



Dave Yost • Auditor of State

**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2013 and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Academy's basic financial statements taken as a whole.

The Federal Awards Receipts and Expenditures Schedule (the Schedule) presents additional analysis as 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 financial statements.

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule 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. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

March 24, 2014

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Akron Digital Academy

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

The discussion and analysis of the Akron Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2013. 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, 2013 are as follows:

- Total net position decreased \$345,169. This is a 14% decrease from fiscal year 2012.
- Total revenues decreased to \$4,530,980 from \$4,926,952. This is a decrease of \$395,972 or 8%.
- Total expenses were \$4,876,149. Total expenses increased from \$4,839,838 from fiscal year 2012. This is an increase of \$36,311 or 1%.

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 position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during fiscal year 2013"? The statement of net position 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 position and change in net position. This change in net position 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.

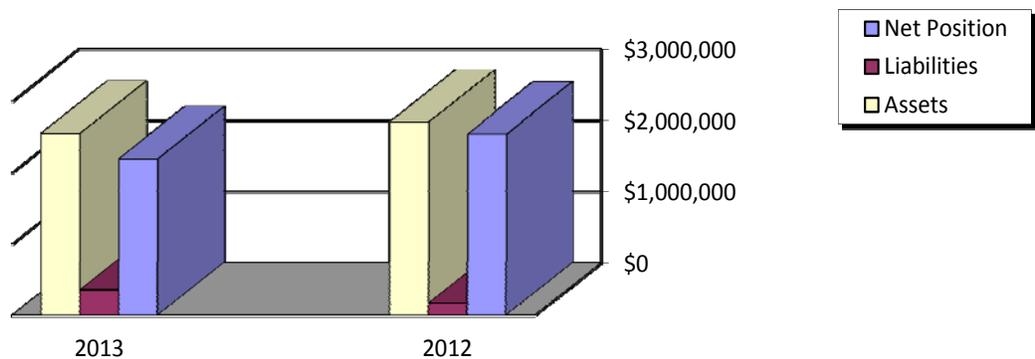
Akron Digital Academy

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Table 1 provides a summary of the Academy's net position for fiscal year 2013 compared to fiscal year 2012 as follows:

Table 1
Net Position

	Fiscal Year	
	2013	2012
Assets:		
Current Assets	\$2,493,571	\$2,645,160
Capital Assets, Net	55,785	63,253
Total Assets	2,549,356	2,708,413
Liabilities:		
Current Liabilities	356,231	170,119
Total Liabilities	356,231	170,119
Net Position:		
Net Investment in Capital Assets	55,785	63,253
Restricted	0	260,733
Unrestricted	2,137,340	2,214,308
Total Net Position	\$2,193,125	\$2,538,294



Total net position of the Academy decreased by \$345,169. The decrease in total net position from fiscal year 2012 is primarily due to a decrease in equity in pooled cash and investments as cash expenses exceeded cash receipts in fiscal year 2013 and a decrease to capital assets. Current liabilities increased due to an increase in accrued wages and benefits when compared to 2012.

Akron Digital Academy

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Table 2 shows the changes in net position for the fiscal years ended June 30, 2013 and 2012.

Table 2
Changes in Net Position

	Fiscal Year	
	2013	2012
Operating Revenues:		
State Foundation	\$3,343,605	\$3,781,650
Fees	3,755	0
Other Revenues	29,891	0
Total Operating Revenues	<u>3,377,251</u>	<u>3,781,650</u>
Operating Expenses:		
Salaries	2,419,546	2,261,236
Fringe Benefits	667,566	463,484
Purchased Services	1,397,221	1,708,186
Materials and Supplies	315,221	338,264
Depreciation	32,887	31,531
Other Expenses	43,708	33,591
Total Operating Expenses	<u>4,876,149</u>	<u>4,836,292</u>
Operating Income (Loss)	<u>(1,498,898)</u>	<u>(1,054,642)</u>
Non-Operating Revenues (Expenses):		
Loss on disposal of capital assets	0	(3,546)
Investment Earnings	11,263	6,737
State and Federal Grants	1,142,466	1,138,533
Other Revenue	0	32
Total Non-Operating Revenues (Expenses)	<u>1,153,729</u>	<u>1,141,756</u>
Change in Net Position	(345,169)	87,114
Net Position - Beginning of Year	<u>2,538,294</u>	<u>2,451,180</u>
Net Position - End of Year	<u>\$2,193,125</u>	<u>\$2,538,294</u>

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

Foundation payments decreased from \$3,781,650 in fiscal year 2012 to \$3,343,605 in fiscal year 2013. Foundation payments decreased because student average daily membership decreased to 526 in fiscal year 2013 from 627 in fiscal year 2012. Foundation payments are based on student enrollment. The State Foundation Program is, by far, the primary support for the Academy's students.

