



Dave Yost • Auditor of State

**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Akron Digital Academy (the Academy), Summit County, Ohio, a component unit of the Akron City School District, as of and for the year ended June 30, 2012 as listed in the Table of Contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Akron Digital Academy, Summit County, Ohio, as of June 30, 2012, and the changes in financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2013, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Academy's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Federal Awards Receipts and Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

March 6, 2013

Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
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, 2012. 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, 2012 are as follows:

- Total net assets increased \$87,114. This is a 3.6 percent increase from fiscal year 2011.
- Total revenues decreased to \$4,926,952 from \$5,029,115. This is a decrease of \$102,163 or 2.0 percent.
- Total expenses were \$4,839,838. Total expenses decreased from \$5,498,590 from fiscal year 2011. This is a decrease of \$658,752 or 12.0 percent.

Using this Annual Report

This annual report consists of the Management's Discussion and Analysis, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The statement of net assets and the statement of revenues, expenses and changes in net assets answer the question, "How did we do financially during fiscal year 2012"? The statement of net assets includes all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

Table 1 provides a summary of the Academy's net assets for fiscal year 2012 compared to fiscal year 2011 as follows:

Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 1
Net Assets at June 30,

	2012	2011
Assets		
Current Assets	\$2,645,160	\$2,632,636
Capital Assets, Net	63,253	83,337
<i>Total Assets</i>	2,708,413	2,715,973
Liabilities		
Current Liabilities	170,119	264,793
Net Assets		
Invested in Capital Assets, Net of Related Debt	63,253	80,562
Restricted for Operating Grants	260,733	295,924
Unrestricted	2,214,308	2,074,694
<i>Total Net Assets</i>	\$2,538,294	\$2,451,180

Total assets decreased \$7,560.

Capital assets decreased \$20,084. The decrease in capital assets is mainly due to depreciation expense. The change in capital assets will be discussed in greater detail later.

In addition, intergovernmental receivable decreased \$6,300 from the prior fiscal year. The Academy participates in several federal grant programs, and the Academy was awarded less monies for their federal grant programs in fiscal year 2012 than in fiscal year 2011. The Academy was awarded \$1,508,819 in fiscal year 2012 for their federal grant programs compared to \$1,799,424 in fiscal year 2011. This aided in intergovernmental receivable decreasing from the prior fiscal year.

The decreases in capital assets and intergovernmental receivable were offset by an increase in cash of \$17,081. This increase is attributed to a decrease in operating expenses. Both purchased services operating expenses and materials and supplies operating expenses decreased. Purchased services operating expenses decreased because the Academy hired employees in fiscal year 2012. The costs of the new employees were classified as salaries operating expenses and fringe benefits operating expenses in fiscal year 2012. In fiscal year 2011, the Academy purchased personnel services from the Akron City School District (the "Sponsor"). The costs of the personnel services purchased from the Sponsor last fiscal year were classified as purchased services operating expenses. The amount of salaries operating expenses, fringe benefits operating expenses and purchased services operating expenses in fiscal year 2012 was less than the amount of purchased services operating expenses in fiscal year 2011. This variance is due to the Academy hiring 79 employees in the current fiscal year as compared to purchasing services of 96 personnel from the Sponsor in the prior fiscal year. The Academy also purchased 6 employees from the Sponsor in fiscal year 2012. The costs of the 85 personnel in fiscal year 2012 were less than the costs of the 96 personnel in fiscal year 2011.

Materials and supplies operating expenses decreased because of a decrease in the amount of office supplies and instructional supplies that were purchased in fiscal year 2012.

Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Total liabilities decreased \$94,674.

Intergovernmental payable decreased from \$128,246 to \$44,999, a variance of \$83,247. This decrease is partly attributed to a payment totaling \$128,246 to the Sponsor for oversight and monitoring being included in intergovernmental payable as of June 30, 2011, however, there was no payment to the Sponsor for oversight and monitoring being included in intergovernmental payable at June 30, 2012. The fiscal year 2012 oversight and monitoring payment to the Sponsor was made by June 30, 2012. This decrease in intergovernmental payable is offset mainly by 2 new liabilities being recorded at June 30, 2012. These 2 new liabilities involved the Academy's fiscal year 2012 employer contributions to the State Teachers Retirement System of Ohio not yet made at June 30, 2012 totaling \$32,209 and the fiscal year 2012 surcharge payment to School Employees Retirement System of Ohio not made yet at June 30, 2012 equaling \$10,825. Both of these liabilities never occurred before at fiscal year end because the Academy had employees at June 30, 2012 but did not have employees at June 30, 2011, as previously discussed.

