

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

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016





Dave Yost • Auditor of State

Board of Directors
Akron Digital Academy
1879 Deerfield Road
Lebanon, Ohio 45036

We have reviewed the *Independent Auditor's Report* of the Akron Digital Academy, Summit County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

February 14, 2017

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AKRON DIGITAL ACADEMY
SUMMIT COUNTY
AUDIT REPORT
For the year ended June 30, 2016

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

REPORT OF INDEPENDENT AUDITORS

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Akron Digital Academy (the Academy), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Akron Digital Academy, Summit County as of June 30, 2016, and the changes in financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As discussed in Note 12 to the financial statements, the Academy has been informed that its State Foundation payment based on enrollment for the year ended June 30, 2016 will be reduced. The repayment of this sum raises substantial doubt about the Academy's ability to continue as a going concern. The financial statements do not include any adjustments due to this uncertainty. Our opinion is not modified with respect to this matter.


Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
December 21, 2016

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**Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

The discussion and analysis of the Akron Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2016. 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, 2016 are as follows:

- Total net position decrease \$187,140. This is a 5.0% decrease from fiscal year 2015.
- Total revenues decreased to \$3,282,699 from \$3,989,980. This is an decrease of \$707,281 or 18%.
- Total expenses were \$3,469,839. Total expenses decreased from \$3,753,901 from fiscal year 2015. This is a decrease of \$284,062 or 8%.

Using this Annual Report

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

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during fiscal year 2016"? The statement of net position includes all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

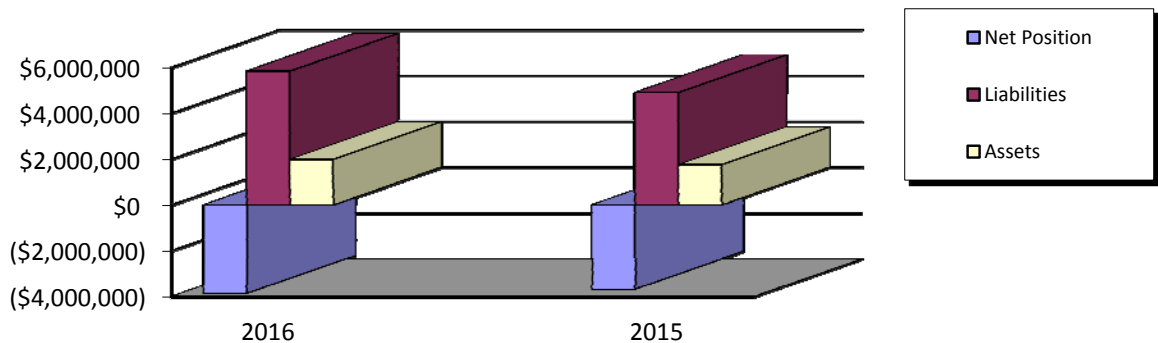
Table 1 provides a summary of the Academy's net position for fiscal year 2016 compared to fiscal year 2015 as follows:

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**Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 1
Net Position**

	Governmental Activities	
	2016	2015
Assets:		
Current and Other Assets	\$1,305,534	\$1,741,092
Capital Assets	12,942	17,757
Total Assets	1,318,476	1,758,849
Deferred Outflows of Resources:		
Pension	667,138	288,575
Total Deferred Outflows of Resources	667,138	288,575
Liabilities:		
Other Liabilities	221,665	398,520
Long-Term Liabilities	4,393,578	4,504,106
Total Liabilities	4,615,243	4,902,626
Deferred Inflows of Resources:		
Pension	1,224,500	811,787
Total Deferred Inflows of Resources	1,224,500	811,787
Net Position:		
Net Investment in Capital Assets	12,942	17,757
Restricted	12,735	262,765
Unrestricted	(3,879,806)	(3,947,511)
Total Net Position	(\$3,854,129)	(\$3,666,989)



Total net position of the Academy decreased by \$187,140. The decrease in total net position from fiscal year 2015 is primarily due to a decrease in equity in pooled cash and investments as cash receipts was less than cash expensed in fiscal year 2016 and an decrease in intergovernmental receivables. Long-term liabilities decreased due to a decrease in Net Pension Liability when compared to 2015.

