



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, 2011 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, 2011, 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 January 6, 2012, 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 Expenditure 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

January 6, 2012

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*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, 2011. 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, 2011 are as follows:

- Total net assets decreased \$469,475. This is a 16.1 percent decrease from fiscal year 2010.
- Total revenues decreased to \$5,029,115 from \$6,102,481. This is a decrease of \$1,073,366 or 17.6 percent.
- Total expenses were \$5,498,590. Total expenses increased from \$4,937,462 from fiscal year 2010. This is an increase of \$561,128 or 11.4 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 2011"? 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 2011 compared to fiscal year 2010 as follows:

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

Table 1  
Net Assets at June 30,

	2011	2010
<b>Assets</b>		
Current Assets	\$2,632,636	\$2,875,527
Capital Assets, Net	83,337	85,425
<i>Total Assets</i>	2,715,973	2,960,952
<b>Liabilities</b>		
Current Liabilities	264,793	37,522
Long-Term Liabilities	0	2,775
<i>Total Liabilities</i>	264,793	40,297
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	80,562	77,892
Restricted for Operating Grants	295,924	691,852
Unrestricted	2,074,694	2,150,911
<i>Total Net Assets</i>	\$2,451,180	\$2,920,655

Total assets decreased \$244,979.

Intergovernmental receivable decreased \$395,928 from the prior fiscal year. The Academy participated in the following federal grant programs which are passed through the Ohio Department of Education: Part B-IDEA Special Education, Title I, Title I School Improvement Subsidy A, Title IV Safe and Drug-Free Schools, Title II-A Improving Teacher Quality, Title II-D Technology, Race to the Top, American Recovery and Reinvestment Act ("ARRA") Title I, ARRA McKinley-Vento Homeless Assistance Program and ARRA Part B-IDEA Special Education during the current fiscal year. The Academy was awarded a total of \$1,418,241 during the 2010 fiscal year for these programs and received \$726,389 of this award amount as of June 30, 2010 resulting in an intergovernmental receivable of \$691,852 at June 30, 2010. On the other hand, the Academy was awarded a total of \$1,466,242 during the 2011 fiscal year for these programs and received \$1,170,318 of this award amount as of June 30, 2011 resulting in an intergovernmental receivable of \$295,924 at June 30, 2011. Therefore, the Academy recognized more federal revenue in fiscal year 2011 than in fiscal year 2010, which resulted in a lower intergovernmental receivable as of June 30, 2011 than as of June 30, 2010. The main reason for this was that fiscal year 2011 was the final year for the ARRA Title I, ARRA McKinley-Vento Homeless Assistance Program and ARRA Part B-IDEA Special Education programs. There were no receivables recorded for these 3 ARRA programs at June 30, 2011.



**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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The decrease in intergovernmental receivable is offset by an increase in cash of \$136,911. This increase is attributed to an increase in grants non-operating revenue on the cash basis of accounting. Grants non-operating revenue increased on the cash basis of accounting primarily due to the Academy receiving more federal monies in fiscal year 2011 than in fiscal year 2010, as previously discussed. The Academy was awarded a total of \$1,418,241 during the 2010 fiscal year for federal grant programs and received \$726,389 of this award amount as of June 30, 2010. On the other hand, the Academy was awarded a total of \$1,466,242 during the 2011 fiscal year for federal grant programs and received \$1,170,318 of this award amount as of June 30, 2011. The federal grant programs require the Academy to expend the federal funds first and then request to be reimbursed on a monthly basis. The reason for the increase in federal funds in fiscal year 2011 was that the Academy was more diligent in spending federal funds in fiscal year 2011, and the Academy was more diligent in requesting federal funds from the Ohio Department of Education on a timelier basis in fiscal year 2011.

Total liabilities increased \$224,496.