In addition, deferred revenue decreased from \$123,579 to \$89,583, a difference of \$33,996. Deferred revenue was recognized because the State analyzes the Academy's student enrollment after each fiscal year and determines if the Academy was overpaid during the previous fiscal year. Foundation payments are based on student enrollment. The State determined the Academy was overpaid \$123,579 of its foundation payments during fiscal year 2011 and was overpaid \$15,436 of its foundation payments during fiscal year 2012. Regarding the fiscal year 2011 overpayment, the State decided to spread the reduction of foundation payments over 20 months. Therefore, the State still must reduce the Academy's fiscal year 2013 foundation payments by \$74,147 for the fiscal year 2011 overpayment. Thus, the State will reduce the Academy's fiscal year 2013 foundation payments by a total of \$89,583.

The decreases in intergovernmental payable and deferred revenue were offset by an increase in accrued wages of \$33,202. Accrued wages increased because, as previously discussed, the Academy had employees at June 30, 2012 but did not have employees at June 30, 2011. The Academy had no accrued wages at June 30, 2011.

The net impact of the assets decrease and liabilities decrease was an increase of net assets of \$87,114.

Table 2 shows the changes in net assets for fiscal years 2012 and 2011 as follows:

Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2
Change in Net Assets

	2012	2011
Operating Revenues		
Foundation Payments	\$3,781,650	\$3,821,798
Non-Operating Revenues		
Interest	6,737	7,723
Grants	1,138,533	1,199,529
Other	32	65
Total Non-Operating Revenues	1,145,302	1,207,317
Total Revenues	4,926,952	5,029,115
Operating Expenses		
Salaries	2,261,236	0
Fringe Benefits	463,484	0
Purchased Services	1,708,186	4,933,836
Materials and Supplies	338,264	508,788
Depreciation	31,531	35,689
Other	33,591	19,749
Total Operating Expenses	4,836,292	5,498,062
Non-Operating Expenses		
Loss on Disposal of Capital Assets	3,546	528
Total Expenses	4,839,838	5,498,590
Increase/(Decrease) in Net Assets	\$87,114	(\$469,475)

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

Foundation payments decreased from \$3,821,798 in fiscal year 2011 to \$3,781,650 in fiscal year 2012. Foundation payments comprised 76.8 percent of total revenues. Foundation payments decreased because student average daily membership decreased to 627 in fiscal year 2012 from 647 in fiscal year 2011. Foundation payments are based on student enrollment.

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

Total non-operating revenues decreased from \$1,207,317 in fiscal year 2011 to \$1,145,302 in fiscal year 2012. This decrease is primarily due to a decrease in grants non-operating revenue of \$60,996. This decrease is due to the reduction in federal grant programs award amounts from fiscal year 2011 to fiscal year 2012, as previously discussed.

Total expenses decreased from \$5,498,590 in fiscal year 2011 to \$4,839,838 in fiscal year 2012, a 12.0 percent decrease. As previously discussed, this decrease mainly is a result of the following expense decreases: purchased services and materials and supplies.

Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Capital Assets

At the end of fiscal year 2012, the Academy had \$63,253 invested in furniture and equipment. Table 3 shows fiscal year 2012 balances compared to fiscal year 2011 as follows:

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

	<u>2012</u>	<u>2011</u>
Furniture and Equipment	\$63,253	\$83,337

Depreciation operating expense of \$31,531 accounts for the majority of the decrease in capital assets. Depreciation operating expense was offset by purchases amounting to \$14,993 during the current fiscal year. The Academy purchased a student badge identification printer, a document imaging server, a tape media server and a filtering solution server during the 2012 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 years 2013 and 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 2012.

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

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

The Academy's management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. Financially, the future is not without challenges.

Contacting the Academy's Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Todd Adkins, Treasurer, at Akron Digital Academy, 70 North Broadway, Akron, Ohio 44308-1999 or email at tadkins@akron.k12.oh.us.

