



OHIO AUDITOR OF STATE
KEITH FABER



MASSILLON DIGITAL ACADEMY
STARK COUNTY

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Massillon Digital Academy
Stark County
930 17th Street N.E.
Massillon, Ohio 44646

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Massillon Digital Academy, Stark County, Ohio (the Academy), a component unit of Massillon City School District, Stark County as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for 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 such 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 Massillon Digital Academy, Stark County as of June 30, 2018, and the changes in its 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 10, the Academy received notice from its sponsor it intends to terminate its agreement and close the Academy at the end of the 2018-19 school year.

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* 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 March 6, 2019, 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.



Keith Faber
Auditor of State

Columbus, Ohio

March 6, 2019

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

The discussion and analysis of Massillon Digital Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net position decreased \$187,698.
- Operating revenues accounted for \$317,198 in revenue or 88 percent of all revenues.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a financial whole, an entire operating entity.

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

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

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

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2018

Reporting the Academy as a Whole

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

Table 1 provides a summary of the Academy's net position for 2018 compared to 2017:

Table 1
Net Position

	2018	2017
Assets		
Current Assets	\$ 585,025	\$ 778,495
Capital Assets	9,427	21,479
<i>Total Assets</i>	594,452	799,974
Liabilities		
Current Liabilities	59,048	76,872
Net Position		
Investment in Capital Assets	9,427	21,479
Restricted	19,253	12,433
Unrestricted	506,724	689,190
<i>Total Net Position</i>	\$ 535,404	\$ 723,102

Total assets decreased by \$205,522. The majority of this decrease is due to expenses exceeding revenues, resulting in a significant decrease in pooled cash. Capital assets decreased \$12,052 from annual depreciation expense of \$10,960 and \$1,092 loss on disposal.

The Ohio Department of Education pays the Academy based on enrollment figures submitted by the Academy on a monthly basis. The Academy submits a final report of enrollment adjusted for students not attending on a full time status in June. Any adjustment in funding is reported as a payable or receivable depending on the enrollment numbers. At the time the financial statements were completed this number was not available as result current liabilities decreased by \$17,824.

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

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2018?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2018

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

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

Financial Analysis

Table 2 shows the changes in net position for fiscal year 2018 compared to fiscal year 2017:

Table 2
Changes in Net Position

	2018	2017
Operating Revenue		
Foundation Payments	\$ 309,109	\$ 221,028
State Distributed Casino Revenues	2,659	2,524
Customer Sales and Services	5,430	3,860
<i>Total Operating Revenues</i>	317,198	227,412
Operating Expenses		
Purchased Services	524,163	452,568
Materials and Supplies	2,179	14,631
Depreciation Expense	10,960	14,613
Other	8,715	8,131
<i>Total Operating Expenses</i>	546,017	489,943
Non-Operating Revenues (Expenses)		
Federal Grants	38,824	52,445
Miscellaneous Revenue	136	100
Interest Income	3,253	4,150
Loss on Disposal of Capital Assets	(1,092)	0
<i>Total Non-Operating Revenues (Expenses)</i>	41,121	56,695
<i>Change In Net Position</i>	(187,698)	(205,836)
<i>Net Position Beginning of Year</i>	723,102	928,938
<i>Net Position End of Year</i>	\$ 535,404	\$ 723,102

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2018

The Statement of Revenues, Expenses, and Changes in Net Position show the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating revenues associated with those expenses. That is, it identifies the amount of operating expenses supported by State and other funding. The Academy's foundation revenue increased \$88,081 and grant revenue decreased \$13,621 from 2018 to 2017. Enrollment increased from 74 students in fiscal year 2017 to 84 students in fiscal year 2018, resulting in additional revenue.

The dependence upon state foundation revenues for operating activities is apparent. The majority of monies were used for purchased services, which increased by \$71,595 due to an increase in enrollment. The Academy's operating revenue is 88 percent of total revenue. State sources are by far the primary support for the Academy.

Budget

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the Academy had \$9,427 (net of \$57,848 in accumulated depreciation) invested in furniture and fixtures, computer equipment and vehicles. Table 3 shows fiscal year 2018 balances compared to 2017. More detailed information is presented in Note 4 of the notes to the basic financial statements.

Table 3
Capital Assets (Net of Depreciation)

	2018	2017
Computer Equipment	\$ 2,108	\$ 8,672
Vehicles	7,319	12,807
Total Capital Assets	\$ 9,427	\$ 21,479

Debt Administration

At June 30, 2018, the Academy had no debt.

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2018

Current Financial Related Activities

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

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

On January 15, 2019, the Massillon City School District informed the Academy of their intent to terminate its sponsorship agreement and close the Academy at the end of the 2018-2019 school year. No decision has been made to date.