Intergovernmental payable increased \$128,246. This increase is 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 intergovernmental payable at June 30, 2010. In the past, the payment to the Sponsor for oversight and monitoring attributable to that fiscal year has been made before fiscal year end. For fiscal year 2011, the payment to the Sponsor for oversight and monitoring was made after June 30, 2011. For further explanation of the payments to the Sponsor, see Note 6 of the notes to the basic financial statements.

In addition, deferred revenue increased \$123,579. This increase occurred because the State determined the Academy was overpaid \$123,579 of its foundation payments during fiscal year 2011. The State will reduce fiscal year 2012 foundation payments by this \$123,579, and therefore, deferred revenue is recorded at June 30, 2011. 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 Academy was not overpaid for its foundation payments during fiscal year 2010.

The increases in intergovernmental payable and deferred revenue are offset by decreases in accounts payable and capital leases payable. Accounts payable decreased \$22,571. This decrease is mainly because of a furniture purchase of \$18,359 that was included in accounts payable as of June 30, 2010. There was no furniture purchases included in accounts payable at June 30, 2011. In addition, there were instructional supplies purchases amounting to \$3,575 included in accounts payable at June 30, 2010, but only \$450 of instructional supplies purchases included in accounts payable at June 30, 2011.

Capital leases payable decreased \$4,758. The decrease in capital leases payable resulted from the monthly principal lease payments made by the Academy for a scanner during the current fiscal year. These lease payments totaled \$4,758 during fiscal year 2011.

The net impact of the assets decrease and liabilities increase was a decrease of net assets of \$469,475.

Table 2 shows the changes in net assets for fiscal years 2011 and 2010 as follows:

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

Table 2  
Change in Net Assets

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Foundation Payments	<u>\$3,821,798</u>	<u>\$4,543,485</u>
<b>Non-Operating Revenues</b>		
Interest	7,723	8,093
Grants	1,199,529	1,550,672
Other	<u>65</u>	<u>231</u>
<b>Total Non-Operating Revenues</b>	<u>1,207,317</u>	<u>1,558,996</u>
<b>Total Revenues</b>	<u>5,029,115</u>	<u>6,102,481</u>
<b>Operating Expenses</b>		
Purchased Services	4,933,836	4,529,051
Materials and Supplies	508,788	360,674
Depreciation	35,689	29,725
Other	<u>19,749</u>	<u>17,540</u>
<b>Total Operating Expenses</b>	<u>5,498,062</u>	<u>4,936,990</u>
<b>Non-Operating Expenses</b>		
Loss on Disposal of Capital Assets	<u>528</u>	<u>472</u>
<b>Total Expenses</b>	<u>5,498,590</u>	<u>4,937,462</u>
<b>Increase/(Decrease) in Net Assets</b>	<u>(\$469,475)</u>	<u>\$1,165,019</u>

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

Foundation payments decreased from \$4,543,485 in fiscal year 2010 to \$3,821,798 in fiscal year 2011. Foundation payments comprised 76.0 percent of total revenues. Foundation payments decreased because student average daily membership decreased to 647 in fiscal year 2011 from 739 in fiscal year 2010.

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

Total non-operating revenues decreased from \$1,558,996 in fiscal year 2010 to \$1,207,317 in fiscal year 2011. This decrease is primarily due to a decrease in grants non-operating revenue of \$351,143.

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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The decrease in grants non-operating revenue is due to the decrease in intergovernmental receivable, previously discussed, and due to the Academy receiving less State Fiscal Education Stabilization funds in fiscal year 2011 than received in fiscal year 2010. The Academy received \$286,635 in State Fiscal Education Stabilization funds in fiscal year 2011 as compared to \$312,122 in fiscal year 2010. The State Fiscal Education Stabilization funds are recognized as grants non-operating revenue since they were earmarked as federal support even though they are received through the State's foundation program.

Total expenses increased from \$4,937,462 in fiscal year 2010 to \$5,498,590 in fiscal year 2011, an 11.4 percent increase. This increase mainly is a result of the following expense increases: reimbursements to the Akron City School District (the "Sponsor") for personnel services and materials and supplies.