**Akron Digital Academy
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

Table 2 shows the changes in net position for the fiscal years ended June 30, 2016 and 2015.

**Table 2
Changes in Net Position**

	Fiscal Year	
	2016	2015
Operating Revenues:		
State Foundation	\$2,895,018	\$3,239,603
Fees	400	1,770
Other Revenues	64,916	117,941
Total Operating Revenues	<u>2,960,334</u>	<u>3,359,314</u>
Operating Expenses:		
Salaries	1,797,392	1,826,901
Fringe Benefits	442,462	454,990
Purchased Services	1,073,171	1,295,681
Materials and Supplies	110,545	131,044
Depreciation	11,243	17,808
Other Expenses	35,026	27,477
Total Operating Expenses	<u>3,469,839</u>	<u>3,753,901</u>
Operating Income (Loss)	<u>(509,505)</u>	<u>(394,587)</u>
Non-Operating Revenues (Expenses):		
Investment Earnings	8,324	8,164
State and Federal Grants	314,041	622,502
Total Non-Operating Revenues (Expenses)	<u>322,365</u>	<u>630,666</u>
Change in Net Position	(187,140)	236,079
Net Position - Beginning of Year, Restated	<u>(3,666,989)</u>	<u>(3,903,068)</u>
Net Position - End of Year	<u>(\$3,854,129)</u>	<u>(\$3,666,989)</u>

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

Foundation payments decreased from \$3,239,603 in fiscal year 2015 to \$2,895,018 in fiscal year 2016. Foundation payments decreased because student average daily membership decreased in fiscal year 2016 from fiscal year 2015. Foundation payments are based on student enrollment. The State Foundation Program is, by far, the primary support for the Academy's students.

Total non-operating revenues decreased from \$630,666 in fiscal year 2015 to \$322,365 in fiscal year 2016. This decrease is primarily due to a decrease in grants non-operating revenue of \$308,301.

**Akron Digital Academy
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

Total expenses decreased in fiscal year 2016 as compared to fiscal year 2015 due to a decrease in salaries, purchased services, and materials and supplies.

Capital Assets

At the end of fiscal year 2016, the Academy had \$12,942 in furniture and equipment. Table 3 shows fiscal year 2016 balances compared to fiscal year 2015 as follows:

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

	Fiscal Year	
	2015	2015
Furniture and Equipment	\$12,942	\$17,757

Depreciation operating expense of \$11,243 accounts for the decrease in capital assets. For further information on capital assets, see Note 4 of the notes to the basic financial statements.

For the Future

The Academy’s focus will be to increase its current enrollment. There has been a recent drop in enrollment after The Academy changed locations. However, we believe this is only a short term decrease and expect future enrollment to increase. Since the Academy has seen a drop in enrollment, the school began to take steps to reduce expenses in fiscal year 2016 and beyond.

The Academy plans to participate in the federal grant programs passed through the Ohio Department of Education’s Comprehensive Continuous Improvement Plan every fiscal year in the future. These grant funds enhance the operations of the Academy.

As a result, the Academy’s management must diligently plan expenses, staying carefully within the Academy’s five-year plan.

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

Contacting the Academy’s Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy’s finances and to show the Academy’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Alleyn Unversaw, Fiscal Officer, at Akron Digital Academy, 1879 Deerfield Rd, Lebanon, Ohio 45036.

Akron Digital Academy
Statement of Net Position
June 30, 2016

Assets:

Current Assets:

Cash and Investments \$1,178,946

Receivables:

Intergovernmental 126,588

Total Current Assets 1,305,534

Noncurrent Assets:

Depreciable Capital Assets, Net 12,942

Total Assets 1,318,476

Deferred Outflows of Resources:

Pension 667,138

Liabilities:

Current Liabilities:

Accounts Payable 10,510

Accrued Wages and Benefits 211,155

Total Current Liabilities 221,665

Long-Term Liabilities:

Net Pension Liability 4,393,578

Total Liabilities 4,615,243

Deferred Inflows of Resources:

Pension 1,224,500

Net Position:

Investment in Capital Assets 12,942

Restricted 12,735

Unrestricted (3,879,806)

Total Net Position (\$3,854,129)

See accompanying notes to the basic financial statements.

