AKRON DIGITAL ACADEMY
SUMMIT COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Akron Digital Academy
Summit County
333 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, 2007 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, 2007, 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 November 21, 2007, 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.

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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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 21, 2007

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, 2007. 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, 2007 are as follows:

- Total net assets increased $568,033. This is a 50.5 percent increase from fiscal year 2006.

- Total revenues increased to $4,071,434 from $3,990,052. This is an increase of $81,382 or 2.0 percent.

- Total expenses were $3,503,401. Total expenses decreased from $3,807,608 from fiscal year 2006. This is a decrease of $304,207 or 8.0 percent. A $144,376 decrease in salaries and fringe benefits 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 2007"? 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 2007 compared to fiscal year 2006 as follows:

Table 1
Net Assets at June 30,

	2007	Restated 2006
Assets		
Current Assets	$1,705,546	$1,237,731
Capital Assets, Net	36,339	18,443
Total Assets	1,741,885	1,256,174
Liabilities		
Current Liabilities	31,188	130,559
Long-Term Liabilities	17,049	0
Total Liabilities	48,237	130,559
Net Assets		
Invested in Capital Assets, Net of Related Debt	14,532	18,443
Unrestricted	1,679,116	1,107,172
Total Net Assets	$1,693,648	$1,125,615

Total assets increased $485,711.

Cash and cash equivalents increased $462,449. The increase in cash and cash equivalents is attributed to an increase in foundation payments revenue from the State and a decrease in operating expenses. The increase in foundation payments revenue is a result of increased student average daily membership. Student average daily membership increased to 644 in fiscal year 2007 from 545 in fiscal year 2006. The amount of foundation payments received from the State increases as student average daily membership increases. The decrease in operating expenses is attributed to the Academy spending less in salaries, fringe benefits, purchased services, and materials and supplies.

In addition, capital assets increased $17,896. The Academy acquired a $23,790 scanner and a $4,297 step-in cooler during the current fiscal year. These acquisitions were offset by $8,623 in depreciation operating expense recorded during the current fiscal year.

Total liabilities decreased $82,322. This decrease is mainly attributed to a $100,000 intergovernmental payable to Akron Public Schools (the "Sponsor") for management services as of June 30, 2006. As of June 30, 2007, the Academy was up to date with all of their payments to the Sponsor for management services.

The change in intergovernmental payable is offset by an increase in capital leases payable of $21,807. This increase is attributed to capital lease obligations incurred by the Academy for the acquisition of a scanner. The Academy made capital lease principal payments during fiscal year 2007 totaling $1,983, leaving a balance of $21,807 as of June 30, 2007.

The net impact of the assets increase and liabilities decrease was an increase of net assets of $568,033.

Table 2 shows the changes in net assets for fiscal years 2007 and 2006 as follows:

Table 2
Change in Net Assets

	2007	2006
Operating Revenues		
Foundation Payments	$3,977,534	$3,809,433
Non-Operating Revenues		
Interest	88,606	50,098
Grants	5,000	130,000
Other	294	521
Total Non-Operating Revenues	93,900	180,619
Total Revenues	4,071,434	3,990,052
Operating Expenses		
Salaries	0	132,514
Fringe Benefits	0	11,862
Purchased Services	3,095,819	3,188,373
Materials and Supplies	387,605	461,543
Depreciation	8,623	7,420
Other	9,786	5,896
Total Operating Expenses	3,501,833	3,807,608
Non-Operating Expenses		
Loss on Disposal of Capital Assets	1,568	0
Total Expenses	3,503,401	3,807,608
Increase in Net Assets	$568,033	$182,444

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

Foundation payments increased from $3,809,433 in fiscal year 2006 to $3,977,534 in fiscal year 2007. Foundation payments comprised 97.7 percent of total revenues. This increase is due to, as previously discussed, a rise in student average daily membership.

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

Total non-operating revenues decreased from $180,619 in fiscal year 2006 to $93,900 in fiscal year 2007. This decrease is primarily due to a decrease in grants non-operating revenue of $125,000 since the Academy no longer received any monies from the Federal Charter School Grant Program. The Federal Charter School Grant Program ceased in fiscal year 2006.

The decrease in grants non-operating revenue is offset by an increase in interest non-operating revenue of $38,508. This increase is primarily attributed to the increase in cash and cash equivalents and the increase in interest due to a higher interest rate earned on the overnight Eurodollars that the Academy invested in on a daily basis.

Total expenses decreased from $3,807,608 in fiscal year 2006 to $3,503,401 in fiscal year 2007, an 8.0 percent decrease. This decrease is a result of the Academy spending less in salaries and fringe benefits. Salaries and fringes benefits operating expenses for 10 employees totaled $144,376 in the 2006 fiscal year. However, during fiscal year 2007, the Academy had no employees, and used purchased services.

