

FINDLAY DIGITAL ACADEMY
(A Component Unit of Findlay City School District)
HANCOCK COUNTY, OHIO

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

GREG SPIESS, TREASURER



Dave Yost • Auditor of State

Board of Directors
Findlay Digital Academy
1219 West Main Cross
Findlay, Ohio 45840

We have reviewed the *Independent Auditor's Report* of the Findlay Digital Academy, Hancock County, prepared by Julian & Grube, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Findlay Digital Academy is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

February 11, 2016

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FINDLAY DIGITAL ACADEMY
(A Component Unit of Findlay City School District)
HANCOCK COUNTY, OHIO

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

Findlay Digital Academy
Hancock County
1219 West Main Cross
Findlay, Ohio 45840

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Findlay Digital Academy, Hancock County, Ohio, a component unit of the Findlay City School District, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Findlay Digital 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 Findlay Digital 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 Findlay Digital Academy's internal control. Accordingly, we express no such 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Findlay Digital Academy, Hancock County, Ohio, as of June 30, 2015, and the changes in its financial position and its cash flows for the fiscal 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015, on our consideration of the Findlay Digital 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 Findlay Digital Academy's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 3, 2015

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

The management's discussion and analysis of the Findlay Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2015 are as follows:

- In total, net position was \$1,493,485 at June 30, 2015. For fiscal year 2015, net position decreased \$85,678, or 5.43%, over the net position at June 30, 2014.
- The Academy had operating revenues of \$987,946, operating expenses of \$1,180,638, non-operating revenues of \$112,905 and non-operating expenses of \$5,891 for fiscal year 2015. Total change in net position for the fiscal year was a decrease of \$85,678.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy's financial activities. The statement of net position and statement of revenues, expenses and changes in net position provide information about the activities of the Academy including all short-term and long-term financial resources and obligations.

Reporting the Academy's Financial Activities

These documents look at all financial transactions and ask the question, "How did we do financially during 2015?" The statement of net position and statement of revenues, expenses and changes in net position answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net position and changes in that position. This change in net position is important because it tells the reader that, for the Academy as a whole, whether 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. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Academy's finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. These notes to the basic financial statements can be found pages 10-19 of this report.

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

The table below provides a summary of the Academy's net position at June 30, 2015 and June 30, 2014.

| | 2015 | 2014 |
|------------------------------|--------------|--------------|
| Net Position | | |
| <u>Assets</u> | | |
| Current assets | \$ 660,626 | \$ 235,606 |
| Noncurrent assets: | | |
| Investments | 848,711 | 1,173,692 |
| Capital assets, net | 186,971 | 199,871 |
| Total assets | 1,696,308 | 1,609,169 |
| <u>Liabilities</u> | | |
| Current liabilities | 202,823 | 30,006 |
| Total liabilities | 202,823 | 30,006 |
| <u>Net Position</u> | | |
| Investment in capital assets | 186,971 | 199,871 |
| Restricted | 851 | 851 |
| Unrestricted | 1,305,663 | 1,378,441 |
| Total net position | \$ 1,493,485 | \$ 1,579,163 |

Current assets increased and noncurrent assets decreased due to investments that matured during the fiscal year and investments that will mature during the next fiscal year. Current liabilities increased due to increases in full-time equivalency calculations and amounts owed to the primary government for student services.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the Academy's net position totaled \$1,493,485. At year-end, capital assets represented 11.02% of total assets. Capital assets consisted of furniture and equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

The table below shows the changes in net position for fiscal year 2015 and 2014.