Akron Digital Academy
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Operating Revenues:	
Fees	\$400
Foundation Payments	2,895,018
Other Operating Revenues	64,916
Total Operating Revenues	<u>2,960,334</u>
Operating Expenses:	
Salaries	1,797,392
Fringe Benefits	442,462
Purchased Services	1,073,171
Materials and Supplies	110,545
Depreciation	11,243
Other	35,026
Total Operating Expenses	<u>3,469,839</u>
Operating Income (Loss)	<u>(509,505)</u>
Non-Operating Revenues (Expenses):	
Investment Earnings	8,324
State and Federal Grants	314,041
Total Non-Operating Revenues (Expenses)	<u>322,365</u>
Change in Net Position	(187,140)
Net Position - Beginning of Year	<u>(3,666,989)</u>
Net Position - End of Year	<u><u>(\$3,854,129)</u></u>

See accompanying notes to the basic financial statements.

Akron Digital Academy
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Cash Flows from Operating Activities:	
Cash Received from State Foundation	\$2,895,018
Other Operating Cash Receipts	65,316
Cash Payments to Employees for Salaries and Benefits	(2,346,358)
Cash Payments for Goods and Services	(1,330,445)
Cash Payments for Other Expenses	(35,026)
Net Cash Provided (Used) by Operating Activities	<u>(751,495)</u>
Cash Flows from Noncapital Financing Activities:	
Cash Received from State and Federal Grants	<u>565,818</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>565,818</u>
Cash Flows from Investing Activities:	
Earnings on Investments	<u>8,324</u>
Net Cash Provided (Used) by Cash Flows from Investing Activities	<u>8,324</u>
Net Increase (Decrease) in Cash and Investments	(183,781)
Cash and Investments - Beginning of Year	<u>1,362,727</u>
Cash and Investments - End of Year	<u><u>\$1,178,946</u></u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	(\$509,505)
Adjustments:	
Depreciation	11,243
Changes in Assets & Liabilities:	
(Increase) Decrease in Deferred Outflows for Pension	(378,563)
Increase (Decrease) in Accrued Liabilities	(30,126)
Increase (Decrease) in Payables	(146,729)
Increase (Decrease) in Net Pension Liability	(110,528)
Increase (Decrease) in Deferred Inflows for Pension	<u>412,713</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$751,495)</u></u>

See accompanying notes to the basic financial statements.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1 – Description of the Academy

The Akron Digital Academy (the “Academy”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in seventh through the twelfth grade. The Academy is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

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

The Academy began operations on October 7, 2002. The Academy was approved for operation under a contract with the Warren County Educational Service Center (Sponsor) for period of five years beginning on July 1, 2013. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a self-appointed, six-member Board of Directors. The Board consists of six individuals representing the interest of parents and students. The Board of Directors is responsible for carrying out provisions of the contract which, include, but are not limited to, State-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

The Academy is staffed by 41 employees who provide services to 390 students.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Academy have been prepared in conformity with the generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Academy’s accounting policies are described below.

Basis of Presentation

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

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

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Measurement Focus

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

Basis of Accounting

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

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

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

Expenses are recognized at the time they are incurred.