Purchased services operating expenses decreased to $3,095,819 in fiscal year 2007 from $3,188,373 in fiscal year 2006. This decrease is mostly attributed to a decrease in payments to the Sponsor for management services. The Academy paid the Sponsor $800,525 for management services in fiscal year 2006 and $716,419 for management services in fiscal year 2007.

In addition, materials and supplies operating expenses decreased to $387,605 in fiscal year 2007 from $461,543 in fiscal year 2006. This decrease is due to the Academy purchasing furniture for a new location that opened in fiscal year 2006.

Capital Assets

At the end of fiscal year 2007, the Academy had $36,339 invested in furniture and equipment. Table 3 shows fiscal year 2007 balances compared to fiscal year 2006 as follows:

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

	2007	Restated 2006
Furniture and Equipment	$36,339	$18,443

For the Future

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

The Academy plans to participate in the following federal grant programs in fiscal year 2008: Title I, Improving Teacher Quality (Title II-A), Technology (Title II-D), Safe and Drug-Free Schools (Title IV-A), Innovative Programs (Title V) and Special Education (Part B-IDEA). The Academy is eligible to receive up to approximately $1,310,392 with these federal grant programs in fiscal year 2008, and the Academy plans to participate in these federal grant programs every fiscal year in the future. These grant funds will 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.

In addition, the Academy will open a new location in fiscal year 2008 at the Goodyear Heights United Methodist Church that will house another location for high school students.

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.

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Akron Digital Academy

Statement of Net Assets

June 30, 2007

Assets	
Current Assets:	
Cash and Cash Equivalents	$1,693,293
Prepaid Items	12,253
Total Current Assets	1,705,546
Noncurrent Assets:	
Depreciable Capital Assets	36,339
Total Assets	1,741,885
Liabilities	
Current Liabilities:	
Accounts Payable	13,460
Intergovernmental Payable	12,970
Capital Leases Payable, Current Portion	4,758
Total Current Liabilities	31,188
Long-Term Liabilities:	
Capital Leases Payable	17,049
Total Liabilities	48,237
Net Assets	
Invested in Capital Assets, Net of Related Debt	14,532
Unrestricted	1,679,116
Total Net Assets	$1,693,648

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, 2007

Operating Revenues	
Foundation Payments	$3,977,534
Operating Expenses	
Purchased Services	3,095,819
Materials and Supplies	387,605
Depreciation	8,623
Other	9,786
Total Operating Expenses	3,501,833
Operating Income	475,701
Non-Operating Revenues (Expenses)	
Interest	88,606
Grants	5,000
Other	294
Loss on Disposal of Capital Assets	(1,568)
Total Non-Operating Revenues (Expenses)	92,332
Change in Net Assets	568,033
Net Assets at Beginning of Fiscal Year (See Note 3)	1,125,615
Net Assets at End of Fiscal Year	$1,693,648

See accompanying notes to the basic financial statements

Akron Digital Academy

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2007

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Foundation Payments	$3,969,677
Cash Payments for Goods and Services	(3,594,848)
Net Cash Provided by Operating Activities	374,829
Cash Flows from Noncapital Financing Activities	
Grants Received	5,000
Other Non-Operating Revenues	294
Net Cash Provided by Noncapital Financing Activities	5,294
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(4,297)
Principal Payments for Capital Leases	(1,983)
Net Cash (Used in) Noncapital Financing Activities	(6,280)
Cash Flows from Investing Activities	
Interest on Investments	88,606
Net Increase in Cash and Cash Equivalents	462,449
Cash and Cash Equivalents at Beginning of Fiscal Year	1,230,844
Cash and Cash Equivalents at End of Fiscal Year	$1,693,293
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$475,701
Adjustments:	
Depreciation	8,623
(Increase) Decrease in Assets:	
Prepaid Items	(5,366)
Increase (Decrease) in Liabilities:	
Accounts Payable	6,892
Intergovernmental Payable	(111,021)
Total Adjustments	(100,872)
Net Cash Provided by Operating Activities	$374,829

See accompanying notes to the basic financial statements

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Note 1 – Description of the Academy and Reporting Entity

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

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

The Academy was approved for operation under contract with the Sponsor for a period of five years commencing July 1, 2002. The Academy began operations on October 7, 2002. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. In addition, the Academy was approved for operation under contract with the Sponsor for another period of five years commencing July 1, 2007.

The Academy operates under the direction of a 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.

All of the Academy's personnel services, which provided services to 644 students, were purchased from the Sponsor during fiscal year 2007.

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 2007, 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, 2007 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, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

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 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, 2007 to offset costs for EMIS reporting. Revenues received from this program are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Amounts received under these programs for the 2007 fiscal year totaled $3,982,534.

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 - Restatement of Beginning Net Assets

For fiscal year 2007, the Academy discovered the misuse and omission of certain facts and reports used in establishing the useful lives of some equipment in the prior period. As a result, the Academy has increased the estimated useful lives of some equipment from three years to four years. This correction amounted to $1,741.