Akron Digital Academy

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

Total non-operating revenues increased from \$1,145,302 in fiscal year 2012 to \$1,153,729 in fiscal year 2013. This increase is primarily due to an increase in grants non-operating revenue of \$3,933.

Total expenses remained relatively consistent in fiscal year 2013 as compared to fiscal year 2012.

Capital Assets

At the end of fiscal year 2013, the Academy had \$55,785 in furniture and equipment. Table 3 shows fiscal year 2013 balances compared to fiscal year 2012 as follows:

Table 3
Capital Assets at Year End
(Net of Depreciation)

	Fiscal Year	
	2013	2012
Furniture and Equipment	\$55,785	\$63,253

Depreciation operating expense of \$32,887 accounts for the majority of the decrease in capital assets. Depreciation operating expense was offset by purchases amounting to \$25,419 during the current 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 Race to the Top funds in fiscal year 2014 from the federal government. Once these funds end, it may be difficult to maintain current revenue levels without additional revenue sources from the federal and state governments. This uncertainty makes it difficult to forecast revenues after fiscal year 2013.

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

Akron Digital Academy

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

(Unaudited)

have any questions about this report or need additional financial information, contact Shaun Bevan, Fiscal Officer, at Akron Digital Academy, 1879 Deerfield Rd, Lebanon, Ohio 45036.

Akron Digital Academy
Statement of Net Position
June 30, 2013

Assets:	
Current Assets:	
Cash and Investments	\$2,256,383
Receivables:	
Accounts	5,408
Intergovernmental	<u>231,780</u>
Total Current Assets	<u>2,493,571</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net	<u>55,785</u>
Total Noncurrent Assets	<u>55,785</u>
Total Assets	<u>2,549,356</u>
Liabilities:	
Current Liabilities:	
Accounts Payable	50,795
Accrued Wages and Benefits	<u>305,436</u>
Total Current Liabilities	<u>356,231</u>
Total Liabilities	<u>356,231</u>
Net Position:	
Net Investment in Capital Assets	55,785
Unrestricted	<u>2,137,340</u>
Total Net Position	<u>\$2,193,125</u>

See accompanying notes to the basic financial statements.

Akron Digital Academy
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

Operating Revenues:	
Fees	\$3,755
Foundation Payments	3,343,605
Other Operating Revenues	<u>29,891</u>
Total Operating Revenues	<u>3,377,251</u>
Operating Expenses:	
Salaries	2,419,546
Fringe Benefits	667,566
Purchased Services	1,397,221
Materials and Supplies	315,221
Depreciation	32,887
Other	<u>43,708</u>
Total Operating Expenses	<u>4,876,149</u>
Operating Income (Loss)	<u>(1,498,898)</u>
Non-Operating Revenues (Expenses):	
Investment Earnings	11,263
State and Federal Grants	<u>1,142,466</u>
Total Non-Operating Revenues (Expenses)	<u>1,153,729</u>
Change in Net Position	(345,169)
Net Position - Beginning of Year	<u>2,538,294</u>
Net Position - End of Year	<u><u>\$2,193,125</u></u>

See accompanying notes to the basic financial statements.

Akron Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Cash Flows from Operating Activities:	
Cash Received from State Foundation	\$3,343,605
Other Operating Cash Receipts	33,146
Cash Payments to Employees for Salaries and Benefits	(2,835,894)
Cash Payments for Goods and Services	(1,640,104)
Cash Payments for Other Expenses	<u>(43,708)</u>
Net Cash Provided (Used) by Operating Activities	<u>(1,142,955)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Received from State and Federal Grants	<u>1,081,836</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,081,836</u>
Cash Flows from Capital and Related Financing Activities:	
Cash Payments for Capital Acquisitions	<u>(25,419)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(25,419)</u>
Cash Flows from Investing Activities:	
Earnings on Investments	<u>11,263</u>
Net Cash Provided (Used) by Cash Flows from Investing Activities	<u>11,263</u>
Net Increase (Decrease) in Cash and Investments	(75,275)
Cash and Investments - Beginning of Year	<u>2,331,658</u>
Cash and Investments - End of Year	<u><u>\$2,256,383</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(\$1,498,898)
Adjustments:	
Depreciation	32,887
Changes in Assets & Liabilities:	
(Increase) Decrease in Receivables	23,483
(Increase) Decrease in Prepayments	23,878
Increase (Decrease) in Accrued Liabilities	227,235
Increase (Decrease) in Payables	<u>48,460</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$1,142,955)</u></u>

See accompanying notes to the basic financial statements.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1 – Description of the Academy

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 a period of two years commencing July 1, 2012.