Contacting the Academy's Financial 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 questions about this report or need additional information contact Ms. Sandy Moeglin, Treasurer of Massillon Digital Academy, 930 17th Street N. E., Massillon, Ohio 44646.

Massillon Digital Academy
Stark County, Ohio
Statement of Net Position
June 30, 2018

Assets	
Current Assets:	
Equity in Pooled Cash	\$ 562,210
Intergovernmental Receivable	22,707
Accounts Receivable	<u>108</u>
<i>Total Current Assets</i>	<u>585,025</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net	<u>9,427</u>
<i>Total Assets</i>	<u>594,452</u>
Liabilities	
Current Liabilities:	
Accounts Payable	4,076
Intergovernmental Payable	<u>54,972</u>
<i>Total Current Liabilities</i>	<u>59,048</u>
Net Position	
Investment in Capital Assets	9,427
Restricted For:	
Federally Funded Programs	19,253
Unrestricted	<u>506,724</u>
<i>Total Net Position</i>	<u>\$ 535,404</u>

See accompanying notes to the basic financial statements.

**Massillon Digital Academy
Stark County, Ohio**

*Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018*

Operating Revenues	
Foundation Payments	\$ 309,109
State Distributed Casino Revenues	2,659
Customer Sales and Services	<u>5,430</u>
<i>Total Operating Revenues</i>	<u>317,198</u>
Operating Expenses	
Purchased Services	524,163
Materials and Supplies	2,179
Depreciation	10,960
Other	<u>8,715</u>
<i>Total Operating Expenses</i>	<u>546,017</u>
<i>Operating Loss</i>	<u>(228,819)</u>
Non-Operating Revenues (Expenses)	
Miscellaneous Revenue	136
Interest Income	3,253
Federal Grants	38,824
Loss on Disposal of Capital Assets	<u>(1,092)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>41,121</u>
<i>Change in Net Position</i>	(187,698)
<i>Net Position Beginning of Year</i>	<u>723,102</u>
<i>Net Position End of Year</i>	<u>\$ 535,404</u>

See accompanying notes to the basic financial statements.

Massillon Digital Academy
Stark County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Cash Flows From Operating Activities	
Cash Received from State Foundation	\$ 288,349
Cash Received from Casino Revenues	2,659
Customer Sales and Services	5,430
Cash Payments for Goods and Services	(521,204)
Cash Payments for Materials and Supplies	(2,135)
Cash Payments for Other Expenses	(8,890)
<i>Net Cash Used for Operating Activities</i>	<u>(235,791)</u>
Cash Flows From Non-Capital Financing Activities	
Grants Received	37,470
Other Non-Operating Revenues	136
<i>Net Cash Provided by Non-Capital Financing Activities</i>	<u>37,606</u>
Cash Flows From Investing Activities	
Interest on Investments	<u>3,253</u>
<i>Net Increase (Decrease) in Cash and Investments</i>	(194,932)
<i>Cash and Investments, Beginning of Year</i>	<u>757,142</u>
<i>Cash and Investments, End of Year</i>	<u>\$ 562,210</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
<i>Operating Loss</i>	\$ (228,819)
Adjustments:	
Depreciation	10,960
(Increase) Decrease Assets:	
Accounts Receivable	(108)
(Decrease) Increase in Liabilities:	
Accounts Payable	2,936
Intergovernmental Payable	<u>(20,760)</u>
<i>Total Adjustments</i>	<u>(6,972)</u>
<i>Net Cash Used for Operating Activities</i>	<u>\$ (235,791)</u>

See accompanying notes to the basic financial statements.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

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

- (a) Four individuals are community members.
- (b) One person who is a representative of Stark-Portage Area Computer Consortium (SPARCC).
- (c) The Academy's Treasurer/CEO as a non-voting ex officio member who is also the Sponsor's Treasurer/CEO and serves the Board of Directors in her official capacity as a representative of the Massillon City School District Board of Education and its interests.

State Statute requires the Academy to waive the requirement that the designated fiscal officer of the Massillon Digital Academy must be independent of the Sponsor, Massillon City School District.

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

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Academy's accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting

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

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

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

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

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2018

D. Cash and Investments

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

E. Intergovernmental Revenues

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

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

In fiscal year 2018, the Academy participated in federal grant programs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

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

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

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2018

G. Accrued Liabilities

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

H. Net Position

Net position represents the difference between all assets and deferred outflows of resources and liabilities and deferred inflows of resources. Investment in capital assets, consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Academy. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

L. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2018, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 did not have an effect on the financial statements of the Academy.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2018

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Academy.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the Academy's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Academy.