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Akron Digital Academy

Statement of Net Assets

June 30, 2012

Assets	
<i>Current Assets:</i>	
Cash	\$2,331,658
Intergovernmental Receivable	289,624
Prepaid Items	<u>23,878</u>
<i>Total Current Assets</i>	<u>2,645,160</u>
 <i>Noncurrent Assets:</i>	
Depreciable Capital Assets	<u>63,253</u>
<i>Total Assets</i>	<u>2,708,413</u>
 Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	2,335
Accrued Wages	33,202
Intergovernmental Payable	44,999
Deferred Revenue	<u>89,583</u>
<i>Total Liabilities</i>	<u>170,119</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	63,253
Restricted for Operating Grants	260,733
Unrestricted	<u>2,214,308</u>
<i>Total Net Assets</i>	<u><u>\$2,538,294</u></u>

See accompanying notes to the basic financial statements

Akron Digital Academy
*Statement of Revenues, Expenses and
 Changes in Net Assets*
 For the Fiscal Year Ended June 30, 2012

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Operating Revenues	
Foundation Payments	\$3,781,650
	<hr/>
<i>Total Operating Revenues</i>	<i>3,781,650</i>
	<hr/>
Operating Expenses	
Salaries	2,261,236
Fringe Benefits	463,484
Purchased Services	1,708,186
Materials and Supplies	338,264
Depreciation	31,531
Other	33,591
	<hr/>
<i>Total Operating Expenses</i>	<i>4,836,292</i>
	<hr/>
<i>Operating (Loss)</i>	<i>(1,054,642)</i>
	<hr/>
Non-Operating Revenues (Expenses)	
Interest	6,737
Grants	1,138,533
Other	32
Loss on Disposal of Capital Assets	(3,546)
	<hr/>
<i>Total Non-Operating Revenues (Expenses)</i>	<i>1,141,756</i>
	<hr/>
<i>Change in Net Assets</i>	<i>87,114</i>
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<i>Net Assets at Beginning of Fiscal Year</i>	<i>2,451,180</i>
	<hr/>
<i>Net Assets at End of Fiscal Year</i>	<i>\$2,538,294</i>
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See accompanying notes to the basic financial statements

Akron Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Increase (Decrease) in Cash

Cash Flows from Operating Activities

Cash Received from Foundation Payments	\$3,747,654
Cash Payments to Employees for Services	(2,229,414)
Cash Payments for Employee Benefits	(449,282)
Cash Payments for Goods and Services	(2,214,602)

Net Cash (Used in) Operating Activities (1,145,644)

Cash Flows from Noncapital Financing Activities

Grants Received	1,173,724
Other Non-Operating Revenues	32

Net Cash Provided by Noncapital Financing Activities 1,173,756

Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	(14,993)
Principal Payments for Capital Leases	(2,775)

Net Cash (Used in) Capital and Related Financing Activities (17,768)

Cash Flows from Investing Activities

Interest on Investments	6,737
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Net Increase in Cash 17,081

Cash at Beginning of Fiscal Year 2,314,577

Cash at End of Fiscal Year \$2,331,658

Reconciliation of Operating (Loss) to Net Cash (Used in) Operating Activities

Operating (Loss) (\$1,054,642)

Adjustments:

Depreciation	31,531
(Increase) Decrease in Assets:	
Intergovernmental Receivable	(28,891)
Prepaid Items	(1,743)
Increase (Decrease) in Liabilities:	
Accounts Payable	(7,858)
Accrued Wages	33,202
Intergovernmental Payable	(83,247)
Deferred Revenue	(33,996)

Total Adjustments (91,002)

Net Cash (Used in) Operating Activities (\$1,145,644)

See accompanying notes to the basic financial statements

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Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 1 – Description of the Academy and Reporting Entity

The Akron Digital Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through the twelfth grade. The Academy is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the Akron City School District (the “Sponsor”) for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy is designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the Academy’s program.

The Academy was approved for operation under contract with the Sponsor for a period of five years commencing July 1, 2002. The Academy began operations on October 7, 2002. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In addition, the Academy was approved for operation under contract with the Sponsor for another period of five years commencing July 1, 2007.

The Academy operates under the direction of a self-appointed, nine-member Board of Directors. The Board consists of a Board President, a Vice-President, two members who hold administrative positions with the Sponsor, a public official not employed by the Sponsor, and four 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 79 employees who provide services to 627 students. The services of an additional six individuals were purchased from the Sponsor during fiscal year 2012.

Note 2 – Summary of Significant Accounting Policies

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its proprietary activities, subject to the same limitation. The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are described below.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

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

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expense requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor, except for Ohio Revised Code Section 5705.391 as it relates to five-year forecasts. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore, no budgetary information is presented in the basic financial statements.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

E. Cash

During fiscal year 2012, the Academy had no investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which the services are consumed.