The impact on the change in net assets in the statement of revenues, expenses and changes in net assets for the fiscal year ended June 30, 2006 would not be material.

Note 4 – Deposits and Investments

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Academy's deposits was $7,781 and the bank balance was $595,650. Of the bank balance, $100,000 was covered by the Federal Deposit Insurance Corporation and $495,650 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, 2007, the Academy had the following investment:

	Carrying Value	Maturity
Overnight Eurodollars	$1,685,512	July 2, 2007

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 AA- by Standard and Poor's and AA2 from Moody's Investor Service.

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

Note 5 – Capital Assets

Capital asset activity for the fiscal year June 30, 2007, was as follows:

	Restated Balance 6/30/2006	Additions	Deletions	Balance 6/30/2007
Capital Assets, being depreciated:				
Furniture and Equipment	$29,410	$28,087	($2,676)	$54,821
Less Accumulated Depreciation:				
Furniture and Equipment	(10,967)	(8,623)	1,108	(18,482)
Total Capital Assets, being depreciated, net	$18,443	$19,464	($1,568)	$36,339

Note 6 - 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 2007, 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 7 – Agreement with the Akron City School District

A service contract for fiscal year 2007 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. On June 11, 2007, the Academy and its Sponsor entered into a new service contract which commences on July 1, 2007 and ends June 30, 2009, which 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 $2,022,942 during fiscal year 2007 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 $716,419 during fiscal year 2007 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. All of the Academy's personnel services were provided by the Sponsor during the 2007 fiscal year.

For the fiscal year ended June 30, 2007, the Academy paid the Sponsor the following expenses:

Purchased Services Expenses	Amounts
Professional and technical services	$2,738,313
Communications	523
Contracted craft or trade services	525
Total Purchased Services Expenses	$2,739,361

Note 8 – Defined Benefit Pension Plans

A. School Employees Retirement System

The Sponsor contributes to the School Employees Retirement System ("SERS"), a cost-sharing, multiple-employer defined benefit pension plan for the personnel provided to the Academy. 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 Sponsor is required to contribute at an actuarially determined rate. The current Sponsor rate is 14 percent of annual covered payroll. A portion of the Sponsor's contributions is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 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 a statutory maximum amount, by the SERS' Retirement Board. The Sponsor's required contributions for pension obligations to SERS for the personnel provided to the Academy for the fiscal years ended June 30, 2007, 2006 and 2005 were $47,099, $51,941 and $31,455, respectively; 68.09 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The Sponsor participates in the State Teachers Retirement System of Ohio ("STRS Ohio"), a cost-sharing, multiple-employer defined benefit pension plan for the personnel provided to the Academy. 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, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Sponsor was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Sponsor's required contributions for pension obligations to the DB Plan for the personnel provided to the Academy for the fiscal years ended June 30, 2007, 2006, and 2005 were $145,913, $93,924, and $107,111, respectively; 100.04 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. There were no contributions to the DC and Combined Plans for fiscal year 2007 made by the Sponsor for the personnel provided to the Academy or made by the plan members.

Note 9 - Post Employment Benefits

The Sponsor 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") for the personnel provided to the Academy. Benefits include hospitalization, physicians' fees, prescription drugs and 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 the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Sponsor, this amount equaled $11,224 for fiscal year 2007 for the personnel provided to the Academy.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $282,743,000 and STRS Ohio had 119,184 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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established as $35,800. However, the surcharge is capped at two percent of each employer’s SERS salaries. For the Sponsor, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $33,299 for the personnel provided to the Academy.

The surcharge, added to 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, 2006 (the latest information available), were $158,751,207. As of June 30, 2006, the value of the health care fund was $295.6 million, which is about 221% of next fiscal year’s projected net health care costs. 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% of estimated annual net claim costs. SERS has 59,492 participants eligible to receive health care benefits.

Note 10 – Capital Leases

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

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2007:

Fiscal Year Ending June 30,	Principal Payments
2008	$4,758
2009	4,758
2010	4,758
2011	4,758
2012	2,775
Total	$21,807

Note 11 – Operating Leases

The Academy leases facilities space, copiers and a postage meter under noncancelable operating leases. Total costs for such leases were $92,306 for the fiscal year ended June 30, 2007. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending June 30,	Amount
2008	$127,266
2009	128,470
2010	123,441
2011	3,328
Total	$382,505

Note 12 - 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, 2007.

B. Litigation

A lawsuit entitled ***Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197*** was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, Ohio Revised Code Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

Note 13 – Federal Tax-Exempt Status

The Academy is a nonprofit corporation that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

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
333 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, 2007 and have issued our report thereon dated November 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted a certain matter that we reported to the Academy's management in a separate letter dated November 21, 2007.

Compliance and Other Matters

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

We intend this report solely for the information and use of management and the Board of Directors. We intend it for no one other than these specified parties.

Mary Taylor, CPA
Auditor of State

November 21, 2007

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
DECEMBER 31, 2007