



Rea & associates *a brighter way*

Massillon Digital Academy Stark County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2015



Dave Yost • Auditor of State

Board of Directors
Massillon Digital Academy
930 17th Street NE
Massillon, Ohio 44646

We have reviewed the *Independent Auditor's Report* of the Massillon Digital Academy, Stark County, prepared by Rea & Associates, 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 Massillon 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 2, 2016

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Massillon Digital Academy
Stark County, Ohio
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November 13, 2015

To the Board of Directors and Management
Massillon Digital Academy
Stark County, Ohio
930 17th Street NE
Massillon, Oh 44646

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Massillon Digital Academy, Stark County, Ohio (the "Academy"), a component unit of the Massillon City School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massillon Digital Academy, Stark County, Ohio, as of June 30, 2015, and the changes in financial position and its cash flows for the year then ended in accordance with 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 that the *Management's Discussion and Analysis* on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 Academy's internal control over financial reporting and compliance.

Rea & Associates, Inc.

New Philadelphia, Ohio

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Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015

The discussion and analysis of Massillon Digital Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal 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 2015 are as follows:

- Net position decreased \$15,743.
- Operating revenues accounted for \$457,291 in revenue or 88 percent of all revenues.

Using this Annual Financial Report

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 as a financial whole, an entire operating entity.

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and liabilities and deferred inflows of resources are included on the statement of net position. The *Statement of Net Position* represents the basic statement of position for the Academy.

The *Statement of Net Position* and *Statement of Revenues, Expenses, and Changes in Net Position* provide information about the activities of the Academy, presenting an aggregate view of the Academy's finances. In case of the Academy, there is only one fund presented.

The *Statement of Cash Flows* reflects how the Academy finances and meets its cash flow needs. Finally, the notes to the basic financial statements are presented.

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2015

Reporting the Academy as a Whole

Recall the Statement of Net Position provides the perspective of the Academy as a whole.

Table 1 provides a summary of the Academy's net position for 2015 compared to 2014:

Table 1
Net Position

	2015	2014
Assets		
Current Assets	\$ 850,561	\$ 885,717
Capital Assets	51,700	30,670
<i>Total Assets</i>	902,261	916,387
Liabilities		
Current Liabilities	2,317	700
Net Position		
Investment in Capital Assets	51,700	30,670
Restricted	22,515	43,977
Unrestricted	825,729	841,040
<i>Total Net Position</i>	\$ 899,944	\$ 915,687

Total assets decreased by \$14,126. Cash decreased by \$34,207 due the reduction of revenues outpacing the decrease in expenses. Foundation payments decreased by \$144,473 due to reduction in enrollment. The increase of \$21,030 in capital assets is primarily due to purchases of capital assets exceeding depreciation. Liabilities increased by \$1,617 due to an increase in accounts payable.

Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position and Statement of Cash Flows

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2015?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2015

These two statements report the Academy's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the Academy as a whole, the *financial position* of the Academy has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

The Statement of Cash Flows provide information about how the Academy finances and meets the cash flow needs of its operations.

Financial Analysis

Table 2 shows the changes in net position for fiscal year 2015 compared to fiscal year 2014:

Table 2
Changes in Net Position

	2015	2014
Operating Revenue		
Foundation Payments	\$ 447,248	\$ 591,721
State Distributed Casino Revenues	4,268	5,482
Customer Sales and Services	5,775	8,205
Total Operating Revenues	457,291	605,408
Operating Expenses		
Purchased Services	496,688	550,450
Materials and Supplies	12,211	47,003
Depreciation Expense	14,108	10,241
Other	8,440	7,412
<i>Total Operating Expenses</i>	531,447	615,106
Non-Operating Revenues (Expenses)		
Federal and State Grants	53,393	56,033
Other	0	20
Interest Income	6,381	14,342
Loss on Disposal of Capital Assets	(1,361)	(371)
<i>Total Non-Operating Revenues (Expenses)</i>	58,413	70,024
<i>Change In Net Position</i>	(15,743)	60,326
<i>Net Position Beginning of Year</i>	915,687	855,361
<i>Net Position End of Year</i>	\$ 899,944	\$ 915,687

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2015

The Statement of Revenues, Expenses, and Changes in Net Position show the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating revenues associated with those expenses. That is, it identifies the amount of operating expenses supported by State and other funding. The Academy's revenue decreased from 2015 to 2014. This decrease is due to a reduction of foundation money due to a decrease in enrollment.