Change in Net Position

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| <u>Operating Revenues:</u> | | |
| State foundation | \$ 979,196 | \$ 1,050,259 |
| Other | <u>8,750</u> | <u>25,794</u> |
| Total operating revenue | <u>987,946</u> | <u>1,076,053</u> |
| <u>Operating Expenses:</u> | | |
| Purchased services | 1,072,657 | 949,572 |
| Materials and supplies | 36,120 | 45,825 |
| Other | 188 | 300 |
| Depreciation | <u>71,673</u> | <u>67,376</u> |
| Total operating expenses | <u>1,180,638</u> | <u>1,063,073</u> |
| Operating income (loss) | <u>(192,692)</u> | <u>12,980</u> |
| <u>Non-operating revenues (expenses):</u> | | |
| Grants and subsidies | 98,647 | 73,563 |
| Interest revenue | 14,258 | 18,584 |
| Loss on disposal of capital assets | <u>(5,891)</u> | <u>(5,725)</u> |
| Total non-operating revenues (expenses) | <u>107,014</u> | <u>86,422</u> |
| Change in net position | (85,678) | 99,402 |
| Net position at beginning of year | <u>1,579,163</u> | <u>1,479,761</u> |
| Net position at end of year | <u>\$ 1,493,485</u> | <u>\$ 1,579,163</u> |

Fiscal year 2015 State foundation decreased from fiscal year 2014 due to decreases in full-time equivalent students as calculated by the Academy. Other operating revenues decreased primarily due to increases in refunds of prior year expenditures. Operating expenses increased primarily due to increases in purchased services. The Academy had approximately \$139,000 in additional purchased services from Millstream Career Center in fiscal year 2015 compared to fiscal year 2014. In addition, the Academy had approximately \$51,000 in lease and rental payments to the Findlay City School District and TLB Corporate Center, LLC. It's the Academy's policy to hold investments to maturity. Interest receipts (as reported on the statement of cash flows) were \$13,727 and \$19,457 for fiscal year 2015 and 2014, respectively.

Capital Assets

At June 30, 2015, the Academy had \$186,971 invested in furniture and equipment, net of accumulated depreciation, which represents a decrease of \$12,900, or 6.45%, from the June 30, 2014 balance of \$199,871.

See Note 6 to the basic financial statements for additional information on the Academy's capital assets.

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Debt Administration

At June 30, 2015, the Academy had no outstanding debt.

Current Financial Related Activities

The Academy began in January 2005 with TRECA providing the Standardized Digital Curriculum. During fiscal 2015, META (formally TRECA) continued providing Standardize Digital Curriculum for the students enrolled at the Academy. The Academy is an internet-based educational delivery system designed for student's grades 9-12 who live in Findlay City School District. The Academy offers an on-line curriculum to any student whose needs, desires, or circumstances would best be served by a non-traditional education model. Job coaches are available and contracted through the Findlay City School District if the student so desires. Also provided, is a secure computer lab for the students and coaches for lessons and testing throughout the school year.

Contacting the Academy's Financial Management

This financial report is designed to provide our clients 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 questions about this report or need additional financial information contact, Greg Spiess, Treasurer, at Findlay Digital Academy, 1319 West Main Cross, Suite 101, Findlay, Ohio 45840 or email at spiessg@hancockesc.org.

**BASIC
FINANCIAL STATEMENTS**

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF THE FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2015

