



**AKRON DIGITAL ACADEMY  
SUMMIT COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2005**



**Auditor of State  
Betty Montgomery**



**AKRON DIGITAL ACADEMY  
SUMMIT COUNTY**

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# Auditor of State Betty Montgomery

## 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 financial statements of the Akron Digital Academy, Summit County, Ohio, (the Academy) a component unit of the Akron City School District, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. 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 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Akron Digital Academy, Summit County, Ohio, as of June 30, 2005, and the changes in its 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 December 5, 2005, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 5, 2005

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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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, 2005. 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, 2005 are as follows:

- Total net assets increased \$532,261. This is 130.1 percent increase from fiscal year 2004.
- Total revenues increased to \$3,588,619 from \$1,789,924. This is an increase of \$1,798,695 or 100.5 percent.
- Total operating expenses were \$3,056,358. Total operating expenses increased from \$1,589,945 from fiscal year 2004. This is an increase of \$1,466,413 or 92.2 percent. A \$1,264,204 increase in purchased services operating expenses reflects most of this change.

**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 2005"? 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 2005 compared to fiscal year 2004 as follows:

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

Table 1  
Net Assets at June 30,

	2005	2004
<b>Assets</b>		
Current Assets	\$1,052,389	\$489,831
Capital Assets, Net	21,741	8,825
<i>Total Assets</i>	1,074,130	498,656
<b>Liabilities</b>		
Current Liabilities	132,700	89,487
<b>Net Assets</b>		
Invested in Capital Assets	21,741	8,825
Unrestricted	919,689	400,344
<i>Total Net Assets</i>	\$941,430	\$409,169

Total assets increased \$575,474.

Cash and cash equivalents increased \$511,851. The increase in cash and cash equivalents is attributed to an increase in foundation payments revenue from the State. The increase in foundation payments revenue is a result of increased student enrollment. Student enrollment increased to 728 in fiscal year 2005 from 366 in fiscal year 2004. The amount of foundation payments received from the State increases as student enrollment increases.

In addition, intergovernmental receivable increased \$50,838. The Academy was awarded a \$150,000 Federal Charter School Grant Program in fiscal year 2005 and a separate \$150,000 Federal Charter School Grant Program in fiscal year 2004. The Academy records an intergovernmental receivable for the amount of Federal Charter School Grant Program monies not received as of June 30 that were awarded for use in that particular fiscal year. The increase in intergovernmental receivable is mostly due to an increase in the amount of Federal Charter School Grant Program monies not received by the Academy as of June 30, 2005.

Total liabilities increased \$43,213. Accounts payable increased \$4,171 and intergovernmental payable decreased \$11,796. The changes in accounts payable and intergovernmental payable were offset by an increase in deferred revenue of \$50,838. Deferred revenue is recorded when grants and entitlements are received before the eligibility requirements are met. This involves the aforementioned Federal Charter School Grant Program.

The net impact of the assets increase and liabilities decrease was an increase of net assets of \$532,261.

Table 2 shows the changes in net assets for fiscal years 2005 and 2004 as follows:

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

Table 2  
Change in Net Assets

	2005	2004
<b>Operating Revenues</b>		
Foundation Payments	\$3,465,667	\$1,641,706
<b>Non-Operating Revenues</b>		
Interest	18,379	1,473
Grants	104,163	146,638
Other	410	107
<b>Total Non-Operating Revenues</b>	122,952	148,218
<b>Total Revenues</b>	3,588,619	1,789,924
<b>Operating Expenses</b>		
Purchased Services	2,541,162	1,276,958
Materials and Supplies	501,980	299,848
Depreciation	4,639	649
Other	8,577	12,490
<b>Total Operating Expenses</b>	3,056,358	1,589,945
<b>Increase in Net Assets</b>	\$532,261	\$199,979

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

Foundation payments increased from \$1,641,706 in fiscal year 2004 to \$3,465,667 in fiscal year 2005. Foundation payments comprised 96.6 percent of total revenues. This increase is due to, as previously discussed, a rise in student enrollment.