Purchased services operating expenses increased to \$4,933,836 in fiscal year 2011 from \$4,529,051 in fiscal year 2010. This increase is attributed to reimbursements paid to the Sponsor for personnel services. Reimbursements paid to the Sponsor for personnel services increased from \$2,958,165 in the prior fiscal year to \$3,716,833 in the current fiscal year. The Academy used more Sponsor personnel in fiscal year 2011 than it used in fiscal year 2010. For further explanation of the payments to the Sponsor, see Note 6 of the notes to the basic financial statements.

Also, materials and supplies operating expense increased to \$508,788 in fiscal year 2011 from \$360,674 in fiscal year 2010. The Academy simply spent more on instructional materials and office supplies in the current fiscal year than in the prior fiscal year.

**Capital Assets**

At the end of fiscal year 2011, the Academy had \$83,337 invested in furniture and equipment. Table 3 shows fiscal year 2011 balances compared to fiscal year 2010 as follows:

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

	<u>2011</u>	<u>2010</u>
Furniture and Equipment	\$83,337	\$85,425

Depreciation operating expense of \$35,689 accounts for the majority of the decrease in capital assets. Depreciation operating expense was offset by purchases amounting to \$34,129 during the current fiscal year. The Academy purchased 8 catalyst switches and a wireless land controller during the 2011 fiscal year. For further information on capital assets, see Note 4 of the notes to the basic financial statements.

**For the Future**

The Academy's focus will be to maintain its current enrollment. Therefore, the Academy does not anticipate significant changes in revenues and expenses.

The Academy will continue to receive Race to the Top funds in fiscal year 2012 through fiscal year 2014 from the federal government. In addition, the Academy will receive Education Jobs funds in fiscal year 2012 only from the federal government.

**Akron Digital Academy**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2011*  
*Unaudited*

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These funds will aid in maintaining current revenue levels with the end of the ARRA and State Fiscal Education Stabilization funds. 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 2011.

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

**Akron Digital Academy**  
*Statement of Net Assets - Enterprise Fund*  
*June 30, 2011*

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<b>Assets</b>	
<i>Current Assets:</i>	
Cash	\$2,314,577
Intergovernmental Receivable	295,924
Prepaid Items	<u>22,135</u>
 <i>Total Current Assets</i>	 <u>2,632,636</u>
 <i>Noncurrent Assets:</i>	
Depreciable Capital Assets	<u>83,337</u>
 <i>Total Assets</i>	 <u>2,715,973</u>
 <b>Liabilities</b>	
<i>Current Liabilities:</i>	
Accounts Payable	10,193
Intergovernmental Payable	128,246
Capital Leases Payable	2,775
Deferred Revenue	<u>123,579</u>
 <i>Total Liabilities</i>	 <u>264,793</u>
 <b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	80,562
Restricted for Grants	295,924
Unrestricted	<u>2,074,694</u>
 <i>Total Net Assets</i>	 <u><u>\$2,451,180</u></u>

See accompanying notes to the basic financial statements

**Akron Digital Academy**  
*Statement of Revenues, Expenses and  
Changes in Net Assets - Enterprise Fund  
For the Fiscal Year Ended June 30, 2011*

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<b>Operating Revenues</b>	
Foundation Payments	<u>\$3,821,798</u>
 <i>Total Operating Revenues</i>	 <u>3,821,798</u>
 <b>Operating Expenses</b>	
Purchased Services	4,933,836
Materials and Supplies	508,788
Depreciation	35,689
Other	<u>19,749</u>
 <i>Total Operating Expenses</i>	 <u>5,498,062</u>
 <i>Operating (Loss)</i>	 (1,676,264)
 <b>Non-Operating Revenues (Expenses)</b>	
Interest	7,723
Grants	1,199,529
Other	65
Loss on Disposal of Capital Assets	<u>(528)</u>
 <i>Total Non-Operating Revenues (Expenses)</i>	 <u>1,206,789</u>
 <i>Change in Net Assets</i>	 (469,475)
 <i>Net Assets at Beginning of Fiscal Year</i>	 <u>2,920,655</u>
 <i>Net Assets at End of Fiscal Year</i>	 <u><u>\$2,451,180</u></u>