The Academy operates under the direction of a self-appointed, nine-member Board of Directors. The Board consists of a Board President, two members who hold administrative positions with the Sponsor, a public official not employed by the Sponsor, and five 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.

The Academy is staffed by 83 employees who provide services to 526 students. The services of an additional 4 individuals were purchased from the Sponsor during fiscal year 2013.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with the 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 more significant of the Academy’s accounting policies are described below.

Basis of Presentation

The Academy’s basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Academy uses enterprise accounting to maintain its financial records. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

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 years when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code, Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does not prescribe formal budgetary provisions; however, it does prescribe that the Academy's Administrator compares income and expense to actual figures on a regular basis and also prescribes that the board will review and compare expenses and income from reports prepared by the Academy's treasurer on a monthly basis. Under Ohio Revised Code Section 5705.391, the Academy must prepare a five-year funding plan and submit it to the Ohio Superintendent of Public Instruction.

Capital Assets and Depreciation

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.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

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.

Net Position

Net Position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets 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 position is 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. The Academy applies restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments. Operation expenses are the necessary costs incurred to provide the goods or services that occur in carrying out the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

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 participated in the following federal grant programs which are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan (CCIP): Part B-IDEA Special Education, Title I, Title I School Improvement Subsidy A, Title II-A Improving Teacher Quality, Race to the Top and Ed Jobs. In addition, the Academy participated in the Race to the Top Ohio My Voice Initiative which was awarded outside of the Ohio Department of Education's CCIP Plan. The Academy was awarded a total of \$1,142,466 during the fiscal year ended June 30, 2013 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 2013 fiscal year totaled \$4,486,071.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the 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 June 30, 2013, the carrying amount of the Academy's deposits totaled \$1,845,784 and the bank balance was \$1,859,400. Of the bank balance, \$384,121 was covered by the Federal Deposit Insurance Corporation and \$1,475,279 of the Academy's bank balance was exposed to custodial risk because it was uninsured.

The Academy has no deposit policy for custodial risk.

Investments

Investments are reported at fair value. As of June 30, 2013, the Academy had the following investment:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Life Insurance Annuity	<u>\$410,599</u>	4.07

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Academy will not directly invest in securities maturing more than five years from the date of purchase. The Academy does not have an investment policy to address this risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Investments in Life Insurance Annuity is not rated. The Academy does not have a policy to address credit risk for investments.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Academy has invested 100 percent in the Life Insurance Annuity. The Academy does not have an investment policy to address this risk.

Custodial Credit Risk - 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. All of the Academy's investments are either insured and registered in the name of the Academy or at least registered in the name of the Academy. The Academy does not have a policy to address custodial credit risk.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 was:

	Balance 06/30/12	Additions	Deletions	Balance 06/30/13
Furniture and Equipment	\$179,925	\$25,419	\$0	\$205,344
Total Capital Assets being Depreciated	179,925	25,419	0	205,344
Less Accumulated Depreciation:				
Furniture and Equipment	116,672	32,887	0	149,559
Total Accumulated Depreciation	116,672	32,887	0	149,559
Total Capital Assets, Net	<u>\$63,253</u>	<u>(\$7,468)</u>	<u>\$0</u>	<u>\$55,785</u>

Note 5 - Risk Management

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. For fiscal year 2013, the Academy contracted with Agronaut Insurance Company for property, inland marine, crime, general liability, educators legal liability, employers practices liability, automobile coverage and excess liability insurance.