Total non-operating revenues decreased from \$148,218 in fiscal year 2004 to \$122,952 in fiscal year 2005. This decrease is mainly due to a decrease in grants non-operating revenue of \$42,475. The Academy was awarded a \$150,000 Federal Charter School Grant Program in fiscal year 2005 and a separate \$150,000 Federal Charter School Grant Program in fiscal year 2004.

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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The decrease in grants non-operating revenue is partially offset by an increase in interest non-operating revenue of \$16,906. This increase is attributed to the increase in cash and cash equivalents. There were more monies available to invest in fiscal year 2005 than there were in fiscal year 2004. As previously discussed, the increase in cash and cash equivalents is due to an increase in foundation payments revenue from the State. The increase in foundation payments revenue is a result of increased student enrollment, as previously discussed.

The State Foundation Program and the Federal Charter School Grant Program are, by far, the primary support for the Academy's students. Combined, foundation payments and grants non-operating revenue comprised 99.5 percent of total revenues.

Operating expenses increased from \$1,589,945 in fiscal year 2004 to \$3,056,358 in fiscal year 2005, a 92.2 percent increase. This increase is a result of student enrollment increasing from 366 in fiscal year 2004 to 728 in fiscal year 2005. Because of the rise in student enrollment, more services were required to be purchased, especially from the Akron City School District (the "Sponsor"). The Academy paid the Sponsor \$2,179,805 for services in fiscal year 2005, an increase of \$1,065,070 or 95.5 percent from the prior fiscal year. Expenses paid to the Sponsor comprised 71.3 percent of total operating expenses of the Academy during fiscal year 2005.

Also, the rise in student enrollment caused the Academy to purchase more materials and supplies and additional computers, printers and furniture. Much of the costs of the additional computers, printers and furniture did not exceed the capitalization threshold of \$1,000. Therefore, these costs were expensed as materials and supplies operating expenses.

**Capital Assets**

At the end of fiscal year 2005, the Academy had \$21,741 invested in furniture and equipment. Table 3 shows fiscal year 2005 balances compared to fiscal year 2004 as follows:

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

	<u>2005</u>	<u>2004</u>
Furniture and Equipment	\$21,741	\$8,825

This is an increase of \$12,916 from fiscal year 2004 to fiscal year 2005. The Academy purchased eight equipment items in fiscal year 2005 whose cost exceeded the capitalization threshold of \$1,000. The cost of these eight equipment items amounted to \$17,555. The Academy recorded \$4,639 in depreciation operating expense during the current fiscal year.

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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**For the Future**

The Academy will continue to purchase the majority of its instructional, management, administrative, support and other services through its Sponsor. In addition, the Academy will hire approximately 9 employees for instructional, management administrative, fiscal and other services. This will help the Academy effectively monitor and adjust its costs, as necessary. However, management still must diligently plan expenses, staying carefully within the Academy's five-year plan.

The Academy anticipates the student enrollment to virtually remain constant in future fiscal years. The Academy is close to reaching its ceiling with regards to student enrollment. This will result in payments from the State School Foundation Program to be consistent from fiscal year to fiscal year and not increase substantially as it has in prior fiscal years.

Fiscal year 2005 is the final fiscal year for start-up grant monies under the Ohio Charter Schools Federal Sub-grant Program. The Academy will receive and spend the remaining \$125,000 of the \$150,000 award amount for the fiscal year 2005 Ohio Charter Schools Federal Sub-grant Program in fiscal year 2006. These grant funds may be used to enhance the operations of the Academy.

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](mailto:tadkins@akron.k12.oh.us).

**Akron Digital Academy**

*Statement of Net Assets*

*June 30, 2005*

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**Assets**

*Current Assets:*

Cash and Cash Equivalents	\$922,770
Intergovernmental Receivable	125,000
Prepaid Items	<u>4,619</u>

*Total Current Assets* 1,052,389

*Noncurrent Assets:*

Depreciable Capital Assets	<u>21,741</u>
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*Total Current Assets* 1,074,130