The dependence upon state foundation revenues for operating activities is apparent. The majority of monies were used for purchased services. Purchased services decreased by \$53,762 due to a decrease in enrollment. The Academy's operating revenue is 88 percent of total revenue. State sources are by far the primary support for the Academy.

Budget

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy. The Academy has developed a five-year projection that is reviewed periodically by the Board of Directors.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the Academy had \$51,700 (net of \$28,988 in accumulated depreciation) invested in furniture and fixtures, computer equipment and vehicles. Table 3 shows fiscal year 2015 balances compared to 2014. More detailed information is presented in Note 4 of the notes to the basic financial statements.

Table 3
Capital Assets (Net of Depreciation)

	2015	2014
Computer Equipment	\$ 27,917	\$ 30,670
Vehicles	23,783	0
Total Capital Assets	\$ 51,700	\$ 30,670

Debt Administration

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

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2015

Current Financial Related Activities

The Massillon Digital Academy is sponsored by the Massillon City School District and relies solely on State Foundation Funds. With the future of the Academy being dependent upon funding from the State Foundation Funds, the Academy must continue monitoring the expenditures as well as look to new ways to increase revenue. Currently, the Academy receives Title I, Title II-A and IDEA-B federal funds; and invests as a way to increase investment income.

The Academy has continued its commitment to providing online educational opportunities to students ensuring that the curriculum is aligned with the Common Core and other State requirements.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 questions about this report or need additional information contact Ms. Sandy Moeglin, Treasurer of Massillon Digital Academy, 930 17th Street N. E., Massillon, Ohio 44646.

Massillon Digital Academy
Stark County, Ohio
Statement of Net Position
June 30, 2015

Assets	
Current Assets:	
Equity in Pooled Cash and Investments	\$ 790,413
Intergovernmental Receivable	<u>60,148</u>
<i>Total Current Assets</i>	<u>850,561</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net	<u>51,700</u>
<i>Total Assets</i>	<u>902,261</u>
Liabilities	
Current Liabilities:	
Accounts Payable	<u>2,317</u>
Net Position	
Investment in Capital Assets	51,700
Restricted For:	
Federally Funded Programs	22,515
Unrestricted	<u>825,729</u>
<i>Total Net Position</i>	<u><u>\$ 899,944</u></u>

See accompanying notes to the basic financial statements.

Massillon Digital Academy
Stark County, Ohio

Statement of Revenues, Expenses and Changes in Net Position
June 30, 2015

Operating Revenues	
Foundation Payments	\$ 447,248
State Distributed Casino Revenues	4,268
Customer Sales and Services	<u>5,775</u>
<i>Total Operating Revenues</i>	<u>457,291</u>
Operating Expenses	
Purchased Services	496,688
Materials and Supplies	12,211
Depreciation	14,108
Other	<u>8,440</u>
<i>Total Operating Expenses</i>	<u>531,447</u>
<i>Operating Loss</i>	<u>(74,156)</u>
Non-Operating Revenues (Expenses)	
Interest Income	6,381
Federal and State Grants	53,393
Loss on Disposal of Capital Assets	<u>(1,361)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>58,413</u>
<i>Change in Net Position</i>	(15,743)
<i>Net Position Beginning of Year</i>	<u>915,687</u>
<i>Net Position End of Year</i>	<u><u>\$ 899,944</u></u>

See accompanying notes to the basic financial statements.