| | |
|---|--------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 418,405 |
| Investments | 150,523 |
| Receivables: | |
| Accrued interest. | 2,843 |
| Intergovernmental. | 84,638 |
| Prepayments | 4,217 |
| Total current assets | 660,626 |
| Non-current assets: | |
| Investments | 848,711 |
| Depreciable capital assets, net | 186,971 |
| Total non-current assets. | 1,035,682 |
| Total assets. | 1,696,308 |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable. | 7,356 |
| Intergovernmental payable | 94,969 |
| Due to primary government | 100,498 |
| Total liabilities | 202,823 |
| Net position: | |
| Investment in capital assets. | 186,971 |
| Restricted for: | |
| Restricted for locally funded programs. | 851 |
| Unrestricted. | 1,305,663 |
| Total net position. | \$ 1,493,485 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF THE FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | |
|---|-------------------------|
| Operating revenues: | |
| Foundation revenue | \$ 979,196 |
| Other | 8,750 |
| Total operating revenues | <u>987,946</u> |
| Operating expenses: | |
| Purchased services. | 1,072,657 |
| Materials and supplies | 36,120 |
| Other. | 188 |
| Depreciation | 71,673 |
| Total operating expenses. | <u>1,180,638</u> |
| Operating loss | <u>(192,692)</u> |
| Non-operating revenues (expenses): | |
| Grants and subsidies. | 98,647 |
| Interest revenue | 14,258 |
| Loss on disposal of capital assets | (5,891) |
| Total nonoperating revenues (expenses) | <u>107,014</u> |
| Change in net position | <u>(85,678)</u> |
| Net position at beginning of year. | <u>1,579,163</u> |
| Net position at end of year | <u>\$ 1,493,485</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF THE FINDLAY CITY SCHOOL DISTRICT)**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | |
|---|--------------|
| Cash flows from operating activities: | |
| Cash received from state foundation | \$ 984,475 |
| Cash received from other operations | 8,750 |
| Cash payments for contractual services | (993,858) |
| Cash payments for materials and supplies | (36,236) |
| Cash payments for other expenses | (188) |
| | (37,057) |
| Net cash used in operating activities | |
| Cash flows from noncapital financing activities: | |
| Cash received from grants and subsidies. | 98,647 |
| | 98,647 |
| Net cash provided by noncapital financing activities. | |
| | 98,647 |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (64,664) |
| | (64,664) |
| Net cash used in capital and related financing activities. | |
| | (64,664) |
| Cash flows from investing activities: | |
| Cash received from sale/maturity of investments | 175,000 |
| Interest received | 13,727 |
| | 188,727 |
| Net cash provided by investing activities | |
| | 188,727 |
| Net increase in cash and cash equivalents | |
| | 185,653 |
| Cash and cash equivalents at beginning of year | |
| | 232,752 |
| Cash and cash equivalents at end of year | |
| | \$ 418,405 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (192,692) |
| Adjustments: | |
| Depreciation | 71,673 |
| Changes in assets and liabilities: | |
| Increase in intergovernmental receivable | (84,638) |
| Increase in prepayments | (4,217) |
| Increase in accounts payable. | 6,950 |
| Increase in intergovernmental payable | 65,369 |
| Increase in due to primary government | 100,498 |
| | 100,498 |
| Net cash used in operating activities | |
| | \$ (37,057) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Findlay Digital Academy (the “Academy”) is a Conversion Community School established pursuant to Ohio Revised Code Chapter 3314, and sponsored by the Findlay City Schools (“FCS”) to serve ninth through twelfth grade students living in the Findlay City School District. The Academy’s mission is to enhance and facilitate student learning by combining state-of-the-art digital curriculum with access to local school resources to complement that instruction and prepare students to become lifelong learners and productive citizens.

The Findlay Digital Academy is considered a component unit of the Findlay City School District (“FCSD”) for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34”. The Academy is included as a component unit of the FCSD because the FCSD appoints the Academy’s Board of Directors. Therefore, the FCSD is able to significantly influence the programs or services performed or provided by the organization. In addition, through contractual arrangements, the FCSD is able to access a significant portion of the Academy’s resources.

The Academy is an innovative program operated as a cooperative effort between the Digital Academy Board of Directors and the Findlay City School District (“FCSD”). The Academy was approved for operation under a contract with the Findlay City School District (the “Sponsor”) commencing on April 1, 2004 and expiring on June 30, 2008. Another contract was signed in June 2008 that went through June 30, 2013. In June 2013, the Academy approved the current contract with the Sponsor that begins July 1, 2013 and expires June 30, 2018. The Academy enrolled its first students in January 2005. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy is governed by a seven-member Board of Directors plus the FCSD Superintendent who serves as the nonvoting board president. The majority of the Board is composed of public officials or public sector employees who have a professional interest in furthering the establishment of the Academy. The Board may also include one or more parents of enrolled students and community civic leaders. The FCSD Treasurer serves as a nonvoting ex officio member of the Board.

The Academy uses distance-learning technology to deliver instruction via computers to students, either in their homes or a group-learning environment such as a computer classroom at school. Although the Academy cannot exercise control over the home environments in which instruction will be received, it attempts to take reasonable steps to ensure compliance with health and safety standards deemed available to its students and within the Academy’s control.

The Academy has entered into a purchased services agreement contract with the META Solutions (“META”) for technology and services. See Note 11 for detail on the Academy’s purchased services agreement contract with META.

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units and nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy's significant accounting policies are described below.

A. 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. Enterprise fund reporting focuses on the determination of the change in net position, 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 all liabilities are included on the statement of net position. The statement of 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.