**Liabilities**

*Current Liabilities:*

Accounts Payable	7,700
Deferred Revenue	<u>125,000</u>

*Total Current Liabilities* 132,700

**Net Assets**

Invested In Capital Assets	21,741
Unrestricted	<u>919,689</u>

*Total Net Assets* \$941,430

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, 2005*

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<b>Operating Revenues</b>	
Foundation Payments	<u>\$3,465,667</u>
<b>Operating Expenses</b>	
Purchased Services	2,541,162
Materials and Supplies	501,980
Depreciation	4,639
Other	<u>8,577</u>
<i>Total Operating Expenses</i>	<u>3,056,358</u>
<i>Operating Income</i>	<u>409,309</u>
<b>Non-Operating Revenues</b>	
Interest	18,379
Grants	104,163
Other	<u>410</u>
<i>Total Non-Operating Revenues</i>	<u>122,952</u>
<i>Change in Net Assets</i>	532,261
<i>Net Assets at Beginning of Fiscal Year</i>	<u>409,169</u>
<i>Net Assets at End of Fiscal Year</i>	<u><u>\$941,430</u></u>

See accompanying notes to the basic financial statements

**Akron Digital Academy**  
*Statement of Cash Flows*  
For the Fiscal Year Ended June 30, 2005

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**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash Received from Foundation Payments	\$3,465,667
Cash Payments for Goods and Services	<u>(3,059,213)</u>

<i>Net Cash Provided by Operating Activities</i>	<u>406,454</u>
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**Cash Flows from Noncapital Financing Activities**

Grants Received	104,163
Other Non-Operating Revenues	<u>410</u>

<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>104,573</u>
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**Cash Flows from Capital and Related Financing Activities**

Payments for Capital Acquisitions	<u>(17,555)</u>
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**Cash Flows from Investing Activities**

Interest on Investments	<u>18,379</u>
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<i>Net Increase in Cash and Cash Equivalents</i>	511,851
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<i>Cash and Cash Equivalents at Beginning of Fiscal Year</i>	<u>410,919</u>
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<i>Cash and Cash Equivalents at End of Fiscal Year</i>	<u><u>\$922,770</u></u>
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**Reconciliation of Operating Income to Net Cash Provided by Operating Activities**

Operating Income	<u>\$409,309</u>
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Adjustments:

Depreciation	4,639
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(Increase) Decrease in Assets:

Prepaid Items	131
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Increase (Decrease) in Liabilities:

Accounts Payable	4,171
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Intergovernmental Payable	<u>(11,796)</u>
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Total Adjustments	<u>(7,494)</u>
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<i>Net Cash Provided by Operating Activities</i>	<u><u>\$406,454</u></u>
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See accompanying notes to the basic financial statements

**Akron Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 1 – Description of the Academy and Reporting Entity**

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

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

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

The Academy operates under the direction of a seven-member Board of Directors appointed by the Sponsor. The Board consists of a Board President, four members who hold administrative positions with the Sponsor, one public educator or public official not employed by the Sponsor, and one individual representing the interest of parents and students. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

All of the Academy's personnel services, which provided services to 728 students, were purchased from the Sponsor during fiscal year 2005.

**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, 2005*

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***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 expenditure 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 and spending plans. 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, 2005*

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***E. Cash and Cash Equivalents***

During fiscal year 2005, investments were limited to overnight Eurodollars. Investments with an original maturity of three months or less at the time they are purchased by the Academy are presented on the basic financial statements as cash equivalents.

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2005 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 three to five years for furniture and equipment.

***H. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation.

***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, 2005*

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The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded \$150,000 during the fiscal year ended June 30, 2005 to offset start-up costs of the Academy. In addition, the Academy participates in the State Education Management Information System (“EMIS”) through the Ohio Department of Education. Under this program, the Academy was awarded \$5,000 during the fiscal year ended June 30, 2005 to offset costs for EMIS reporting. 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 2005 fiscal year totaled \$3,569,830.

***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 – Change in Accounting Principle**

For fiscal year 2005, the Academy has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosure”, an amendment of GASB Statement No. 3. GASB Statement No. 40 addresses common deposit and investment risk related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This Statement is designed to inform financial statement users about deposit and investment risk that could affect an organization’s ability to provide services and meet its obligations.

**Note 4 – 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 entire bank balance of \$18,881 was covered by federal depository insurance.