G. Capital Assets

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

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

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of governments. Net assets restricted for grants are primarily for the instruction of students through Federal programs that are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

J. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The Academy also participated in the following federal grant programs which are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan: Part B-IDEA Special Education, Title I, Title I School Improvement Subsidy A, Title II-A Improving Teacher Quality, Title II-D Technology, Race to the Top and Education Jobs. In addition, the Academy participated in the following federal grant programs that were awarded individually outside the Ohio Department of Education's Comprehensive Continuous Improvement Plan: Title IV Safe and Drug-Free Schools Sustainability Grant, Race to the Top Ohio My Voice Initiative and Race to the Top Innovative Advancement Via Individual Determination program. The Academy was awarded a total of \$1,508,819 during the fiscal year ended June 30, 2012 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 2012 fiscal year totaled \$4,920,183.

K. Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 – Deposits and Investments

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Academy's deposits was \$2,331,658 and the bank balance was \$2,398,129. Of the bank balance, \$544,514 was covered by the Federal Deposit Insurance Corporation and \$1,853,615 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in Academy's name.

The Academy has no deposit policy for custodial risk.

Investments During fiscal year 2012, the Academy had no investments.

Note 4 – Capital Assets

Capital asset activity for the fiscal year June 30, 2012, was as follows:

	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$191,611	\$14,993	(\$26,679)	\$179,925
Less Accumulated Depreciation:				
Furniture and Equipment	(108,274)	(31,531)	23,133	(116,672)
Total Capital Assets, being depreciated, net	<u>\$83,337</u>	<u>(\$16,538)</u>	<u>(\$3,546)</u>	<u>\$63,253</u>

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 5 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the Academy contracted for property, inland marine, crime, general liability, educators legal liability, employment practices liability, automobile coverage and excess liability. Coverage provided is as follows:

Type of Coverage	Coverage Amount
Commercial Property (\$1,000 deductible)	
Building and Contents	\$180,000
Commercial Inland Marine (\$1,000 deductible)	400,000
Commercial Crime (\$500 deductible)	210,000
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

Settled claims did not exceed commercial coverage in the past fiscal year. The Academy was covered under the Sponsor's insurance for commercial coverage in fiscal years 2011 and 2010. Settled claims of the Sponsor did not exceed commercial coverage in fiscal years 2011 and 2010, and there has not been a significant reduction in coverage from the prior fiscal year.

Note 6 – Payments to the Akron City School District

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 \$638,413 during fiscal year 2012 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 \$74,953 to the Sponsor during fiscal year 2012 for these services.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

All personnel providing services to the Academy on behalf of the Sponsor are considered employees of the Sponsor. The services of six individuals were purchased from the Sponsor during fiscal year 2012.

For the fiscal year ended June 30, 2012, the Academy paid the Sponsor the following expenses:

Operating Expenses	Amounts
Purchased Services	
Professional and Technical Services	\$708,371
Communications	299
Contracted Craft or Trade Services	4,220
Supplies and Materials	476
Total Operating Expenses	\$713,366

Note 7 – Defined Benefit Pension Plans

A. School Employees Retirement System

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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website, www.ohsers.org, under Employers/Audit Resources.

Funding Policy Plan members are required to contribute 10 percent of their annual covered salary, and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy’s contributions is used to fund pension and death benefits with the remainder being used to fund health care benefits and Medicare Part B benefits; for fiscal year 2012, 12.70 percent of annual covered salary was the portion used to fund pension and death benefits. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy’s required contributions for pension and death benefits to SERS for the fiscal years ended June 30, 2012 were \$107,205; 100 percent has been contributed for fiscal year 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, 2012, 2011 and 2010 were \$11,458, \$117,464 and \$104,373, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

B. State Teachers Retirement System

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

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

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

Funding Policy For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations with the remainder being used to fund health care benefits. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy’s required contributions for pension obligations to STRS Ohio for the DB Plan for the fiscal year ended June 30, 2012 were \$180,087; 85.76 percent has been contributed for fiscal year 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, 2012, 2011, and 2010 were \$43,914, \$264,313, and \$207,198, respectively; 88.33 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$12,008 made by the Academy and \$8,620 made by the plan members.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 8 - Postemployment Benefits Other Than Pension

A. State Teachers Retirement System

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

Funding Policy Ohio law authorizes STRS Ohio to offer the Health Plan and gives the STRS Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Academy's contributions for health care for the fiscal year ended June 30, 2012 were \$13,853; 85.76 percent has been contributed for fiscal year 2012. The Sponsor's contributions for health care for the personnel provided to the Academy for the fiscal years ended June 30, 2012, 2011 and 2010 were \$3,378, \$20,332 and \$15,938, respectively; 88.33 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

B. School Employees Retirement System

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

Funding Policy State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation of statutorily required benefits, the SERS Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code Section 105(e). For fiscal year 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800.