See accompanying notes to the basic financial statements

**Akron Digital Academy**  
*Statement of Cash Flows - Enterprise Fund*  
*For the Fiscal Year Ended June 30, 2011*

<b>Increase (Decrease) in Cash</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Foundation Payments	\$3,945,377
Cash Payments for Goods and Services	<u>(5,372,824)</u>
<i>Net Cash (Used in) Operating Activities</i>	(1,427,447)
<b>Cash Flows from Noncapital Financing Activities</b>	
Grants Received	1,595,457
Other Non-Operating Revenues	<u>65</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>1,595,522</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Payments for Capital Acquisitions	(34,129)
Principal Payments for Capital Leases	<u>(4,758)</u>
<i>Net Cash (Used in) Capital and Related Financing Activities</i>	<u>(38,887)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	<u>7,723</u>
<i>Net Increase in Cash</i>	136,911
<i>Cash at Beginning of Fiscal Year</i>	<u>2,177,666</u>
<i>Cash at End of Fiscal Year</i>	<u><u>\$2,314,577</u></u>
<b>Reconciliation of Operating (Loss) to Net Cash (Used in) Operating Activities</b>	
Operating (Loss)	(\$1,676,264)
Adjustments:	
Depreciation	35,689
(Increase) Decrease in Assets:	
Accounts Receivable	31
Prepaid Items	(16,157)
Increase (Decrease) in Liabilities:	
Accounts Payable	(22,571)
Deferred Revenue	123,579
Intergovernmental Payable	<u>128,246</u>
Total Adjustments	<u>248,817</u>
<i>Net Cash (Used in) Operating Activities</i>	<u><u>(\$1,427,447)</u></u>

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, 2011*

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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. 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, two members who hold administrative positions with the Sponsor, a public official not employed by the Sponsor, and five individuals representing the interest of parents and students. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

All of the Academy’s personnel services, which provided services to 647 students, were purchased from the Sponsor during fiscal year 2011.

**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, 2011*

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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 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, 2011*

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***E. Cash***

During fiscal year 2011, the Academy had no investments.

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2011 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. Portions of the revenues received from this program are earmarked to be State support and portions of the revenues received from this program are earmarked to be federal support called State Fiscal Education Stabilization funds. The portion earmarked as State support is recognized as operating revenues in the accounting period in which all eligibility requirements have been met. The portion earmarked as federal support is recognized as non-operating revenue 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, 2011*

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The Academy also 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, 2011 to offset costs for EMIS reporting. Revenues received from this program are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

In addition, the Academy 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 IV Safe and Drug-Free Schools, Title II-A Improving Teacher Quality, Title II-D Technology, Race to the Top, American Recovery and Reinvestment Act (ARRA) Title I, ARRA McKinley-Vento Homeless Assistance Program and ARRA Part B-IDEA Special Education. The Academy was awarded a total of \$1,799,424 during the fiscal year ended June 30, 2011 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 2011 fiscal year totaled \$5,021,327.

***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 \$2,314,577 and the bank balance was \$2,580,357. Of the bank balance, \$500,000 was covered by the Federal Deposit Insurance Corporation and \$2,080,357 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 2011, the Academy had no investments.

**Akron Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 4 – Capital Assets**

Capital asset activity for the fiscal year June 30, 2011, was as follows:

	Balance 6/30/2010	Additions	Deletions	Balance 6/30/2011
<b><i>Capital Assets, being depreciated:</i></b>				
Furniture and Equipment	\$159,171	\$34,129	(\$1,689)	\$191,611
Less Accumulated Depreciation:				
Furniture and Equipment	(73,746)	(35,689)	1,161	(108,274)
Total Capital Assets, being depreciated, net	<u>\$85,425</u>	<u>(\$1,560)</u>	<u>(\$528)</u>	<u>\$83,337</u>

**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 2011, the Academy was covered under the Sponsor’s insurance for property, inland marine, crime, general liability, educators legal liability, employment practices liability and automobile 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 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, hourly personnel to provide instructional services to the Academy, hourly staff to provide support services to 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 \$3,716,833 during fiscal year 2011 for these services.

