

***AKRON DIGITAL ACADEMY
SUMMIT COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015



Dave Yost • Auditor of State

Board of Directors
Akron Digital Academy
335 South Main Street
Akron, Ohio 44308

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

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

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

Dave Yost
Auditor of State

January 28, 2016

This page intentionally left blank.

AKRON DIGITAL ACADEMY
SUMMIT COUNTY
AUDIT REPORT
For the year ended June 30, 2015

Table of Contents

<u>Title</u>	<u>Page</u>
Report of Independent Auditors.....	1-2
Management’s Discussion and Analysis.....	4-10
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Net Position	12
Statement of Cash Flows	13
Notes to the Basic Financial Statements	14-30
Schedules of the Academy’s Proportionate Share of the Net Pension Liability:	
School Teachers Retirement System of Ohio.....	32
School Employees Retirement System of Ohio.....	33
Schedules of the Academy’s Contributions:	
School Teachers Retirement System of Ohio.....	34
School Employees Retirement System of Ohio.....	35
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	36-37
Schedule of Prior Audit Findings.....	38

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Akron Digital Academy, Summit County, Ohio (the Academy), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

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 as of June 30, 2015, and the changes in financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, during the year ended June 30, 2015, the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an Amendment of GASB Statement No. 68*. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2015 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
December 18, 2015

**Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

The discussion and analysis of the Akron Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the 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, 2015 are as follows:

- Total net position increased \$236,079. This is a 6.0% increase from fiscal year 2014.
- Total revenues increased to \$3,989,980 from \$3,383,648. This is an increase of \$606,332 or 18%.
- Total expenses were \$3,753,901. Total expenses decreased from \$4,426,275 from fiscal year 2014. This is a decrease of \$672,374 or 15%.

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 position, a statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during fiscal year 2015"? The statement of net position 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 position and change in net position. This change in net position 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.

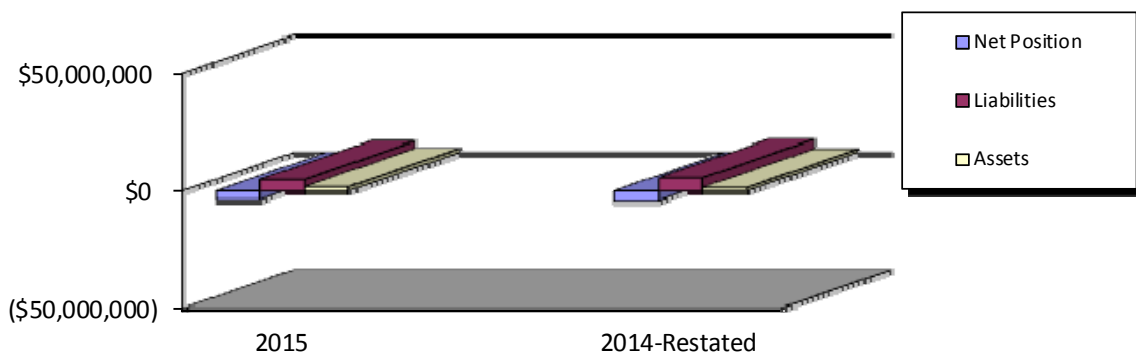
This Space Intentionally Left Blank

**Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

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

**Table 1
Net Position**

	Governmental Activities	
	2015	2014-Restated
Assets:		
Current and Other Assets	\$1,741,092	\$1,400,745
Capital Assets	17,757	35,565
Total Assets	<u>1,758,849</u>	<u>1,436,310</u>
Deferred Outflows of Resources:		
Pension	288,575	285,302
Total Deferred Outflows of Resources	<u>288,575</u>	<u>285,302</u>
Liabilities:		
Other Liabilities	398,520	285,812
Long-Term Liabilities	4,504,106	5,338,868
Total Liabilities	<u>4,902,626</u>	<u>5,624,680</u>
Deferred Inflows of Resources:		
Pension	811,787	0
Total Deferred Inflows of Resources	<u>811,787</u>	<u>0</u>
Net Position:		
Net Investment in Capital Assets	17,757	35,565
Restricted	262,765	397,006
Unrestricted	<u>(3,947,511)</u>	<u>(4,335,639)</u>
Total Net Position	<u><u>(\$3,666,989)</u></u>	<u><u>(\$3,903,068)</u></u>



**Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

During 2015, the Academy adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Academy's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Academy's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Academy is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net

**Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the Academy's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Academy is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$1,150,498 to \$(3,903,068).