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

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

The Academy's contributions for health care for the fiscal year ended June 30, 2012 were \$15,468; 100 percent has been contributed for fiscal year 2012. The Sponsor's contributions for health care for the personnel provided to the Academy for the fiscal years ended June 30, 2012, 2011 and 2010 were \$23,037, \$35,386 and \$23,980 respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The SERS Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was 0.75 percent of covered payroll. The Academy's contributions for Medicare Part B for the fiscal year ended June 30, 2012 were \$6,331; 100 percent has been contributed for fiscal years 2012. The Sponsor's contributions for Medicare Part B for the personnel provided to the Academy for the fiscal year ended June 30, 2012, 2011 and 2010 were \$677, \$7,559 and \$6,207, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

Note 9 – Operating Leases

The Academy leases facilities space, copiers and a postage meter under noncancelable operating leases. Total costs for such leases were \$294,980 for the fiscal year ended June 30, 2012. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2013	280,084
2014	73,767
2015	69,120
Total	<u>\$422,971</u>

Note 10 - Contingencies

A. Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, the effect of any disallowed claims on the overall financial position of the Academy at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

The Academy is party to various unasserted claims. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claim or lawsuit will not have a material adverse effect, if any, on the financial condition of the Academy.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012

Note 11 – Enrollment FTE

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by all schools in Ohio. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The conclusions of this review could result in State funding being adjusted. For fiscal year 2012, this review resulted in a reduction of \$89,583. This amount is reflected as deferred revenue on the Academy's statement of net assets and the Academy's future foundation settlements will be reduced.

Note 12 – Federal Tax-Exempt Status

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

**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ <i>Pass Through Grantor/ Program Title</i>	Grant Year	Federal CFDA Number	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through the Ohio Department of Education:</i>				
Education Jobs	2012	84.410	\$239,456	\$248,286
ARRA Race to the Top	2011	84.395	130	304
ARRA Race to the Top	2012	84.395	69,738	65,948
ARRA Race to the Top Ohio My Voice Initiative	2012	84.395	3,424	3,424
ARRA Race to the Top AVID Initiative	2012	84.395	<u>20,771</u>	<u>18,271</u>
Total ARRA Race to the Top			90,639	87,947
Special Education - Grants to States	2011	84.027	160,430	178,685
Special Education - Grants to States	2012	84.027	<u>123,470</u>	<u>112,335</u>
Total Special Education - Grants to States			283,900	291,020
Educational Technology State Grants	2011	84.318	4,094	5,151
Title I Grant Cluster:				
Title I School Improvement Subsidy A	2012	84.010	39,684	40,996
Title I Grants to Local Educational Agencies	2011	84.010	129,381	127,480
Title I Grants to Local Educational Agencies	2012	84.010	<u>302,345</u>	<u>294,808</u>
Total Title I Grant Cluster			471,410	463,284
ARRA McKinley-Vento Homeless Assistance	2012	84.387	2,027	1,521
Safe and Drug-Free Schools and Communities State Grants	2012	84.186	72,650	72,650
Improving Teacher Quality Grant Program	2011	84.367	3,957	3,957
Improving Teacher Quality Grant Program	2012	84.367	<u>5,591</u>	<u>5,591</u>
Total Improving Teacher Quality State Grant			<u>9,548</u>	<u>9,548</u>
<i>Total Passed through the Ohio Department of Education</i>			<u>1,173,724</u>	<u>1,179,407</u>
Total U.S. Department of Education			<u>\$1,173,724</u>	<u>\$1,179,407</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, 2012

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, 2012. The School-Wide Pool follows guidance from OMB Circular A-133.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Allocated Amount</u>
Enterprise Fund		\$3,321,709
Title I	84.010	346,679
Title II-A Improving Teacher Quality	84.318	8,986
Title I School Improvement Subsidy A	84.010	51,537
Special Education Part B - IDEA	84.027	<u>246,155</u>
Total School-Wide Pool		<u><u>\$3,975,066</u></u>



Dave Yost • Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of Akron Digital Academy (the "Academy"), Summit County, Ohio, a component unit of the Akron City School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated March 6, 2013.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large loop at the end of the last name.