The Academy has no deposit policy for custodial risk.

***Investments*** As of June 30, 2005, the Academy had the following investment:

	<u>Carrying Value</u>	<u>Maturity</u>
Overnight Eurodollars	\$919,745	July 1, 2005

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Academy has no investment policy that addresses interest rate risk.

The overnight Eurodollars carry a rating of A+ by Standard and Poor’s and Aa3 from Moody’s Investor Service. The Academy has no investment policy dealing with investment credit risk.

**Akron Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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 overnight Eurodollars are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Academy's name. The Academy has no investment policy dealing with investment custodial risk.

**Note 5 – Receivables**

Receivables at June 30, 2005 consisted of intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs. All receivables are expected to be collected within one fiscal year.

**Note 6 – Capital Assets**

Capital asset activity for the fiscal year June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
<i><b>Capital Assets, being depreciated:</b></i>				
Furniture and Equipment	\$9,474	\$17,555	\$0	\$27,029
Less Accumulated Depreciation:				
Furniture and Equipment	(649)	(4,639)	0	(5,288)
Total Capital Assets, being depreciated, net	\$8,825	\$12,916	\$0	\$21,741

**Note 7 - Risk Management**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, the Academy was covered under the Sponsor's insurance for property, liability, and inland marine coverage.

Settled claims of the Sponsor have not exceeded commercial coverage in any of the past three fiscal years, and there has not been a significant reduction in coverage from the prior fiscal year.

**Note 8 – State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**Akron Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 9 – Agreement with the Akron City School District**

A service contract for fiscal year 2005 between the Academy and the Sponsor was previously approved. This service contract commenced on July 1, 2002 and ends on June 30, 2005. On April 11, 2005, the Academy and its Sponsor entered into a service contract which commences on July 1, 2005 and ends June 30, 2007 and may be renewed by mutual agreement.

In agreement with the current service contract, the Academy purchased the following services from the Sponsor: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel to provide instructional services to the Academy, hourly staff to provide support services to the Academy. The Academy is responsible for reimbursement of 100 percent of all costs incurred by the Sponsor related to these services. The Academy reimbursed the Sponsor \$1,445,790 during fiscal year 2005 for these services.

In addition, in accordance with the current service contract, the Academy will remit \$1,000 (\$2,000 effective for the new service contract) per each and every pupil enrolled in the Academy during the respective academic years for the following management services: marketing support, insurance coverage, human resource services, payroll processing, use of the Sponsor's name and goodwill, printing services, professional consulting related to curriculum, instruction, special education, finances, employee relations, and legal issues, professional development and training and instructional materials. The Academy paid the Sponsor \$728,000 during fiscal year 2005 for these services.

All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.

For the fiscal year ended June 30, 2005, the Academy paid the Sponsor the following expenses:

<u>Purchased Services Expenses</u>	<u>Amounts</u>
Professional and technical services	\$2,175,611
Communications	35
Utilities	520
Contracted craft or trade services	203
Tuition	<u>3,125</u>
Total Purchased Services Expenses	<u><u>\$2,179,494</u></u>
 Materials and Supplies Expenses	 <u><u>\$311</u></u>

**Akron Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**Note 10 – Operating Leases**

The Academy leases facilities space and copiers under noncancelable operating leases. Total costs for such leases were \$45,459 for the fiscal year ended June 30, 2005. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2006	\$81,391
2007	84,286
2008	16,141
2009	9,946
2010	4,463
Total	<u>\$196,227</u>

**Note 11 - 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, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

***B. Litigation***

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State laws. On April 21, 2003, the Common Pleas Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals; the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered decision that community schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

**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.

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**Auditor of State  
Betty Montgomery**

**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 the Akron Digital Academy, Summit County, Ohio, (the Academy) a component unit of the Akron City School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 5, 2005. 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated December 5, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**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*. In a separate letter to the Academy's management dated December 5, 2005, we reported a matter related to noncompliance we deemed immaterial.

This report is intended solely for the information and use of management and the Board of Directors, 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

December 5, 2005



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**AKRON DIGITAL ACADEMY**

**SUMMIT COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 9, 2006**