Total net position of the Academy increased by \$236,079. The increase in total net position from fiscal year 2014 is primarily due to a increase in equity in pooled cash and investments as cash receipts exceeded cash expensed in fiscal year 2015 and an increase in intergovernmental receivables. Long-term liabilities decreased due to a decrease in Net Pension Liability when compared to 2014.

Table 2 shows the changes in net position for the fiscal years ended June 30, 2015 and 2014.

This Space Intentionally Left Blank

**Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

**Table 2
Changes in Net Position**

	Fiscal Year	
	2015	2014-Restated
Operating Revenues:		
State Foundation	\$3,239,603	\$2,690,437
Fees	1,770	4,950
Other Revenues	117,941	24,295
Total Operating Revenues	3,359,314	2,719,682
Operating Expenses:		
Salaries	1,826,901	1,986,381
Fringe Benefits	454,990	671,311
Purchased Services	1,295,681	1,239,111
Materials and Supplies	131,044	460,173
Depreciation	17,808	20,220
Other Expenses	27,477	49,079
Total Operating Expenses	3,753,901	4,426,275
Operating Income (Loss)	(394,587)	(1,706,593)
Non-Operating Revenues (Expenses):		
Investment Earnings	8,164	8,277
State and Federal Grants	622,502	655,689
Total Non-Operating Revenues (Expenses)	630,666	663,966
Change in Net Position	236,079	(1,042,627)
Net Position - Beginning of Year, Restated	(3,903,068)	(2,860,441)
Net Position - End of Year	(\$3,666,989)	(\$3,903,068)

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 expenses still include pension expense of \$285,302 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expenses of \$220,022. Consequently, in order to compare 2015 total expenses to 2014, the following adjustments are needed:

**Akron Digital Academy
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

Total 2015 program expenses under GASB 68	\$3,753,901
Program expenses under GASB 68	(220,022)
2015 contractually required contributions	246,270
Adjusted 2015 program expenses	<u>3,780,149</u>
Total 2014 program expenses under GASB 27	<u>4,426,275</u>
Decrease in program expenses not related to pension	<u><u>(\$646,126)</u></u>

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

Foundation payments increased from \$2,690,437 in fiscal year 2014 to \$3,239,603 in fiscal year 2015. Foundation payments increased because student average daily membership increased in fiscal year 2015 from fiscal year 2014. Foundation payments are based on student enrollment. The State Foundation Program is, by far, the primary support for the Academy’s students.

Total non-operating revenues decreased from \$663,966 in fiscal year 2014 to \$630,666 in fiscal year 2015. This decrease is primarily due to a decrease in grants non-operating revenue of \$33,187.

Total expenses decreased in fiscal year 2015 as compared to fiscal year 2014 due to a decrease in salaries, fringe benefits, and materials and supplies.

Capital Assets

At the end of fiscal year 2015, the Academy had \$17,757 in furniture and equipment. Table 3 shows fiscal year 2015 balances compared to fiscal year 2014 as follows:

**Table 3
Capital Assets at Year End
(Net of Depreciation)**

	Fiscal Year	
	2015	2014
Furniture and Equipment	\$17,757	\$35,565

Depreciation operating expense of \$17,808 accounts for the decrease in capital assets. 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 increase its current enrollment. There has been a recent drop in enrollment after The Academy changed locations. However, we believe this is only a short term decrease and expect future enrollment to increase. The Academy will need to begin looking at decreasing expenses if enrollment does not begin to increase.

**Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)**

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 Alleyn Unversaw, Fiscal Officer, at Akron Digital Academy, 1879 Deerfield Rd, Lebanon, Ohio 45036.

This Space Intentionally Left Blank

Akron Digital Academy
Statement of Net Position
June 30, 2015

Assets:	
Current Assets:	
Cash and Investments	\$1,362,727
Receivables:	
Intergovernmental	<u>378,365</u>
Total Current Assets	1,741,092
Noncurrent Assets:	
Depreciable Capital Assets, Net	<u>17,757</u>
Total Noncurrent Assets	<u>17,757</u>
Total Assets	1,758,849
Deferred Outflows of Resources:	
Pension	<u>288,575</u>
Total Deferred Outflows of Resources	288,575
Liabilities:	
Current Liabilities:	
Accounts Payable	157,239
Accrued Wages and Benefits	<u>241,281</u>
Total Current Liabilities	398,520
Long-Term Liabilities:	
Net Pension Liability	<u>4,504,106</u>
Total Liabilities	4,902,626
Deferred Inflows of Resources:	
Pension	<u>811,787</u>
Total Deferred Inflows of Resources	811,787
Net Position:	
Net Investment in Capital Assets	17,757
Restricted	262,765
Unrestricted	<u>(3,947,511)</u>
Total Net Position	<u><u>(\$3,666,989)</u></u>

See accompanying notes to the basic financial statements.