Dave Yost
Auditor of State

March 6, 2013



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' 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:

Compliance

We have audited the compliance of Akron Digital Academy, Summit County, Ohio, (the Academy), a component unit of the Akron City School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the Academy's major federal programs for the year ended June 30, 2012. The *summary of auditor's results* section of the accompanying schedule of findings and questioned costs identifies the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Academy's compliance based on our audit.

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

In our opinion, the Akron Digital Academy complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings and questioned costs lists this instance as Finding 2012-01.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with the requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Academy's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies, described in the accompanying schedule of findings and questioned costs as Findings 2012-01 and 2012-02. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program 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.

The Academy's responses to the findings we identified are described in the accompanying schedule of findings and questioned costs. We did not audit the Academy's responses and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

March 6, 2013

**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Education Jobs (CFDA #84.410), 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?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

1. Schoolwide Program Expenses – Questioned Costs – Allowable Costs/Cost Principles

Finding Number	2012-01
CFDA Title and Number	Special Education – Grants to States CFDA #84.027
Federal Award Number / Year	2012 & 2011
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
(Continued)

1. Schoolwide Program Expenses – Questioned Costs – Allowable Costs/Cost Principles (continued)

QUESTIONED COST, NONCOMPLIANCE, AND SIGNIFICANT DEFICIENCY

2 C.F.R., Part 225, Appendix A(C)(1)(c) states to be allowable under Federal awards, costs must be authorized or not prohibited under State or local laws or regulations. In addition, **Ohio Rev. Code Section 3313.24** states that the treasurer shall be paid from the general fund of the district. Our test of payroll expenditures indicated the Academy charged the Treasurer’s salary and benefits in the amount of \$18,799 to the Schoolwide Pool Fund, which is prohibited under State law. Although general fund monies were transferred to the Schoolwide pool, once they are transferred in they lose their identity and become part of the federal schoolwide pool methodology. Therefore, we are questioning the payment of the Treasurer’s salary and benefits as an allowable cost of the Special Education Grants to States Fund.

2 C.F.R. Part 225, Appendix B (8)(h) provides, in part, salaries and wages will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the government unit. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on more than one Federal award, or a federal award and a non-Federal award. Personal activity reports or equivalent documentation must meet the following standards:

- They must reflect an after-the-fact distribution of the actual activity of each employee;
- They must account for the total activity for which the employee is compensated;
- They must be prepared at least monthly and must coincide with one or more pay periods;
and
- They must be signed by the employee.

During our testing of the Special Education Grants to States program, we noted the following:

- The Academy charged the payroll clerk’s salary and benefits to the Schoolwide Pool; however, personnel activity reports or equivalent documentation was not maintained. We are therefore questioning \$26,239 in salaries and fringe benefits as an allowable cost of the Special Education Grants to States Fund.

The Academy should maintain personal activity reports, or equivalent documentation required for all employees paid from any federal programs, in accordance with the requirements of 2 C.F.R. Part 225, Appendix B 8(h). This will help ensure the Academy is in compliance with all Federal time and effort documentation requirements. Furthermore, failure to maintain adequate time and effort documentation could compromise the Academy’s eligibility to participate in future Federal grant programs.

Audit of State Bulletin 2009-011, indicates in part fiscal officers may distribute the cost of an audit to each fund audited in accordance with its percentage of the total cost. Generally, the percentage of costs charged to Federal awards for a Single Audit shall not exceed the percentage derived by dividing Federal funds expended by total funds expended by the recipient or sub-recipient (including program matching funds) during the fiscal year.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

1. Schoolwide Program Expenses – Questioned Costs – Allowable Costs/Cost Principles (continued)

QUESTIONED COST, NONCOMPLIANCE, AND SIGNIFICANT DEFICIENCY

The percentage may be exceeded only if appropriate documentation demonstrates higher actual costs. Other audit costs are allowable if specifically approved by the awarding or cognizant agency as a direct cost to an award or included as an indirect cost in a cost allocation plan or rate. The Academy charged 100% of the audit cost for the fiscal year 2011 audit in the amount of \$11,347 to the Schoolwide Pool. No documentation was provided as to why the entire audit cost was charged to this fund and no approval from the Ohio Department of Education was obtained. Based on the percentage of Schoolwide Pool costs divided by total Academy costs, a maximum of \$9,134 should have been charged to the Schoolwide Pool fund. We are therefore questioning \$2,213 of Single Audit costs as an allowable cost of the Special Education Grants to States Fund.