C. 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.

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 year when 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.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore no budgetary information is presented in the financial statements.

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Cash and Investments

To improve cash management, cash received by the Academy is pooled and reported as “cash and cash equivalents” or “investments”. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Academy’s records.

During fiscal year 2015, investments were limited to Federal Home Loan Bank (FHLB) bonds, Federal National Mortgage Association (FNMA) bonds, negotiable certificates of deposit (negotiable CD’s), and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported at fair value which is based on quoted market prices.

The Academy has invested funds in STAR Ohio during fiscal year 2015. STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s shares price which is the price the investment could be sold for on June 30, 2015.

For presentation on the financial statements, investments with original maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments. Investments are further classified on the statement of net position as either current or non-current. Current investments have a maturity date in the subsequent fiscal year while non-current investments have a maturity date beyond the subsequent fiscal year.

At June 30, 2015, investments are reported at fair value. The fluctuation in the fair value of investments is reported as a component of interest revenue. From June 30, 2014 to June 30, 2015, the fair value of investments increased \$542 and accrued interest receivable on investments decreased \$11. Interest revenue reported on the statement of revenue, expenses and changes in net position was \$14,258 while interest receipts reported on the statements of cash flows was \$13,727. Although the fair value of investments can fluctuate, it’s the Academy’s policy to hold investments till maturity.

An analysis of the Academy’s deposits and investments at fiscal year-end is provided in Note 4.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015, 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 year in which services are consumed.

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

H. Net Position

Net position represents the difference between assets and liabilities. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation. The Academy had no outstanding balances of borrowings used for the acquisition, construction or improvement of its capital assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

I. 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 from the State. Operating expenses are necessary costs which are incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

J. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the IDEA Part B grant, the Title I School Improvement grant and the Title II Improving Teacher Quality grant. Revenue from the State Foundation Program is recognized as operating revenue in the accounting period in which all eligibility requirements have been met. Amounts awarded under State Foundation Program for fiscal year 2015 school year, excluding all other State and Federal grants, totaled \$979,196.

Revenues received from the remaining programs are recognized as non-operating revenues in the accompanying financial statements. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. State and Federal grants revenue for fiscal year 2015 was \$98,647.

K. Estimates

The preparation of financial statements in conformity with GAAP 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.

**FINDLAY DIGITAL ACADEMY
(A COMPONENT UNIT OF FINDLAY CITY SCHOOL DISTRICT)
HANCOCK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 3 - CHANGES IN ACCOUNTING POLICIES

For fiscal year 2015, the Academy has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the Academy.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 did not have an effect on the financial statements of the Academy.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The implementation of GASB Statement No. 71 did not have an effect on the financial statements of the Academy.

NOTE 4 - DEPOSITS AND INVESTMENTS

The Academy's investment policy allows the Treasurer to invest in instruments authorized by Ohio Revised Code Chapter 135. The Academy had the following deposits and investments at year-end:

Deposits: At June 30, 2015, the carrying amount of the Academy's deposits was \$356,048. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$221,050 of the District's bank balance of \$471,050 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Investments: At June 30, 2015, the Academy had the following investment and maturities:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | | | | |
|------------------------|---------------------|------------------------------|-----------------------|------------------------|------------------------|-------------------------------|
| | | <u>6 months or less</u> | <u>7 to 12 months</u> | <u>13 to 18 months</u> | <u>19 to 24 months</u> | <u>Greater than 24 months</u> |
| FHLB Bond | \$ 149,520 | \$ - | \$ - | \$ - | \$ - | \$ 149,520 |
| FNMA Notes | 149,625 | - | - | - | - | 149,625 |
| Negotiable CD | 700,089 | 150,523 | - | 98,061 | 200,448 | 251,057 |
| STAR Ohio | 62,357 | 62,357 | - | - | - | - |
| | <u>\$ 1,061,591</u> | <u>\$ 212,880</u> | <u>\$ -</u> | <u>\$ 98,061</u> | <u>\$ 200,448</u> | <u>\$ 550,202</u> |

The weighted average maturity of investments is 1.63 years. Investments in negotiable CD's and federal agency securities can be sold prior to maturity on the secondary market if immediate cash flow is needed.

