AKRON DIGITAL ACADEMY
SUMMIT COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2006

Auditor of State
Betty Montgomery

Mary Taylor, CPA
Auditor of State

January 19, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

TABLE OF CONTENTS

TITLE	PAGE

This page intentionally left blank.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of the Akron Digital Academy, Summit County, Ohio, (the Academy) a component unit of the Akron City School District, as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Akron Digital Academy, Summit County, Ohio, as of June 30, 2006, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

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

Betty Montgomery
Auditor of State

December 8, 2006

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, 2006. 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, 2006 are as follows:

- Total net assets increased $182,444. This is a 19.4 percent increase from fiscal year 2005.

- Total revenues increased to $3,990,052 from $3,588,619. This is an increase of $401,433 or 11.2 percent.

- Total operating expenses were $3,807,608. Total operating expenses increased from $3,056,358 from fiscal year 2005. This is an increase of $751,250 or 24.6 percent. A $647,211 increase in purchased services operating expenses reflects most of this change.

Using this Annual Report

This annual report consists of the Management's Discussion and Analysis, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The statement of net assets and the statement of revenues, expenses and changes in net assets answer the question, "How did we do financially during fiscal year 2006"? The statement of net assets includes all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that the financial position of the Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Nonfinancial factors include the Academy's facility conditions, required educational programs and other factors.

Table 1 provides a summary of the Academy's net assets for fiscal year 2006 compared to fiscal year 2005 as follows:

Table 1
Net Assets at June 30,

	2006	2005
Assets		
Current Assets	$1,237,731	$1,052,389
Capital Assets, Net	16,702	21,741
Total Assets	1,254,433	1,074,130
Liabilities		
Current Liabilities	130,559	132,700
Net Assets		
Invested in Capital Assets	16,702	21,741
Unrestricted	1,107,172	919,689
Total Net Assets	$1,123,874	$941,430

Total assets increased $180,303.

Cash and cash equivalents increased $308,074. The increase in cash and cash equivalents is attributed to an increase in foundation payments revenue from the State. The increase in foundation payments revenue is a result of increased student average daily membership. Student average daily membership increased to 545 in fiscal year 2006 from 452 in fiscal year 2005. The amount of foundation payments received from the State increases as student average daily membership increases.

In addition, intergovernmental receivable decreased $125,000. The Academy was awarded a $150,000 Federal Charter School Grant Program in fiscal year 2005. The Academy received $25,000 of the Federal Charter School Grant Program in fiscal year 2005 and the remaining $125,000 Federal Charter School Grant Program monies in fiscal year 2006. The Academy recorded an intergovernmental receivable for the amount of Federal Charter School Grant Program monies not received as of June 30, 2005 that were awarded for use in fiscal year 2005. The Academy was not awarded another Federal Charter School Grant Program in fiscal year 2006. Therefore, an intergovernmental receivable was not recorded at June 30, 2006.

Total liabilities decreased $2,141.

Deferred revenue decreased $125,000. Deferred revenue is recorded when grants and entitlements are received before the eligibility requirements are met. This involves the aforementioned Federal Charter School Grant Program.

The change in deferred revenue is offset by an increase in intergovernmental payable of $123,991. The increase in intergovernmental payable is attributed to obligations incurred by the Academy to the Akron City School District (the "Sponsor") in the amount of $100,000 for management services, for costs associated with the Summit County Juvenile Court Detention Center in the amount of $11,470, to the State Teachers Retirement System of Ohio in the amount of $4,664, and to the State of Ohio for an overpayment of foundation payments in the amount of $7,857 during fiscal year 2006 that were not actually paid until after June 30, 2006. These obligations did not occur during fiscal year 2005.

The net impact of the assets increase and liabilities decrease was an increase of net assets of $182,444.

Table 2 shows the changes in net assets for fiscal years 2006 and 2005 as follows:

Table 2
Change in Net Assets

	2006	2005
Operating Revenues		
Foundation Payments	$3,809,433	$3,465,667
Non-Operating Revenues		
Interest	50,098	18,379
Grants	130,000	104,163
Other	521	410
Total Non-Operating Revenues	180,619	122,952
Total Revenues	3,990,052	3,588,619
Operating Expenses		
Salaries	132,514	0
Fringe Benefits	11,862	0
Purchased Services	3,188,373	2,541,162
Materials and Supplies	461,543	501,980
Depreciation	7,420	4,639
Other	5,896	8,577
Total Operating Expenses	3,807,608	3,056,358
Increase in Net Assets	$182,444	$532,261

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

Foundation payments increased from $3,465,667 in fiscal year 2005 to $3,809,433 in fiscal year 2006. Foundation payments comprised 95.5 percent of total revenues. This increase is due to, as previously discussed, a rise in student average daily membership.

