Intergovernmental Payable	(10,922)
Total Adjustments	4,222
Net Cash (Used in) Operating Activities	($389,283)

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 739 students, were purchased from the Sponsor during fiscal year 2010.

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

During fiscal year 2010, the Academy had no investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010 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 the 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. Portions of the revenues received from this program are earmarked to be State support and portions of the revenues received from this program are earmarked to be federal support called State Fiscal Education Stabilization funds. The portion earmarked as State support is recognized as operating revenues in the accounting period in which all eligibility requirements have been met. The portion earmarked as federal support is recognized as non-operating revenue 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, 2010 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 I School Improvement Subsidy G, Title IV-A Safe and Drug-Free Schools, Title II-A Improving Teacher Quality, Title II-D Technology, American Recovery and Reinvestment Act (ARRA) Title I, ARRA McKinley-Vento Homeless Assistance Program and ARRA Part B-IDEA Special Education. The Academy was awarded a total of $1,418,241 during the fiscal year ended June 30, 2010 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 2010 fiscal year totaled $6,094,157.

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 $2,177,666 and the bank balance was $2,491,889. Of the bank balance, $500,000 was covered by the Federal Deposit Insurance Corporation and $1,991,889 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 During fiscal year 2010, the Academy had no investments.

Note 4 – Capital Assets

Capital asset activity for the fiscal year June 30, 2010, was as follows:

	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Capital Assets, being depreciated:				
Furniture and Equipment	$147,481	$14,052	($2,362)	$159,171
Less Accumulated Depreciation:				
Furniture and Equipment	(45,911)	(29,725)	1,890	(73,746)
Total Capital Assets, being depreciated, net	$101,570	($15,673)	($472)	$85,425

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 2010, 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 2010 between the Academy and the Sponsor was previously approved. This service contract commenced on July 1, 2009 and ends June 30, 2010 and 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 $2,958,165 during fiscal year 2010 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; instructional materials; and, pony delivery. The Academy paid the Sponsor $947,868 during fiscal year 2010 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 2010 fiscal year.

For the fiscal year ended June 30, 2010, the Academy paid the Sponsor the following expenses:

Operating Expenses	Amounts
Purchased Services	
Professional and Technical Services	$3,903,946
Communications	436
Contracted Craft or Trade Services	1,235
Supplies and Materials	416
Total Operating Expenses	$3,906,033

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 Employers/Audit Resources.

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 and death benefits with the remainder being used to fund health care benefits and Medicare Part B benefits; for fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension and death benefits. 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 and death benefits to SERS for the personnel provided to the Academy for the fiscal years ended June 30, 2010, 2009 and 2008 were $104,373, $64,204 and $53,129, respectively; 65.58 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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, 2010, 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, 2010, 2009, and 2008 were \$207,198, \$207,003, and \$195,555, respectively; 85.37 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. There were no contributions to the DC and Combined Plans for fiscal year 2010 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 be 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 fiscal year 2010, 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, 2010, 2009 and 2008 were $15,938, $15,923 and $15,043, respectively; 85.37 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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' fees through several types of plans including HMO's, PPO's, Medicare Advantage 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 Employers/Audit Resources.

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 105(e). For fiscal year 2010, 0.46 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 2010, 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, 2010, 2009 and 2008 were $23,980, $48,677 and $38,352 respectively; 65.58 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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 2010, the actuarially required allocation was 0.76 percent 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, 2010, 2009 and 2008 were $6,207, $5,297 and $3,828, respectively; 65.58 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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, 2010:

Fiscal Year Ending June 30,	Principal Payments
2011	4,758
2012	2,775
Total	$7,533

Note 10 – Operating Leases

The Academy leases facilities space, copiers and a postage meter under noncancelable operating leases. Total costs for such leases were $178,048 for the fiscal year ended June 30, 2010. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2011	$298,452
2012	290,900
2013	276,438
2014	70,431
2015	67,452
Total	$1,003,673

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, 2010.

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.

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

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	2010	84.027	$54,939	$18,206
	2009		53,176	40,148
Total Special Education - Grants to States			108,115	58,354
ARRA - Special Education - Grants to States	2010	84.391	75,284	65,710
Total Special Education Cluster			183,399	124,064
Title I Grants to Local Educational Agencies	2010	84.010	380,859	420,155
	2009		235,633	72,217
Total Title I Grants to Local Educational Agencies			616,492	492,372
ARRA- Title I Grants to Local Educational Agencies	2010	84.389	116,652	111,585
Total Title I Cluster -Grants to Local Education Agencies			733,144	603,957
Safe and Drug-Free Schools and Communities-State Grants	2010	84.186	1,355	0
	2009		5,631	5,631
Total Safe and Drug-Free Schools and Communities-State Grants			6,986	5,631
State Grants for Innovative Programs	2010	84.298	51,460	51,825
	2009		334	371
Total State Grants for Innovative Programs			51,794	52,196
Education Technology State Grants	2010	84.318	3,932	0
	2009		5,321	5,473
Total Education Technology State Grants			9,253	5,473
Improving Teacher Quality State Grants	2010	84.367	36,244	34,974
	2009		6,569	7,890
Total Improving Teacher Quality State Grants			42,813	42,864
ARRA - State Fiscal Stabilization Fund	2010	84.394	312,122	312,122
Total Passed through the Ohio Department of Education			1,339,511	1,146,307
Total U.S. Department of Education			**$1,339,511**	**$1,146,307**

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

NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2010

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.

Mary Taylor, CPA
Auditor of State

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 Akron Digital Academy (the "Academy"), Summit County, Ohio, a component unit of the Akron City School District, as of and for the year ended June 30, 2010, and have issued our report thereon dated January 7, 2011. 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 the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 7, 2011

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 Akron Digital Academy, Summit County, Ohio, (the Academy), a component unit of the Akron City School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Academy's major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each 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 included in the Comptroller General of the United States' *Government Auditing Standards*; 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 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.

In our opinion, the Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

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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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted a matter involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated January 7, 2011.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 7, 2011

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010

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 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)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under § .510 (a)?**	No
(d)(1)(vii)	**Major Programs (list):**	Title 1 Cluster: Grants to Local Educational Agencies (CFDA 84.010, ARRA-Grants to Local Educational Agencies (CFDA 84.389), ARRA-State Fiscal Stabilization Fund (CFDA 84.394)
(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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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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
FEBRUARY 8, 2011