NOTE 3 - DEPOSITS AND INVESTMENTS

Protection of the Academy's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Interim monies to be deposited or invested in the following securities:

- 1) United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations,

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2018

provided that investments in securities described in this division are made only through eligible institutions;

- 6) The State Treasurer's Investment Pool (STAR Ohio);
- 7) Certain bankers' acceptance and commercial paper notes for a period not to exceed 180 days from the purchase date in an amount not to exceed 40 percent of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate note interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within 5 years from the date of purchase unless matched to a specific obligation or debt of the Academy, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Investments

As of June 30, 2018, the Academy had no investments.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets during the fiscal year ended June 30, 2018 follows:

	Balance 07/01/2017	Additions	Reductions	Balance 06/30/2018
<i>Capital Assets, Being Depreciated:</i>				
Furniture and Fixtures	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	50,600	0	(13,413)	37,187
Vehicles	27,442	0	0	27,442
<i>Total Capital Assets, Being Depreciated</i>	<u>80,688</u>	<u>0</u>	<u>(13,413)</u>	<u>67,275</u>
<i>Less: Accumulated Depreciation</i>				
Furniture and Fixtures	(2,646)	0	0	(2,646)
Computer Equipment	(41,928)	(5,472)	12,321	(35,079)
Vehicles	(14,635)	(5,488)	0	(20,123)
<i>Total Accumulated Depreciation</i>	<u>(59,209)</u>	<u>(10,960)</u>	<u>12,321</u>	<u>(57,848)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>\$ 21,479</u>	<u>\$ (10,960)</u>	<u>\$ (1,092)</u>	<u>\$ 9,427</u>

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2018

NOTE 5 - FISCAL OFFICER

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

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

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

NOTE 6 - RELATED PARTY TRANSACTION

The Academy is a component unit of the Massillon City School District (the District). The District is the Academy's sponsor. The Academy and the District renewed a 5-year sponsorship agreement commencing on the July 1, 2016, whereby terms of the sponsorship were established. The Academy is required to pass a waiver stating that the Massillon City School District Treasurer/CFO will be the Fiscal Officer of the school. The Academy is required to pay \$150 per student per year to the District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. In fiscal year 2018, the fee per student was waived by the District.

NOTE 7 - RISK MANAGEMENT

Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2018, the Academy contracted with the Ohio Casualty Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

NOTE 8 - PURCHASED SERVICES

For the year ended June 30, 2018, purchased service expenses were recognized for professional services rendered by various vendors as follows:

Massillon Board of Education	\$ 481,074
SPARCC	13,229
Other	<u>29,860</u>
Total Purchased Services	<u>\$ 524,163</u>

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2018

For the year ended June 30, 2018, the Academy recognized \$481,074 in expenses for educational services and curriculum provided by the Massillon Board of Education.

NOTE 9 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2018, if applicable, cannot be determined at this time.

B. Litigation

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

C. School District Funding

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08 ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform a review on the Academy for fiscal year 2018.

In addition, the Academy's contracts with their Sponsor require payment based on student FTEs. Community School adjustments were finalized on January 14, 2019. The Academy's overpayment (liability) for fiscal year 2018 is (\$11,047) which will be adjusted over the period of six months through their foundation payments in the amount of (\$1,842). ODE does not anticipate any further FTE adjustments for fiscal year 2018.

Under Ohio Rev. Code Section 3314.08 ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. During fiscal year 2018, the Academy paid \$75,732 to the State through their foundation payments for an overpayment from fiscal year 2017.

In addition, the Academy's contracts with their Sponsor require payment based on student FTEs. As discussed above, additional FTE adjustments for fiscal year 2018 are finalized. However, in fiscal year 2018, the School District waived the per student fee and therefore will not result in an additional receivable to, or liability of, the School District.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2018

NOTE 10 – SUBSEQUENT EVENTS

On January 15, 2019 the Massillon City School District informed the Academy of their intent to terminate its sponsorship agreement and close the Academy at the end of the 2018-2019 school year. The Academy has asked for a meeting to discuss the closure.

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OHIO AUDITOR OF STATE KEITH FABER



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

Massillon Digital Academy
Stark County
930 17th Street N.E.
Massillon, Ohio 44646

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 Massillon Digital Academy, Stark County, (the Academy) a component unit of the Massillon City School District, Stark County as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2019 wherein we noted the Academy was informed of the sponsors intent to terminate its agreement and close the Academy at the end of the 2018-19 school year.

Internal Control 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and a significant deficiency.

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 a 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. We consider finding 2018-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2018-002 described in the accompanying schedule of findings to be a significant deficiency.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2018-001 and 2018-002.