Massillon Digital Academy
Stark County, Ohio
Statement of Cash Flows
June 30, 2015

Cash Flows From Operating Activities	
Cash Received from State Foundation	\$ 447,248
Cash Received from Casino Revenues	4,268
Customer Sales and Services	5,775
Cash Payments for Goods and Services	(495,896)
Cash Payments for Materials and Supplies	(11,386)
Cash Payments for Other Expenses	<u>(8,440)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(58,431)</u>
Cash Flows From Non-Capital Financing Activities	
Grants Received	<u>54,342</u>
Cash Flows From Capital and Related Activities	
Payments for Capital Acquisitions	<u>(36,499)</u>
Cash Flows From Investing Activities	
Interest on Investments	<u>6,381</u>
<i>Net Decrease in Cash and Investments</i>	(34,207)
<i>Cash and Investments, Beginning of Year</i>	<u>824,620</u>
<i>Cash and Investments, End of Year</i>	<u><u>\$ 790,413</u></u>
Reconciliation of Operating Loss to	
Net Cash Used for Operating Activities	
<i>Operating Loss</i>	\$ (74,156)
Adjustments:	
Depreciation	14,108
(Decrease) Increase in Liabilities	
Accounts Payable	<u>1,617</u>
<i>Total Adjustments</i>	<u>15,725</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (58,431)</u></u>

See accompanying notes to the basic financial statements.

Massillon Digital Academy
Stark 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

Massillon Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3313 and 3314. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population predominately through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was approved for operation under a contract with the Massillon City School District (the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. Part of the contract contains a comprehensive plan requiring the Academy to assess achievement levels. The Academy will strive to obtain a student pass rate of 75 percent or higher minimum percent designated by the Department of Education on the Ohio achievement test. Furthermore, the Academy will endeavor to achieve an overall attendance rate of 93 percent or above and a graduation rate of 90 percent or above. The Academy has no paid employees.

The Academy operates under the direction of a six-member (five voting members) Board of Directors made up of:

- (a) Two people employed and serving in administrator positions within the Sponsor, whose positions have been identified by the Massillon City School District Board of Education. Each of the foregoing administrators serves on the Board of Directors in his/her official capacity as a representative of the Massillon City School District Board of Education and its interests. The two members consist of one (1) Assistant Principals – Washington High School and the other Director of Pupil Services.
- (b) Two people are neither an officer nor employee of the Sponsor. One individual is a community member the other is a recently retired guidance counselor.
- (c) One person who is a representative of Stark-Portage Area Computer Consortium (SPARCC).
- (d) The Academy's Treasurer/CEO as a non-voting ex officio member who is also the Sponsor's Treasurer/CEO and serves the Board of Directors in her official capacity as a representative of the Massillon City School District Board of Education and its interests.

Therefore, the Academy is a component unit of the Sponsor.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
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 generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Academy's accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting

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

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or changes in net position is appropriate for public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, with the exception of 5705.391. All other budgetary provisions are required to be followed, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2015

D. Cash and Investments

Cash held by the Academy is reflected as “Equity in Pooled Cash and Investments” on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

During 2015, the Academy investments were limited to Federal Farm Credit System Bank Bonds.

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenue received from this program is recognized as operating revenues (foundation payments) in the accounting period in which they are earned and become measurable.

The Academy received \$447,248 for the year ended June 30, 2015.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

In fiscal year 2015, the Academy participated in several state and federal grant programs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

Amounts received under the grant programs for the year ended June 30, 2015, totaled \$53,393.

F. Capital Assets and Depreciation

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 values as of the date received. The Academy maintains a capitalization threshold of five hundred 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 capitalized.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2015

All reported capital assets are depreciated. Capital leases are amortized over the life of the lease. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture and Fixtures	8 years
Vehicles	5 years
Computer Equipment	5 years

G. Accrued Liabilities

All payables and accrued liabilities are reported on the proprietary fund financial statements.

H. Net Position

Net position represents the difference between all assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. For the year ended June 30, 2015, the Academy had unrestricted net position of \$825,729 and \$22,515 of restricted net position related to federal grants.

The Academy applies restricted resources 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 activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2015

L. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2015, the Academy has implemented Governmental Accounting Standards Board (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. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 did not have an effect on the financial statements of the Academy.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and 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. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. This did not have an effect on the Academy's financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During fiscal year 2015, the Academy and public depositories complied with the provisions of these statutes.

Custodial credit risk is the risk that, in the event of a bank failure, the Academy's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Academy's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2015

Deposits with Financial Institutions

At June 30, 2015, the carrying amount of the Academy’s deposits was \$291,213. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2015, \$41,243 of the Academy’s bank balance of \$291,243 was exposed to custodial risk as discussed above, while \$250,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding deposit and investment of funds by the Academy.