Total non-operating revenues increased from $122,952 in fiscal year 2005 to $180,619 in fiscal year 2006. This increase is partially due to an increase in interest non-operating revenue of $31,719. This increase is attributed to the increase in cash and cash equivalents. There were more monies available to invest in fiscal year 2006 than there were in fiscal year 2005. As previously discussed, the increase in cash and cash equivalents is due to an increase in foundation payments revenue from the State. The increase in foundation payments revenue is a result of increased student average daily membership, as previously discussed.

The increase in total non-operating revenues is also partially due to an increase in grants non-operating revenue of $25,837. The Academy was awarded a $150,000 Federal Charter School Grant Program in fiscal year 2005 and a separate $150,000 Federal Charter School Grant Program in fiscal year 2004. The Academy received $125,000 Federal Charter School Grant Program monies in fiscal year 2006 but only received $99,163 Federal Charter School Grant Program monies in fiscal year 2005. This difference is simply due to the timing of payments disbursed to the Academy by the Federal Charter School Grant Program.

The State Foundation Program and the Federal Charter School Grant Program are, by far, the primary support for the Academy's students. Combined, foundation payments and grants non-operating revenue comprised 98.7 percent of total revenues.

Operating expenses increased from $3,056,358 in fiscal year 2005 to $3,807,608 in fiscal year 2006, a 24.6 percent increase. This increase is a result of student average daily membership increasing from 452 in fiscal year 2005 to 545 in fiscal year 2006. Because of the rise in student average daily membership, more services were required to be purchased, especially from the Sponsor. The Academy paid the Sponsor $2,705,301 for services in fiscal year 2006, an increase of $525,807 or 24.1 percent from the prior fiscal year. Expenses paid to the Sponsor comprised 71.0 percent of total operating expenses of the Academy during fiscal year 2006.

Also, the Academy hired 10 employees during fiscal year 2006. Salaries and fringes benefits expenses for these 10 employees totaled $144,376 in the 2006 fiscal year. During fiscal year 2005, the Academy had no employees.

Capital Assets

At the end of fiscal year 2006, the Academy had $16,702 invested in furniture and equipment. Table 3 shows fiscal year 2006 balances compared to fiscal year 2005 as follows:

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

	2006	2005
Furniture and Equipment	$16,702	$21,741

This is a decrease of $5,039 from fiscal year 2005 to fiscal year 2006. The Academy purchased 2 printers in fiscal year 2006 whose cost exceeded the capitalization threshold of $1,000. The cost of these 2 printers amounted to $2,381. The Academy recorded $7,420 in depreciation operating expense during the current fiscal year.

For the Future

The Academy will go back to purchasing all of its instructional, management, administrative, support and other services through its Sponsor as it has in the past beginning July 1, 2006. The 10 employees who were hired by the Academy in fiscal year 2006 for instructional, management, administrative, fiscal and other services are no longer considered employees of the Academy. The services that these 10 employees supplied the Academy in fiscal year 2006 will be provided by the Sponsor as part of the service contract between the Academy and the Sponsor. This will help the Academy effectively monitor and adjust its costs, as necessary.

The Academy anticipates the student average daily membership to increase approximately 10 percent to 15 percent each fiscal year. This will result in payments from the State School Foundation Program to increase in a similar percentage in future fiscal years.

Fiscal year 2005 was the final fiscal year for start-up grant monies to be awarded to the Academy under the Ohio Charter Schools Federal Sub-grant Program. As discussed previously, the Academy spent the remaining $125,000 of the $150,000 award amount for the fiscal year 2005 Ohio Charter Schools Federal Sub-grant Program in fiscal year 2006. These grant funds were used to enhance the operations of the Academy. As a result, the Academy's management must diligently plan expenses, staying carefully within the Academy's five-year plan.

The Academy's management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. Financially, the future is not without challenges.

Contacting the Academy's Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Todd Adkins, Treasurer, at Akron Digital Academy, 70 North Broadway, Akron, Ohio 44308-1999 or email at tadkins@akron.k12.oh.us.