Akron Digital Academy
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Operating Revenues:	
Fees	\$1,770
Foundation Payments	3,239,603
Other Operating Revenues	<u>117,941</u>
Total Operating Revenues	<u>3,359,314</u>
Operating Expenses:	
Salaries	1,826,901
Fringe Benefits	454,990
Purchased Services	1,295,681
Materials and Supplies	131,044
Depreciation	17,808
Other	<u>27,477</u>
Total Operating Expenses	<u>3,753,901</u>
Operating Income (Loss)	<u>(394,587)</u>
Non-Operating Revenues (Expenses):	
Investment Earnings	8,164
State and Federal Grants	<u>622,502</u>
Total Non-Operating Revenues (Expenses)	<u>630,666</u>
Change in Net Position	236,079
Net Position - Beginning of Year, Restated	<u>(3,903,068)</u>
Net Position - End of Year	<u><u>(\$3,666,989)</u></u>

See accompanying notes to the basic financial statements.

Akron Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Cash Flows from Operating Activities:	
Cash Received from State Foundation	\$3,239,603
Other Operating Cash Receipts	119,711
Cash Payments to Employees for Salaries and Benefits	(2,334,635)
Cash Payments for Goods and Services	(1,276,705)
Cash Payments for Other Expenses	<u>(27,477)</u>
Net Cash Provided (Used) by Operating Activities	<u>(279,503)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Received from State and Federal Grants	<u>526,679</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>526,679</u>
Cash Flows from Investing Activities:	
Earnings on Investments	<u>8,164</u>
Net Cash Provided (Used) by Cash Flows from Investing Activities	<u>8,164</u>
Net Increase (Decrease) in Cash and Investments	255,340
Cash and Investments - Beginning of Year	<u>1,107,387</u>
Cash and Investments - End of Year	<u><u>\$1,362,727</u></u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(\$394,587)
Adjustments:	
Depreciation	17,808
Changes in Assets & Liabilities:	
(Increase) Decrease in Receivables	10,816
Increase (Decrease) in Accrued Liabilities	(34,593)
Pension Expense	(26,248)
Increase (Decrease) in Payables	<u>147,301</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$279,503)</u></u>

See accompanying notes to the basic financial statements.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 1 – Description of the Academy

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 seventh 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 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 began operations on October 7, 2002. The Academy was approved for operation under a contract with the Warren County Educational Service Center (Sponsor) for period of five years beginning on July 1, 2013. 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 self-appointed, five-member Board of Directors. The Board consists of 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.

The Academy is staffed by 47 employees who provide services to 400 students.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with the 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 more significant of the Academy’s accounting policies are described below.

Basis of Presentation

The Academy’s basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Academy uses enterprise accounting to maintain its financial records. Enterprise fund reporting focuses on the determination of the change in net position, financial position and cash flows.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

Basis of Accounting

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

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 years 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.

Expenses are recognized at the time they are incurred.

Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code, Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor prescribes that each year of the Contract, on or before June 30, a revised school budget shall be submitted to the Sponsor. The budget must detail estimated revenues and expenses. Revenues include the base formula amount that will be used for purpose of funding calculations under section 3314.08 of the Ohio Revised Code. The base formula amount for any year shall not exceed the dollar formula amounts specified for the year by the Ohio Department of Education, must be included in the budget, and projected expenses must include the total estimated per pupil expenditure amount for each year. Should the Sponsor request further breakdown of revenue or expenses, or line items for expenses or revenue not projected, the Academy agrees to revise or comply with such requests. Should the Academy be managed by a third-party management company, the School Governing Authority must procure from such management company, sufficient data, to allow the Sponsor to review revenue and expenses as required or permitted by law. Under Ohio Revised Code Section 5705.391, the Academy must prepare a five-year funding plan and submit it to the Ohio Superintendent of Public Instruction.

Capital Assets and Depreciation

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

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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.

Net Position

Net Position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of governments. The Academy applies restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments. Operation expenses are the necessary costs incurred to provide the goods or services that occur in carrying out the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

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.