**FINDLAY DIGITAL ACADEMY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the Academy manages its exposure to declines in fair value of an investment.

Credit Risk - The Academy's investments in federal agency securities were rated AA+ and Aaa by Standards & Poor's and Moody's Investor Services, respectively. The Academy's investment in STAR Ohio obtained an AAAm money market rating by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized rating agency. The negotiable certificates of deposit were fully covered by the FDIC. The Academy's investment policy does not specifically address credit risk beyond requiring the Academy to only invest in securities authorized by State statute.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent. The Academy's investment policy does not specifically address custodial risk beyond the requirement in State statute.

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 places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Academy at June 30, 2015:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------|---------------------|-------------------|
| FHLB Bond | 149,520 | 14.08 |
| FNMA Notes | 149,625 | 14.09 |
| Negotiable CD | 700,089 | 65.96 |
| STAR Ohio | <u>62,357</u> | <u>5.87</u> |
| Total | <u>\$ 1,061,591</u> | <u>100.00</u> |

Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2015:

Cash and investments per note

| | |
|-----------------------------|---------------------|
| Carrying amount of deposits | \$ 356,048 |
| Investments | <u>1,061,591</u> |
| Total | <u>\$ 1,417,639</u> |

Cash and investments per statement of net position

| | |
|---------------------------|---------------------|
| Cash and cash equivalents | \$ 418,405 |
| Investments - current | 150,523 |
| Investments - noncurrent | <u>848,711</u> |
| Total | <u>\$ 1,417,639</u> |

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 5 - RECEIVABLES

Receivables at June 30, 2015 consisted of accrued interest in the amount of \$2,843 and an intergovernmental receivable in the amount of \$84,638. These receivables are expected to be collected in the subsequent year.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 follows:

| | <u>Balance 06/30/14</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 06/30/15</u> |
|---|-----------------------------|-------------------|-------------------|-----------------------------|
| <i>Capital assets, being depreciated:</i> | | | | |
| Furniture and equipment | \$ 383,411 | \$ 64,664 | \$ (55,768) | \$ 392,307 |
| Less: accumulated depreciation | <u>(183,540)</u> | <u>(71,673)</u> | <u>49,877</u> | <u>(205,336)</u> |
| Capital assets, net | <u>\$ 199,871</u> | <u>\$ (7,009)</u> | <u>\$ (5,891)</u> | <u>\$ 186,971</u> |

NOTE 7 - 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. The Academy is covered under the liability and property policies of the Findlay City School District.

Insurance coverage for the Academy follows:

| | |
|---------------------------|----------------|
| Property: | \$ 188,703,219 |
| General Liability: | |
| Per Occurrence | 1,000,000 |
| Aggregate | 3,000,000 |
| Educators Legal Liability | 3,000,000 |

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years and there has been no significant reduction in insurance coverage from the previous year.

NOTE 8 - PURCHASED SERVICE EXPENSES

For fiscal year ended June 30, 2015, purchased services expenses were as follows:

| | |
|-------------------------------------|---------------------|
| Professional and technical services | \$ 997,034 |
| Property services | 54,718 |
| Travel mileage/meeting expenses | 9,024 |
| Tuition and similar payments | <u>11,881</u> |
| Total | <u>\$ 1,072,657</u> |

**FINDLAY DIGITAL ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 9 - PAYMENTS TO SPONSOR / RELATED PARTY TRANSACTION

The Academy has entered into a Sponsorship Contract with the FCSD, its Sponsor, as described in Note 1. The Sponsorship Contract states that the FCSD may direct its Treasurer to serve as the Academy's fiscal officer. For fiscal year 2015, the Academy contracted its Treasurer functions from the Hancock County Educational Service Center. The Treasurer of the Academy performs the following functions for the Academy:

- A. Assumes responsibility for receipt, safekeeping and disbursement of all Academy funds;
- B. Directs and manages all financial accounting programs and systems; and
- C. Completes and files all forms, reports, papers and other requirements as prescribed by the Auditor of State, Department of Education, or other state or local agencies.