In addition, in accordance with the sponsorship contract between the Sponsor and the Academy, the Academy will remit an amount not to exceed \$2,000 per student enrolled in the Academy per fiscal year. The Academy paid \$128,246 to the Sponsor during fiscal year 2011.

All personnel providing services to the Academy on behalf of the Sponsor are considered employees of the Sponsor. All of the Academy’s personnel services were provided by the Sponsor during the 2011 fiscal year.

**Akron Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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For the fiscal year ended June 30, 2011, the Academy paid the Sponsor the following expenses:

<u>Operating Expenses</u>	<u>Amounts</u>
Purchased Services	
Professional and Technical Services	\$3,840,017
Communications	234
Supplies and Materials	4,828
Total Operating Expenses	<u><u>\$3,845,079</u></u>

**Note 7 – Defined Benefit Pension Plans**

***A. School Employees Retirement System***

***Plan Description*** The Sponsor contributes to the School Employees Retirement System of Ohio (“SERS”), a cost-sharing, multiple-employer defined benefit pension plan for the personnel provided to the Academy. 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](http://www.ohsers.org), under Employers/Audit Resources.

***Funding Policy*** Plan members are required to contribute 10 percent of their annual covered salary, and the Sponsor is required to contribute at an actuarially determined rate. The current Sponsor rate is 14 percent of annual covered payroll. A portion of the Sponsor’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 2011, 11.81 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 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, 2011, 2010 and 2009 were \$117,464, \$104,373 and \$64,204, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

***B. State Teachers Retirement System***

***Plan Description*** The Sponsor 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](http://www.strsoh.org).

**Akron Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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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, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The Sponsor 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 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, 2011, 2010, and 2009 were \$264,313, \$207,198, and \$207,003, respectively; 84.98 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. There were no contributions to the DC and Combined Plans for fiscal year 2011 by the Sponsor for the personnel provided to the Academy or made by the plan members.

**Akron Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 8 - Postemployment Benefits Other Than Pension**

**A. State Teachers Retirement System**

**Plan Description** The Sponsor 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](http://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 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Sponsor's contributions for health care for the personnel provided to the Academy for the fiscal years ended June 30, 2011, 2010 and 2009 were \$20,332, \$15,938 and \$15,923, respectively; 84.98 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**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](http://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 2011, 1.43 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 2011, 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, 2011*

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The Sponsor's contributions for health care for the personnel provided to the Academy for the fiscal years ended June 30, 2011, 2010 and 2009 were \$35,386, \$23,980 and \$48,677 respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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 2011, the actuarially required allocation was 0.76 percent of covered payroll. The Sponsor's contributions for Medicare Part B for the personnel provided to the Academy for the fiscal year ended June 30, 2011, 2010 and 2009 were \$7,559, \$6,207 and \$5,297, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

**Note 9 – Capital Leases**

Capital lease obligations relate to a scanner for the Academy. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases." Capital assets acquired by an interest-free lease have been originally capitalized in the amount of \$23,790.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2011:

Fiscal Year Ending June 30,	Principal Payment
2012	\$2,775

**Note 10 – Operating Leases**

The Academy leases facilities space, copiers and a postage meter under noncancelable operating leases. Total costs for such leases were \$300,654 for the fiscal year ended June 30, 2011. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2012	\$280,084
2013	269,444
2014	73,767
2015	69,120
Total	\$692,415

**Akron Digital Academy**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2011*

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**Note 11 - Contingencies**

***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, 2011.

**Note 12 – 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 2011, this review resulted in a reduction of \$123,579. 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 13 – 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, 2011**