The Academy participated in the following federal grant programs which are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan (CCIP): Part B-IDEA Special Education, Title I, Title II-A Improving Teacher Quality, Race to the Top and Schoolwide Pool Program. The Academy was awarded a total of \$622,502 during the fiscal year ended June 30, 2015 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.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Estimates

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

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 June 30, 2015, the carrying amount of the Academy's deposits totaled \$935,913 and the bank balance was \$992,878. Of the bank balance, \$376,014 was covered by the Federal Deposit Insurance Corporation and \$616,864 of the Academy's bank balance was not exposed to custodial risk.

The Academy has no deposit policy for custodial risk.

Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Bank or at member banks of the Federal Reserve system in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Life Insurance Annuity	<u>\$426,814</u>	2.07

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Academy will not directly invest in securities maturing more than five years from the date of purchase. The Academy does not have an investment policy to address this risk.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Investments in Life Insurance Annuity is not rated. The Academy does not have a policy to address credit risk for investments.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Academy has invested 100 percent in the Life Insurance Annuity. The Academy does not have an investment policy to address this risk.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Custodial Credit Risk - 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. All of the Academy's investments are either insured and registered in the name of the Academy or at least registered in the name of the Academy. The Academy does not have a policy to address custodial credit risk beyond the requirement of state statute.

Note 4 - Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, being depreciated:				
Furniture and Equipment	\$205,344	\$0	\$0	\$205,344
Totals at Historical Cost	<u>205,344</u>	<u>0</u>	<u>0</u>	<u>205,344</u>
Less Accumulated Depreciation:				
Furniture and Equipment	169,779	17,808	0	187,587
Total Accumulated Depreciation	<u>169,779</u>	<u>17,808</u>	<u>0</u>	<u>187,587</u>
Governmental Activities Capital Assets, Net	<u>\$35,565</u>	<u>(\$17,808)</u>	<u>\$0</u>	<u>\$17,757</u>

Note 5 - Risk Management

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. For fiscal year 2015, the Academy contracted with Agronaut Insurance Company for property, inland marine, crime, general liability, educators legal liability, employers practices liability, automobile coverage and excess liability insurance.

Coverage provided is as follows:

This Space Intentionally Left Blank

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Type of Coverage	Coverage Amount
Commercial Property (\$1,000 deductible):	
Building and Contents	\$185,764
Commercial Inland Marine (\$1,000 deductible)	400,000
Commercial Crime (\$500 deductible)	50,000
Commercial General Liability (No deductible):	
General Aggregate Limit	3,000,000
Each Occurrence Limit	1,000,000
Employers Liability	1,000,000
Educators Legal Liability (\$2,500 deductible):	
Annual Aggregate	3,000,000
Each Wrongful Act	1,000,000
Employment Practices Liability (\$2,500 deductible):	
Annual Aggregate	3,000,000
Each Wrongful Act	1,000,000
Automobile Liability (No deductible)	1,000,000
Commercial Excess Liability (No deductible)	1,000,000

Settled claims did not exceed commercial coverage in the past two fiscal years and there has not been a significant reduction in coverage from the prior fiscal year.

Note 6 - Purchased Services

In accordance with the sponsorship contract between the Sponsor and the Academy and in accordance with Ohio Revised Code Section 3314.03, the Academy will pay a sponsorship fee to the Sponsor of an amount not to exceed three percent of the total State Foundation Program payments during the fiscal year for oversight and monitoring. The Academy paid \$86,748 to the Sponsor during fiscal year 2015 for these services.

For the fiscal year ended June 30, 2015, purchased service expenses were comprised of the following:

Purchased Services	Amounts
Professional and Technical Services	\$717,502
Property Services	445,077
Travel and Meeting	26,541
Communications	50,363
Utilities Services	4,248
Contracted Craft and Trade Services	4,950
Pupil Transportation Services	47,000
Total Purchased Services	<u><u>\$1,295,681</u></u>

Note 7 - Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Academy's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the Academy's obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – Academy non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. 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 Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$81,372 for fiscal year 2015. Of this amount \$6,417 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – Academy licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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 DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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 – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$165,898 for fiscal year 2015. Of this amount \$28,050 is reported as accrued wages and benefits.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$946,649	\$3,557,457	\$4,504,106
Proportion of the Net Pension Liability	0.01870500%	0.01462562%	
Pension Expense	55,671	164,351	220,022

At June 30, 2015, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$8,057	\$34,248	\$42,305
Academy contributions subsequent to the measurement date	<u>81,372</u>	<u>164,898</u>	<u>246,270</u>
Total Deferred Outflows of Resources	<u>\$89,429</u>	<u>\$199,146</u>	<u>\$288,575</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$153,644</u>	<u>\$658,143</u>	<u>\$811,787</u>