Coverage provided is as follows:

Type of Coverage	Coverage Amount
Commercial Property (\$1,000 deductible):	
Building and Contents	\$185,400
Commercial Inland Marine (\$1,000 deductible)	400,000
Commercial Crime (\$500 deductible)	50,000
Commercial General Liability (No deductible):	
General Aggregate Limit	3,000,000
Each Occurrence Limit	1,000,000
Employers Liability	1,000,000
Educators Legal Liability (\$2,500 deductible):	
Annual Aggregate	3,000,000
Each Wrongful Act	1,000,000
Employment Practices Liability (\$2,500 deductible):	
Annual Aggregate	3,000,000
Each Wrongful Act	1,000,000
Automobile Liability (No deductible)	1,000,000
Commercial Excess Liability (No deductible)	1,000,000

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Settled claims did not exceed commercial coverage in the past two fiscal years and there has not been a significant reduction in coverage from the prior fiscal year.

Note 6 - Purchased Services

The Academy purchased the following from the Sponsor: personnel to administer and oversee the instruction and governance of the Academy, printing of supplies and materials for the Academy and postage for 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 \$386,826 during fiscal year 2013 for these services.

In addition, in accordance with the sponsorship contract between the Sponsor and the Academy and in accordance with Ohio Revised Code Section 3314.03, the Academy will pay a sponsorship fee to the Sponsor of an amount not to exceed two percent of the total State Foundation Program payments during the fiscal year for oversight and monitoring. The Academy paid \$66,872 to the Sponsor during fiscal year 2013 for these services.

All personnel providing services to the Academy on behalf of the Sponsor are considered employees of the Sponsor. The services of four individuals were purchased from the Sponsor during fiscal year 2013.

For the fiscal year ended June 30, 2013, purchased service expenses were comprised of the following:

<u>Purchased Services</u>	<u>Amounts</u>
Professional and Technical Services	\$697,954
Property Services	368,090
Travel and Meeting	30,971
Communications	223,829
Utilities Services	2,499
Contracted Craft and Trade Services	6,423
Fees	3,650
Pupil Transportation Services	63,805
Total Purchased Services	<u>\$1,397,221</u>

Note 7 - Pension Plans

School Employees Retirement System of Ohio

Plan Description

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 state statute per 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 can be obtained by contacting 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 at www.ohsers.org under *Employers/Audit Resources*.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Funding Policy

Plan members are required to contribute 10% of their annual covered salary and Academy is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The Academy's required contributions for pension and death benefits to SERS for the fiscal years ended June 30, 2013 and 2012 were \$94,121 and \$107,205; 100 percent has been contributed for fiscal years 2013 and 2012. 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, 2013, 2012 and 2011 were \$9,874, \$11,458 and \$117,464, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

State Teachers Retirement System of Ohio

Plan Description

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution, or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof. Additional information or copies of STRS Ohio's *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad Street, Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio web site at www.strsoh.org.

Plan Options

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits

Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits

Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits

Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalizations, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Funding Policy

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2013, were 10% of covered payroll for members and 14% for employers. The Academy's contributions to STRS for the years ended June 30, 2013 and 2012, were \$199,892 and \$180,087, 100% has been contributed for fiscal year 2013 and 2012. 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, 2013, 2012, and 2011 were \$23,881, \$43,914, and \$264,313, respectively; 100% has been contributed for fiscal year 2013, 2012 and 2011.

Note 8 - Post Employment Benefits

School Employees Retirement System of Ohio

Plan Description

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 depending on their income; SERS' reimbursement to retirees was \$45.50.

The 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 2013, the actuarially required allocation was 0.74%. The Academy's contributions for Medicare Part B for the fiscal years ended June 30, 2013 and 2012 were \$5,317 and \$6,331; 100 percent has been contributed for fiscal years 2013 and 2012. The Sponsor's contributions for Medicare Part B for the personnel provided to the Academy for the fiscal year ended June 30, 2013, 2012 and 2011 were \$558, \$677 and \$7,559, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2013,

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

the health care allocation was 0.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Academy's contributions for health care for the fiscal years ended June 30, 2013 and 2012 were \$11,975 and \$15,468; 100 percent has been contributed for fiscal years 2013 and 2012. The Sponsor's contributions for health care for the personnel provided to the Academy for the fiscal years ended June 30, 2013, 2012 and 2011 were \$121, \$23,037 and \$35,386 respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting 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 at www.ohsers.org under *Employers/Audit Resources*.

State Teachers Retirement System of Ohio

Plan Description

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit and the Defined Contribution Plan.