Federal Grantor/ Pass Through Grantor/ Program Title	Grant Year	Federal CFDA Number	Receipts	Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through the Ohio Department of Education:</i>				
ARRA - Race to the Top	2011	84.395	598	423
ARRA - State Fiscal Stabilization Fund - Education State Fund	2011	84.394	335,879	335,879
ARRA - Education for Homeless Children	2011	84.387	942	1,449
Title I Grant Cluster				
Title I Grants to Local Educational Agencies	2011	84.010	564,086	565,987
	2010		69,452	30,156
Total Title I Grants to Local Educational Agencies			<u>633,538</u>	<u>596,143</u>
Title I School Improvement, Sub A	2011	84.010	50,394	49,081
ARRA - Title I Grants to Local Educational Agencies	2011	84.389	393,389	393,389
	2010		6,916	11,983
Total ARRA - Title I Grants to Local Educational Agencies			<u>400,305</u>	<u>405,372</u>
Total Title I Grant Cluster			1,084,237	1,050,596
Special Education Grant Cluster				
Special Education - Grants to States	2011	84.027	40,112	21,857
	2010		1,185	37,918
Total Special Education - Grants to States			<u>41,297</u>	<u>59,775</u>
ARRA - Special Education - Grants to States	2011	84.391	103,404	105,054
	2010		-	7,924
Total ARRA - Special Education - Grants to States			<u>103,404</u>	<u>112,978</u>
Total Special Education Grant Cluster			144,701	172,753
Improving Teacher Quality Grant Program				
	2011	84.367	15,474	15,474
	2010		127	1,397
Total Improving Teacher Quality State Grant			<u>15,601</u>	<u>16,871</u>
Educational Technology State Grants				
	2011	84.318	230	-
	2010		153	-
			<u>383</u>	<u>-</u>
School Improvement Grants	2010	84.377	8,115	7,750
Safe and Drug-Free Schools and Communities State Grants	2010	84.186	-	39
<i>Total Passed through the Ohio Department of Education</i>			<u>1,590,456</u>	<u>1,585,760</u>
<b>Total U.S. Department of Education</b>			<u><b>\$ 1,590,456</b></u>	<u><b>\$ 1,585,760</b></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, 2011*

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**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, 2011. The School-Wide Pool follows guidance from OMB Circular A-133.

Program Title	Federal CFDA Number	Allocated Amount
Enterprise Fund		\$3,670,190
Title I Grants to Local Educational Agencies	84.010	441,001
Improving Teacher Quality State Grants	84.367	15,474
Safe and Drug-Free Schools and Communities - State Grants	84.186	39
Special Education - State Grants	84.027	<u>21,857</u>
Total School-Wide Pool		<u><u>\$4,148,561</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, 2011, and have issued our report thereon dated January 6, 2012. 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 January 6, 2012.

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, looping "D" and "Y".

**Dave Yost**  
Auditor of State

January 6, 2012



# 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, 2011. The summary of auditor's results section of the accompanying schedule of findings 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.

We conducted our audit of compliance in accordance with 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*. Those 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 those 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 those requirements.

In our opinion, the 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, 2011.

### 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 requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining 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 would not necessarily 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.

We noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Academy's management in a separate letter dated January 6, 2012.

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

January 6, 2012



**AKRON DIGITAL ACADEMY  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title 1 Cluster: Grants to Local Educational Agencies (CFDA 84.010, ARRA-Grants to Local Educational Agencies (CFDA 84.389), ARRA-State Fiscal Stabilization Fund (CFDA 84.394)
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	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**

None

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# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedure

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

To the Board of Directors:

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

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Akron Digital Academy, Summit County, Ohio, (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 Academy did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Academy to amend its definition by September 28, 2010.

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 of Directors and Akron City School District 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

January 6, 2012

101 Central Plaza South, 700 Chase Tower, Canton, Ohio 44702-1509  
Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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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  
FEBRUARY 9, 2012**