Akron Digital Academy

Statement of Net Assets

June 30, 2006

Assets	
Current Assets:	
Cash and Cash Equivalents	$1,230,844
Prepaid Items	6,887
Total Current Assets	1,237,731
Noncurrent Assets:	
Depreciable Capital Assets	16,702
Total Assets	1,254,433
Liabilities	
Current Liabilities:	
Accounts Payable	6,568
Intergovernmental Payable	123,991
Total Current Liabilities	130,559
Net Assets	
Invested In Capital Assets	16,702
Unrestricted	1,107,172
Total Net Assets	$1,123,874

See accompanying notes to the basic financial statements

Akron Digital Academy

Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2006

Operating Revenues	
Foundation Payments	$3,809,433
Operating Expenses	
Salaries	132,514
Fringe Benefits	11,862
Purchased Services	3,188,373
Materials and Supplies	461,543
Depreciation	7,420
Other	5,896
Total Operating Expenses	3,807,608
Operating Income	1,825
Non-Operating Revenues	
Interest	50,098
Grants	130,000
Other	521
Total Non-Operating Revenues	180,619
Change in Net Assets	182,444
Net Assets at Beginning of Fiscal Year	941,430
Net Assets at End of Fiscal Year	$1,123,874

See accompanying notes to the basic financial statements

Akron Digital Academy

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2006

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Foundation Payments	$3,817,290
Cash Payments to Employees for Services	(132,514)
Cash Payments for Employee Benefits	(7,197)
Cash Payments for Goods and Services	(3,547,743)
Net Cash Provided by Operating Activities	129,836
Cash Flows from Noncapital Financing Activities	
Grants Received	130,000
Other Non-Operating Revenues	521
Net Cash Provided by Noncapital Financing Activities	130,521
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(2,381)
Cash Flows from Investing Activities	
Interest on Investments	50,098
Net Increase in Cash and Cash Equivalents	308,074
Cash and Cash Equivalents at Beginning of Fiscal Year	922,770
Cash and Cash Equivalents at End of Fiscal Year	$1,230,844
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$1,825
Adjustments:	
Depreciation	7,420
(Increase) Decrease in Assets:	
Prepaid Items	(2,268)
Increase (Decrease) in Liabilities:	
Accounts Payable	(1,132)
Intergovernmental Payable	123,991
Total Adjustments	120,591
Net Cash Provided by Operating Activities	$129,836

See accompanying notes to the basic financial statements

Note 1 – Description of the Academy and Reporting Entity

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

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

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

The Academy operates under the direction of a seven-member Board of Directors appointed by the Sponsor. The Board consists of a Board President, three members who hold administrative positions with the Sponsor, a public official not employed by the Sponsor, and two 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 majority of the Academy's personnel services were purchased from the Sponsor during the 2006 fiscal year. In addition, the Academy was staffed by seven certificated employees and three non-certificated employees, which provided services to 545 students, during fiscal year 2006.

Note 2 – Summary of Significant Accounting Policies

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its proprietary activities, subject to the same limitation. The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

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

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor, except for Ohio Revised Code Section 5705.391 as it relates to five-year forecasts. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore, no budgetary information is presented in the basic financial statements.

E. Cash and Cash Equivalents

During fiscal year 2006, investments were limited to overnight Eurodollars. Investments with an original maturity of three months or less at the time they are purchased by the Academy are presented on the basic financial statements as cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the fiscal year in which the services are consumed.

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over three to five years for furniture and equipment.

H. Net Assets

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

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

J. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Academy was awarded $150,000 during the fiscal year ended June 30, 2005 to offset start-up costs of the Academy. The Academy received $125,000 of this award amount in fiscal year 2006. In addition, the Academy participates in the State Education Management Information System ("EMIS") through the Ohio Department of Education. Under this program, the Academy was awarded $5,000 during the fiscal year ended June 30, 2006 to offset costs for EMIS reporting. Revenues received from these programs are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Amounts received under these programs for the 2006 fiscal year totaled $3,939,433.

K. Estimates

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

Note 3 – Deposits and Investments

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Academy's deposits was $6,798 and the bank balance was $536,000. Of the bank balance, $100,000 was covered by the Federal Deposit Insurance Corporation and $436,000 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in Academy's name.

The Academy has no deposit policy for custodial risk.