Investments

Investments are reported at fair value. As of June 30, 2015, the Academy had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 30 <u>Months</u>	<u>% of Investments</u>
Federal Farm Credit System Bank Bonds	<u>\$ 499,200</u>	<u>\$499,200</u>	<u>100.00%</u>

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Academy’s policy is to follow State statute which is to invest funds with the highest interest rate bid.

Credit Risk: Standard and Poor’s has rated the Federal Farm Credit System Bank Bonds as AA+.

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 Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2015

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets during the fiscal year ended June 30, 2015 follows:

	Balance <u>07/01/2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/2015</u>
<i>Capital Assets, Being Depreciated:</i>				
Furniture and Fixtures	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	233,376	9,057	(191,833)	50,600
Vehicles	<u>0</u>	<u>27,442</u>	<u>0</u>	<u>27,442</u>
<i>Total Capital Assets, Being Depreciated</i>	<u>236,022</u>	<u>36,499</u>	<u>(191,833)</u>	<u>80,688</u>
<i>Less: Accumulated Depreciation</i>				
Furniture and Fixtures	(2,646)	0	0	(2,646)
Computer Equipment	(202,706)	(10,449)	190,472	(22,683)
Vehicles	<u>0</u>	<u>(3,659)</u>	<u>0</u>	<u>(3,659)</u>
<i>Total Accumulated Depreciation</i>	<u>(205,352)</u>	<u>(14,108)</u>	<u>190,472</u>	<u>(28,988)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>\$ 30,670</u>	<u>\$ 22,391</u>	<u>\$ (1,361)</u>	<u>\$ 51,700</u>

NOTE 5 - FISCAL OFFICER

The sponsorship agreement states the Treasurer of the Massillon City School District shall serve as the Fiscal Officer of the Academy.

The Treasurer of Massillon City School District shall perform the following functions while serving as the fiscal officer of the Academy:

- A. Maintain the financial records of the Academy in conformance with generally accepted accounting principles as required by the State Auditor;
- B. Comply with the operating policies recommended by the State Auditor, including those related to the presentation, review, discussion, and approval or rejection of a line item budget and regular reports of current and encumbered expense;
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2015

NOTE 6 - RELATED PARTY TRANSACTION

The Academy is a component unit of the Massillon City School District (the District). The District is the Academy's sponsor. The Academy and the District renewed a 5-year sponsorship agreement commencing on the first day of the 2013 academic year, whereby terms of the sponsorship were established. Pursuant to this agreement, the District's treasurer/CFO serves as the Academy's fiscal officer. The Academy is required to pay \$150 per student per year to the District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. The Sponsor has waived the \$150 per student since the Academy's inception.

NOTE 7 - RISK MANAGEMENT

Insurance Coverage

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. For the year ended June 30, 2015, the Academy contracted with the Ohio Casualty Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

NOTE 8 - PURCHASED SERVICES

For the year ended June 30, 2015, purchased service expenses were recognized for professional services rendered by various vendors as follows:

Massillon Board of Education	\$ 407,076
SPARCC	14,211
Verizon	30,974
Other	44,427
Total Purchased Services	<u>\$ 496,688</u>

For the year ended June 30, 2015, the Academy recognized \$407,076 in expenses for educational services and curriculum provided by the Massillon Board of Education.

NOTE 9 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2015, if applicable, cannot be determined at this time.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2015

B. Litigation

The Academy is not party to any claims or lawsuits that would, in the Academy's opinion, have a material effect of the basic financial statements.

C. Full Time Equivalency

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. Adjustments to the state funding received during fiscal year 2015 are immaterial and are not reflected in the 2015 financial statements but will be included in the financial activity for fiscal year 2016.

November 13, 2015

To the Board of Directors and Management
Massillon Digital Academy
Stark County, Ohio
930 17th Street NE
Massillon, OH 44646

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Massillon Digital Academy, Stark County, Ohio (the “Academy”), a component unit of the Massillon City School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy’s basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Academy’s financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hea & Associates, Inc.

New Philadelphia, Ohio



Dave Yost • Auditor of State

MASSILLON DIGITAL ACADEMY

STARK 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 16, 2016**