\$246,270 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	(\$36,396)	(\$155,973)	(\$192,369)
2017	(36,397)	(155,974)	(192,371)
2018	(36,397)	(155,974)	(192,371)
2019	<u>(36,397)</u>	<u>(155,974)</u>	<u>(192,371)</u>
Total	<u>(\$145,587)</u>	<u>(\$623,895)</u>	<u>(\$769,482)</u>

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$1,350,587	\$946,649	\$606,903

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Sensitivity of the Academy's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Academy's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$5,092,887	\$3,557,457	\$2,258,999

Note 8 - Post Employment Benefits

School Employees Retirement System

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) 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 financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Academy's surcharge obligation was \$1,495.

The Academy's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$6,261, \$10,853, and \$11,975, respectively. For fiscal year 2015, 92 percent has been contributed, with the balance being reported as accrued wages and benefits. The full amount has been contributed for fiscal years 2014 and 2013.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

State Teachers Retirement System

Plan Description – The Academy participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The Academy’s contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$14,208, and \$15,376 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

Note 9 - Operating Leases

The Academy leases facilities space, copiers and a postage meter under non-cancelable operating leases. Total costs for such leases were \$289,196 for the fiscal year ended June 30, 2015.

The future minimum lease payments for these continuing leases are as follows:

Fiscal Year Ending June 30	Capital Leases
2016	\$177,446
2017	192,000
Total Minimum Lease Payments	<u>\$369,446</u>

Note 10 - Contingencies

Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2015.

Litigation

The Academy is involved in no material litigation as either plaintiff or defendant.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 11 - Enrollment FTE

State Foundation Funding

Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, community schools must comply with minimum hours of instruction, instead on number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the Academy; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the Academy.

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.

Note 13 – Change in Accounting Principles and Restatement of Net Position

The Academy adopted the provisions of GASB Statement Number 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27 and GASB Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement Number 68. GASB Statement Number 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 and have been implemented by the Academy.

GASB Statement Number 71 amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources of its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The implementation of these pronouncements had the following effect on net position as reported June 30, 2014:

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Net position June 30, 2014	\$1,150,498
Adjustments:	
Net Pension Liability	(5,338,868)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>285,302</u>
Restated Net Position June 30, 2014	<u><u>(\$3,903,068)</u></u>

Other than employer contributions subsequent to the measurement date, the Academy made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

REQUIRED SUPPLEMENTARY INFORMATION

Akron Digital Academy
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Fiscal Years (1)

	2014	2013
District's Proportion of the Net Pension Liability	0.01462562%	0.01462562%
District's Proportionate Share of the Net Pension Liability	\$3,557,457	\$4,226,208
District's Covered-Employee Payroll	\$1,345,006	\$1,440,398
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	264.49%	293.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	74.70%

(1) - Information prior to 2013 is not available

Akron Digital Academy
 Required Supplementary Information
 Schedule of the District's Proportionate Share
 of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Fiscal Years (1)

	2014	2013
District's Proportion of the Net Pension Liability	0.018705%	0.018705%
District's Proportionate Share of the Net Pension Liability	\$946,649	\$1,112,660
District's Covered-Employee Payroll	\$599,218	\$718,480
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	157.98%	154.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	71.70%

(1) - Information prior to 2013 is not available

Akron Digital Academy
 Required Supplementary Information
 Schedule of District Contributions
 State Teachers Retirement System of Ohio
 Last Two Fiscal Years (1)

	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$164,898	\$209,207
Contributions in Relation to the Contractually Required Contribution	<u>(164,898)</u>	<u>(209,207)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$1,177,842	\$1,609,284
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%

(1) - Information prior to 2014 is not available

Akron Digital Academy
 Required Supplementary Information
 Schedule of District Contributions
 School Employees Retirement System of Ohio
 Last Two Fiscal Years (1)

	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$81,372	\$76,095
Contributions in Relation to the Contractually Required Contribution	<u>(81,372)</u>	<u>(76,095)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$617,389	\$549,025
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%

(1) - Information prior to 2014 is not available

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

**INDEPENDENT AUDITORS' 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Akron Digital Academy, Summit County, Ohio (the Academy), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 18, 2015. We noted the Academy adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*.

Internal Controls Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

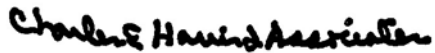
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies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

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
December 18, 2015

AKRON DIGITAL ACADEMY
SUMMIT COUNTY
For the Year Ended June 30, 2015

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, as of June 30, 2014, reported no material citations or recommendations.



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, 2016**