Investments As of June 30, 2006, the Academy had the following investment:

	Carrying Value	Maturity
Overnight Eurodollars	$1,224,046	July 5, 2006

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

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The overnight Eurodollars are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Academy's name. The Academy has no investment policy dealing with investment custodial risk.

Note 4 – Capital Assets

Capital asset activity for the fiscal year June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Capital Assets, being depreciated:				
Furniture and Equipment	$27,029	$2,381	$0	$29,410
Less Accumulated Depreciation:				
Furniture and Equipment	(5,288)	(7,420)	0	(12,708)
Total Capital Assets, being depreciated, net	$21,741	($5,039)	$0	$16,702

Note 5 - Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the Academy was covered under the Sponsor's insurance for property, liability, and inland marine coverage.

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

Note 6 – State School Funding Decision

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

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

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

Note 7 – Agreement with the Akron City School District

A service contract for fiscal year 2006 between the Academy and the Sponsor was previously approved. This service contract commenced on July 1, 2005 and ends on June 30, 2007 and may be renewed by mutual agreement.

In agreement with the current service contract, the Academy purchased the following services from the Sponsor: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel to provide instructional services to the Academy, and hourly staff to provide support services to the Academy. The Academy is responsible for reimbursement of 100 percent of all costs incurred by the Sponsor related to these services. The Academy reimbursed the Sponsor $1,882,589 during fiscal year 2006 for these services.

In addition, in accordance with the current service contract, the Academy will remit an amount not to exceed $2,000 per pupil enrolled in the Academy during the respective academic years for the following management services: marketing support, insurance coverage, human resource services, payroll processing, use of the Sponsor's name and goodwill, printing services, professional consulting related to curriculum, instruction, special education, finances, employee relations, legal issues, professional development and training and instructional materials. The Academy paid the Sponsor $800,525 during fiscal year 2006 for these services.

All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor. The majority of the Academy's personnel services were provided by the Sponsor during the 2006 fiscal year.

For the fiscal year ended June 30, 2006, the Academy paid the Sponsor the following expenses:

Purchased Services Expenses	Amounts
Professional and technical services	$2,694,059
Communications	570
Utilities	4,616
Contracted craft or trade services	525
Tuition	5,531
Total Purchased Services Expenses	$2,705,301

Note 8 – Defined Benefit Pension Plans

The Sponsor, under a purchased services basis with the Academy, provided employee services and paid those employees. However, these purchased services did not relieve the Academy of the obligation for remitting pension contributions. The retirement systems considered the Academy as the Employer-of-Record and the Academy ultimately responsible for remitting contributions to each of the systems noted below.

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary, and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS'

Retirement Board. The Academy's required contribution for pension obligations to SERS for the 10 employees paid directly by the Academy during the fiscal year ended June 30, 2006 was $4,799; 100 percent has been contributed for fiscal year 2006.

B. State Teachers Retirement System

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a publicly-available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090 or by visiting the STRS Ohio website 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. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001 were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy’s required contribution for pension obligations to the DB Plan for the 10 employees paid directly by the Academy during the fiscal year ended June 30, 2006 was $7,399; 63.08 percent has been contributed for fiscal year 2006. There were no contributions to the DC and Combined Plans for fiscal year 2006 made by the Academy or made by the plan members.

Note 9 - Post Employment Benefits

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Academy, this amount equaled $569 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Fund was $3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll. For the Academy, the amount contributed to fund health care benefits during the 2006 fiscal year equaled $1,551.

The unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2005 (the latest information available) were $178,221,113. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168 percent of next fiscal year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

Note 10 – Operating Leases

The Academy leases facilities space and copiers under noncancelable operating leases. Total costs for such leases were $81,391 for the fiscal year ended June 30, 2006. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2007	88,606
2008	16,501
2009	9,946
2010	4,463
Total	$119,516

Note 11 - Contingencies

A. Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2006.

B. Litigation

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Academy is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by the schools. Those reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The conclusions of this review resulted in a payable of $7,857 due to the State.

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.

This page intentionally left blank.

Auditor of State
Betty Montgomery

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

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

To the Board of Directors:

We have audited the financial statements of the Akron Digital Academy, Summit County, Ohio, (the Academy) a component unit of the Akron City School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated December 8, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001
www.auditor.state.oh.us

We intend this report solely for the information and use of management and the Board of Directors. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

December 8, 2006

Mary Taylor, CPA
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
JANUARY 30, 2007

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us