Ohio law authorized STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. 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

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contributions rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2013, 2012 and 2011. The 14% employer contribution rate is the maximum rate established under Ohio law. The Academy's contributions for health care for the fiscal years ended June 30, 2013 and 2012 were \$15,376 and \$13,853; 100% has been contributed for fiscal year 2013 and 2012. The Sponsor's contributions for health care for the

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

personnel provided to the Academy for the fiscal years ended June 30, 2013, 2012 and 2011 were \$1,837, \$3,378 and \$20,332, respectively; 100% has been contributed for fiscal year 2013, 2012 and 2011.

Note 9 - Operating Leases

The Academy leases facilities space, copiers and a postage meter under non-cancelable operating leases. Total costs for such leases were \$309,501 for the fiscal year ended June 30, 2013.

The future minimum lease payments for these continuing leases are as follows:

Fiscal Year Ending June 30,	Amount
2014	\$73,767
2015	69,120
Total	<u>\$142,887</u>

Note 10 - Contingencies

Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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 such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2013.

Litigation

The Academy is involved in no material litigation as either plaintiff or defendant.

Note 11 - Enrollment FTE

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. The results of the review could result in state funding being adjusted. The Ohio Department of Education has not completed its review of the Academy's enrollment data for fiscal year 2013, so this amount has not been included on the accompanying financial statements.

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
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 13 – Change in Accounting Principles

The Academy adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements and GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB Statement No. 62 incorporates Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989 into GASB authoritative literature. GASB Statement No. 63 provides financial reporting guidance for deferred outflows and inflows of resources and net position.

Note 14 – Subsequent Events

In fiscal year 2014, Shaun Bevan took over as fiscal officer. In fiscal year 2014, the Academy is now sponsored by Warren County Educational Service Center.

**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Grant Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through the Ohio Department of Education:</i>					
Education Jobs	149054-3ET0	2012	84.410	\$8,829	
ARRA - Race to the Top	149054-3FD0	2012	84.395		\$2,291
ARRA - Race to the Top	149054-3FD0	2013	84.395	104,208	114,437
ARRA - Race to the Top Ohio My Voice Initiative	149054-3FD0	2012	84.395	3,424	
ARRA - Race to the Top Ohio My Voice Initiative	149054-3FD0	2013	84.395	80,000	100,000
ARRA - Race to the Top Ohio TIP Initiative	149054-3FD0	2013	84.395		97,575
ARRA - Race to the Top AVID Initiative	149054-3FD0	2012	84.395	<u>17,342</u>	<u>18,029</u>
Total Race to the Top				204,974	332,332
Special Education - Grants to States	149054-3M20	2012	84.027	120,059	131,194
Special Education - Grants to States	149054-3M20	2013	84.027	<u>229,475</u>	<u>229,475</u>
Total Special Education - Grants to States				349,534	360,669
Educational Technology State Grants	149054-3S20	2012	84.318	827	
Title I School Improvement Subsidy A	149054-3M01	2012	84.010	10,861	10,861
Title I School Improvement Subsidy A	149054-3M00	2013	84.010	2,310	2,310
Title I Grants to Local Educational Agencies	149054-3M00	2012	84.010	113,720	121,257
Title I Grants to Local Educational Agencies	149054-3M00	2013	84.010	<u>371,082</u>	<u>377,434</u>
Total Title I Grants to Local Educational Agencies				487,112	501,001
Improving Teacher Quality Grant Program	149054-3DG0	2012	84.367	3,013	3,013
Improving Teacher Quality Grant Program	149054-3DG0	2013	84.367	<u>6,222</u>	<u>6,222</u>
Total Improving Teacher Quality State Grant				9,235	9,235
<i>Total Passed through the Ohio Department of Education</i>				<u>1,071,372</u>	<u>1,214,098</u>
Total U.S. Department of Education				<u>\$1,071,372</u>	<u>\$1,214,098</u>

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

Akron Digital Academy
Notes to the Federal Awards Receipts and Expenditures Schedule
For the Fiscal Year Ended June 30, 2013

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.

Note B – SCHOOL-WIDE POOL

The Academy participated in the School-Wide Pool during the fiscal year ended June 30, 2013. The School-Wide Pool follows guidance from OMB Circular A-133.

Program Title	Federal CFDA Number	Allocated Amount
Enterprise Fund		\$3,397,036
Title I	84.010	381,073
Title II-A Improving Teacher Quality	84.318	6,915
Title I School Improvement Subsidy A	84.010	3,453
Special Education Part B - IDEA	84.027	<u>255,507</u>
Total School-Wide Pool		<u><u>\$4,043,984</u></u>



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated March 24, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider material weakness.