34 C.F.R. Section 200.25(a)(1)(2) provides that the purpose of a schoolwide program is to improve the academic achievement throughout a school so that all students, particularly the lowest-achieving students, demonstrate proficiency related to the State's academic standards under section 200.1. The improved achievement is to result from improving the entire educational program of the school.

Consolidating funds in a schoolwide program means that a school treats the funds it is consolidating like they are a single "pool" of funds. In other words, the funds from the contributing programs in the school lose their individual identity and the school has one flexible pool of funds. The school uses funds from this consolidated schoolwide pool to support any activity of the schoolwide program without regard to which program contributed the specific funds used for a particular activity.

During the 2011-2012 School year, the Academy charged the following expenses to the 598 Schoolwide pool:

- \$2,213 of audit costs related to the 2010-2011 Single Audit of the Academy;
- \$18,799 of payroll and fringe benefit expenses for the Treasurer of the Academy;
- \$26,239 of payroll and fringe benefit expenses for the Payroll Clerk of the Academy.

As these expenses do not directly improve the overall educational program of the Academy and as addressed in the preceding paragraphs these expenses are considered unallowable:

The Academy should review the purpose of the schoolwide pool and ensure only allowable costs are charged to the 598 Schoolwide Fund.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

1. Schoolwide Program Expenses – Questioned Costs – Allowable Costs/Cost Principles (continued)

QUESTIONED COST, NONCOMPLIANCE, AND SIGNIFICANT DEFICIENCY (continued)

Finding Number 2012-01

Official's Response:

We budgeted and included all federal, state and local funds in the Schoolwide Pool fund based on guidance we received from the Ohio Department of Education. One of our consultants from the Federal Programs department at the Ohio Department of Education communicated to us “since you are a Schoolwide Pool of funds, you must add all of your state and local and special education funds to the pool” and “the intent of Schoolwide Pooling of funds is to put all the funds in one basket”. In addition, a different consultant in the Federal Programs department at the Ohio Department of Education sent us an Office of Federal Programs Title I Schoolwide Pool Questions and Answers reference document which states “the program also requires school districts to contribute all of their state and local funds to the program”. Also, we budgeted and included all federal, state and local funds in the Schoolwide Pool in fiscal year 2011, and we did not receive any communication from the Ohio Department of Education or State Auditor’s Office which said that was unallowable. Beginning with fiscal year 2013, we will use the general fund to pay the wages and fringe benefits of the Treasurer, the wages and fringe benefits of any other employees of the Academy who perform fiscal duties and the audit costs.

2. Timesheet Approval

Finding Number	2012-02
CFDA Title and Number	Education Jobs CFDA #84.410
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

SIGNIFICANT DEFICIENCY

The Academy requires all employee timesheets to be signed by the employee, his or her supervisor, and the department head for approval. During our testing of payroll for the Education Jobs Federal Program, we noted 1 out of 36 (2.8%) was only signed by the employee.

Furthermore, for four timesheets selected during non-federal payroll testing, the timesheet only contained either the immediate supervisor or department head signature as approval.

The Academy should ensure all timesheets have proper approval before being submitted for payroll processing. Doing so will help ensure employees are paid only for hours worked and all hours submitted are proper.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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2. Timesheet Approval (continued)

SIGNIFICANT DEFICIENCY (continued)

Finding Number 2012-02

Official's Response:

We determined that this occurrence was a one-time oversight. The individual processing payroll in fiscal year 2013 will not pay an employee unless the timesheet has been approved by a supervisor.

**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c)
June 30, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-01	Beginning in fiscal year 2013, we will use the general fund to pay the wages and fringe benefits of the Treasurer, the wages and fringe benefits of any other employees of the Academy who perform fiscal duties and the audit costs.	April 30, 2013	Todd Adkins
2012-02	The individual processing payroll in fiscal year 2013 will not pay an employee unless the timesheet has been approved by a supervisor.	November 1, 2012	Dominic Donatelli



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 November 18, 2010 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 School's sponsor, 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 6, 2013

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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
APRIL 9, 2013