Academy's Response to Findings

The Academy's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the Academy's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 6, 2019

**MASSILLON DIGITAL ACADEMY
STARK COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2018**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Full-Time Equivalent (FTE) Reporting

<i>Finding Number</i>	2018-001
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NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Rev. Code § 3314.08(H) requires, in part, the department of education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. The state board of education within ninety days after April 8, 2003, was obligated to act under Chapter 119 of the Revised Code to adopt rules governing the payments to community schools under this section including initial payments in a school year, adjustments and reductions made in subsequent periodic payments to community schools and corresponding deductions from school district accounts as provided under division (C) of this section.

Ohio Rev. Code § 3314.08(H)(2) provides in part: "A student shall be considered to be enrolled in a community school for the period of time beginning on the later of the date on which the school both has received documentation of the student's enrollment from a parent and the student has commenced participation in learning opportunities as defined in the contract with the sponsor, or thirty days prior to the date on which the student is entered into the education management information system established under section 3301.0714 of the Revised Code. For purposes of applying this division and divisions (H)(3) and (4) of this section to a community school student, "learning opportunities" shall be defined in the contract, which shall describe both classroom-based and non-classroom-based learning opportunities and shall be in compliance with criteria and documentation requirements for student participation which shall be established by the department. Any student's instruction time in non-classroom-based learning opportunities shall be certified by an employee of the community school."

Ohio Rev. Code § 3314.08(H)(3) includes the following: "The department shall determine each community school student's percentage of full-time equivalency based on the percentage of learning opportunities offered by the community school to that student, reported either as number of hours or number of days, is of the total learning opportunities offered by the community school to a student who attends for the school's entire school year. However, no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours. Whether it reports hours or days of learning opportunities, each community school shall offer not less than nine hundred twenty hours of learning opportunities during the school year."

For the seven students tested, we identified many instances where time between systems, and offline time, overlapped each other resulting in time being reported twice. The spreadsheets provided by the Academy did not identify these overlapped times or attempt to reduce them.

We also noted, for each of the seven students tested, the Academy utilized the "time logged in" for reporting FTE's rather than the "time on activity". The difference between the two times is likely to include idle time in which the student is not participating in a learning opportunity, but is simply logged into the system.

Full-Time Equivalent (FTE) Reporting (Continued)

<i>Finding Number</i>	2018-001 (Continued)
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The Academy should implement procedures to accurately identify and adjust times within their online systems that overlap or duplicate time reported elsewhere. This may help ensure the Academy is not over-reporting FTE's. The Academy should also utilize the "time on activity" report to which may help ensure that time reported does not include idle time.

Official's Response:

The Massillon City School District will terminate its contract with the Massillon Digital Academy effective June 30, 2019. A Governing Board meeting of the Massillon Digital Academy will be held to vote either to close the school or obtain a new sponsor.

Documentation of Absences

<i>Finding Number</i>	2018-002
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NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

Ohio Rev. Code § 3314.03(A)(27)-(28) states community schools must adopt attendance and participation policies for their students and attendance and participation records shall be made available to the department of education, auditor of state and the school's sponsor. The contract between the community school and sponsor should include requirements for measuring and documenting student attendance and participation. As required by ODE's EMIS Manual, community schools are required to have policies concerning excused and unexcused absence as well as policies to guide employees in addressing attendance practices of any student who is a habitual truant.

The "Attendance Policies" section of the Academy's Student Handbook states excessive absences and truancy is defined as being absent from school without an excuse. Having an abundance of unexcused absences and/or being truant is in violation of the MDA's attendance policy. Also, absent students who were scheduled to work in the Digital Academy lab are required to have a doctor's excuse and note from parent or guardian.

The Academy did not maintain any documentation of phone calls, doctor's excuses and notes supporting student absences.

The Academy should ensure documentation is maintained for all student absences as stated in its Student Handbook.

Official's Response:

The Massillon City School District will terminate its contract with the Massillon Digital Academy effective June 30, 2019. A Governing Board meeting of the Massillon Digital Academy will be held to vote either to close the school or obtain a new sponsor.

**Massillon Digital Academy
930 17th Street, NE
Massillon, Ohio 44646
(330) 830-3900**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Several instances where time between systems and off line time overlapped. The Academy used time logged in for reporting FTE's rather than the "time on activity".	Repeated 2018-001	See officials response in the schedule of findings
2017-002	The sponsor contract did not specify how the Academy or the Sponsor intend to comply with documenting the "criteria for student participation" requirements.	Corrected	NA
2017-003	The Academy did not maintain any documentation of phone calls, doctor's excuses and note supporting student absences	Repeated 2018-002	See officials response in the schedule of findings

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OHIO AUDITOR OF STATE KEITH FABER



MASSILLON DIGITAL ACADEMY

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 23, 2019**