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

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, opining 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*.

Academy's Response to Finding

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 24, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Directors:

Report on Compliance for Each Major Federal Program

We have audited the Akron Digital Academy's, a component unit of the Akron City School District, (the Academy's) compliance with the applicable 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, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Academy's major federal programs.

Management's Responsibility

The Academy's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Academy's compliance for each of the Academy's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for 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*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Academy's major programs. However, our audit does not provide a legal determination of the Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, the Akron Digital Academy complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Academy's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine 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's applicable 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 24, 2014

**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(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	Unmodified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	ARRA-Race to the Top (CFDA #84.395) Special Education – Grants to States (CFDA #84.027)
(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**

1. Transaction Classification and Trial Balance Compilation

<i>Finding Number</i>	2013-001
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MATERIAL WEAKNESS

During testing of the Academy's trial balance, we noted the following:

- Monthly FTE (full time equivalency) adjustments, made by ODE to reduce foundation revenue for overpayments received in prior years, were recorded as reduction of grant revenue resulting in an overstatement of cash basis foundation revenue and an understatement of cash basis grant revenue totaling \$88,899.
- Other operating revenue and fringe benefit expense included bi-weekly payroll holding transactions totaling \$315,875 along with holding transactions for pension surcharges and payroll corrections totaling \$10,806 which should have been eliminated at year end. The eliminations were not originally made resulting in overstatements in both other operating revenue and fringe benefit expense totaling \$326,681.
- Other expense included monthly pension contributions which were withheld from the Academy's monthly foundation settlements, resulting in an overstatement of other expense and an understatement of fringe benefit expense totaling \$330,474.
- A GAAP adjustment was posted in fiscal year 2012 to record a receivable and related reduction of fringe benefit expense for a pension refund. During fiscal year 2013, this adjustment was reversed against state and federal grant revenue resulting in an understatement of state and federal grant revenue and overstatement of fringe benefit expense totaling \$28,891.

The errors above were discussed with the Academy's GAAP conversion team who made correcting entries which were reflected on an updated trial balance and corrected financial statements.

The following additional errors were considered to be immaterial and remain uncorrected.

- Other operating revenue included a pension refund which should have been recorded as a reduction of fringe benefit expense (see bullet point above), resulting in overstatements in both other operating revenue and fringe benefit expense totaling \$28,891.
- The fiscal year 2012 deferred revenue liability which was comprised solely of FTE adjustments was reversed in fiscal year 2013 against grant revenue rather than foundation revenue resulting in an understatement of GAAP basis foundation revenue and an overstatement of GAAP basis state and federal grant revenue totaling \$89,583.
- Other operating revenue included an Access Grant resulting in an overstatement of other operating revenue and an understatement of state and federal grant revenue totaling \$500.

- Other operating revenue included a Worker's Compensation refund which should have been recorded as a reduction of fringe benefit expense, resulting in overstatements of both other operating revenue and fringe benefits expense totaling \$500.

To help ensure accurate financial reporting, the Academy's management should review the coding of financial transactions input into their accounting system to verify information is being classified correctly based on source and purpose. In addition, the Academy's GAAP conversion team should review transaction detail as well as GAAP adjustments to verify current year information is classified correctly and reversing entries are made consistent with their treatment in prior years.

Official's Response:

- These were transactions that were coded incorrectly. Any future reductions in foundation revenue payments will be coded properly
- These were transactions that were coded incorrectly. Future payroll and fringe benefit expenses will be coded properly
- These were transactions that were coded incorrectly. Future retirement/benefit expenses will be coded properly.
- GAAP consultant did not have prior year work papers to review for correct input of entries. Going forward this will not happen again.
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- GAAP consultant did not have prior year work papers to review for correct input of entries. Going forward this will not happen again.
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3. FINDINGS FOR FEDERAL AWARDS

None

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**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-01	Federal questioned costs issued of \$2,213 for audit costs; \$18,799 for Treasurer payroll and benefits; and \$26,239 for payroll clerk payroll and benefits charged to schoolwide pool.	No	Partially corrected. Repeated in Management Letter.
2012-02	Certain payroll timesheets were not signed by employees or not approved by both supervisor and department head	Yes	Finding no longer valid.

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Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Akron Digital Academy (the Academy) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Board amended its anti-harassment policy at its meeting on June 26, 2013 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

March 24, 2014

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Dave Yost • Auditor of State

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
AUGUST 21, 2014**