In addition, the Sponsorship Contract states that the Academy shall secure the services of an Executive Director who shall be the chief operating officer of the Academy. This position is filled by the retired Secondary Curriculum Director of the Academy's Sponsor, the FCSD.

In addition to the Treasurer, the Academy contracts through the Hancock County Educational Service Center the services of the Academy Coordinator and the Secretary/EMIS Coordinator.

The Sponsor contracts out all employees to the Academy, including the Teachers, except as mentioned above.

During the year ended June 30, 2015, the Academy incurred \$381,873 in expenses payable to its Sponsor, the FCSD, for:

| | |
|---------------------------------|-------------------|
| Salaries and benefits | \$ 294,741 |
| Other (computers/rent/supplies) | 4,516 |
| Millstream Career Center | 53,082 |
| Sponsor fees | <u>29,534</u> |
| Total | <u>\$ 381,873</u> |

NOTE 10 - CONTINGENCIES

A. Grants

The Academy receives significant financial assistance from numerous federal, State and local 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 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 such disallowed claims will not have a material effect on the financial position of the Academy.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 10 - CONTINGENCIES - (Continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. As a result of the first review after fiscal year end, the Academy owes \$94,969 to the Ohio Department of Education. This amount is reflected as an intergovernmental payable on the basic financial statements. As a result of the second review after fiscal year end, the Academy was owed \$84,638 from the Ohio Department of Education. This amount is reflected as an intergovernmental receivable on the basic financial statements.

C. Litigation

The Academy is not party to legal proceedings that, in the opinion of management, would have a material effect on the financial statements.

NOTE 11 - CONTRACT WITH META

The Academy entered into a contract on July 29, 2014, for fiscal year 2015, with META. Under the contract, the following terms were agreed upon:

- META shall provide the Academy with instructional, administrative, staff training, and technical services sufficient to substantially implement the Academy's educational plan and the Academy's assessment and accountability plan.
- All personnel providing services to the Academy on behalf of META under the agreement shall be employees of META and META shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by META to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- The Academy shall secure the services of an Executive Director, who shall be the chief operating officer of the Academy, with primary responsibility for day-to-day operation of the Academy.
- Curricular services provided by META shall be limited to the basic standardized curriculum developed by META. Basic services do not include special education and related services.
- In exchange for the services and support (including equipment) provided by META, the Academy shall pay to META \$5,250 per full-time student enrolled in the Academy for the 2014-2015 school year. Part-time students may be enrolled on such terms as agreed to by the parties.
- In the case of students enrolled in the Academy who are Disabled or Suspected Disabled, as defined in the Exhibit entitled "META Enhancement Services and Special Education Obligations of the Academy and META," the Academy shall additionally pay to META the fees and costs described in Section II of such exhibit.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 11 - CONTRACT WITH META - (Continued)

For fiscal year 2015, \$231,846 was paid to META. There were no payables to META at June 30, 2015 or June 30, 2014. To obtain META's audited June 30, 2015 financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

NOTE 12 - OPERATING LEASE

The Sponsor entered into a lease agreement on June 24, 2013 with TLB Corporate Center, LLC to lease office space located at the TLB Corporate Center at 1219 West Main Cross Street, Findlay, Ohio. The agreement is for three years, ending on September 30, 2016 and requiring a monthly lease payment of \$4,217. In accordance with the lease agreement, the Academy shall have use of leased space for office purposes only. The Academy makes payments related to the lease agreement directly to the TLB Corporate Center, LLC. Lease payments in fiscal year 2015 totaled \$50,605.



Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Findlay Digital Academy
Hancock County
1219 West Main Cross
Findlay, Ohio 45840

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 the Findlay Digital Academy, Hancock County, Ohio, a component unit of the Findlay City School District, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Findlay Digital Academy's basic financial statements and have issued our report thereon dated December 3, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Findlay Digital 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 opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Findlay Digital Academy's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Findlay Digital 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Board of Directors
Findlay Digital Academy

Compliance and Other Matters

As part of reasonably assuring whether the Findlay Digital 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*.

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 Findlay Digital Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Findlay Digital Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 3, 2015



Dave Yost • Auditor of State

FINDLAY DIGITAL ACADEMY

HANCOCK 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 23, 2016**