Budgetary Process

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

Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

the date received. The Academy maintains a capitalization threshold of one thousand dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Net Position

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

Pensions

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

Operating Revenues and Expenses

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

Intergovernmental Revenues

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

The Academy participated in the following federal grant programs which are passed through the Ohio Department of Education's Comprehensive Continuous Improvement Plan (CCIP): Part B-IDEA Special Education, Title I, Title II-A Improving Teacher Quality, Race to the Top and Schoolwide Pool Program. The Academy was awarded a total of \$314,041 during the fiscal year ended June 30, 2016 for these programs. Revenues received from these programs are recognized as non-operating revenue in the accounting period in which all eligibility requirements have been met.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Estimates

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

Note 3 – Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end June 30, 2016, the carrying amount of the Academy's deposits totaled \$743,808 and the bank balance was \$788,186. Of the bank balance, \$346,180 was covered by the Federal Deposit Insurance Corporation and \$442,006 of the Academy's bank balance was not exposed to custodial risk.

The Academy has no deposit policy for custodial risk. Custodial credit risk is the risk that in the event of bank failure, the Academy will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at the Federal Reserve Bank or at member banks of the Federal Reserve system in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

Investments

Investments are reported at fair value. As of June 30, 2016, the Academy had the following investment:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Life Insurance Annuity	<u>\$435,138</u>	1.06

The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Academy's recurring fair value measurements as of June 30, 2016. All investments of the Academy are valued using quoted market prices (Level 1 inputs).

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

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

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Academy’s investments are either insured and registered in the name of the Academy or at least registered in the name of the Academy. The Academy does not have a policy to address custodial credit risk beyond the requirement of state statute.

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was:

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$205,344	\$6,428	\$0	\$211,772
Totals at Historical Cost	<u>205,344</u>	<u>6,428</u>	<u>0</u>	<u>211,772</u>
Less Accumulated Depreciation:				
Furniture and Equipment	187,587	11,243	0	198,830
Total Accumulated Depreciation	<u>187,587</u>	<u>11,243</u>	<u>0</u>	<u>198,830</u>
Governmental Activities Capital Assets, Net	<u>\$17,757</u>	<u>(\$4,815)</u>	<u>\$0</u>	<u>\$12,942</u>

Note 5 – Long-Term Debt Obligations

	Beginning Outstanding	Additions	Deductions	Ending Outstanding	Due In One Year
Net Pension Liability:					
STRS	\$3,557,457	\$0	\$127,508	\$3,429,949	\$0
SERS	946,649	16,980	0	963,629	0
Total Net Pension Liability	<u>\$4,504,106</u>	<u>\$16,980</u>	<u>\$127,508</u>	<u>\$4,393,578</u>	<u>\$0</u>

Note 6 - Risk Management

The Academy is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. For fiscal year 2016, the Academy contracted with Agronaut Insurance Company for property, inland marine, crime, general liability, educators legal liability, employers practices liability, automobile coverage and excess liability insurance.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Coverage provided is as follows:

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

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

Note 7 - Purchased Services

In accordance with the sponsorship contract between the Sponsor and the Academy and in accordance with Ohio Revised Code Section 3314.03, the Academy will pay a sponsorship fee to the Sponsor of an amount not to exceed three percent of the total State Foundation Program payments during the fiscal year for oversight and monitoring. The Academy paid \$86,247 to the Sponsor in fiscal year 2016 for the services provided by the Sponsor during fiscal year 2016.

For the fiscal year ended June 30, 2016, purchased service expenses were comprised of the following:

<u>Purchased Services</u>	<u>Amounts</u>
Professional and Technical Services	\$711,540
Property Services	146,864
Travel and Meeting	14,612
Communications	123,644
Utilities Services	44,106
Contracted Craft and Trade Services	4,778
Pupil Transportation Services	<u>27,627</u>
Total Purchased Services	<u>\$1,073,171</u>

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

Pensions are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period.

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description – Academy non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

Akron Digital Academy
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For the Fiscal Year Ended June 30, 2016

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service, and 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Academy's contractually required contribution to SERS was \$83,580 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

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

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

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The Academy was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Academy's contractually required contribution to STRS was \$165,552 for fiscal year 2016.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$963,629	\$3,429,949	\$4,393,578
Proportion of the Net Pension Liability	0.01688770%	0.01241068%	
Pension Expense	60,763	155,970	216,733

At June 30, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$16,299	\$161,549	\$177,848
Net difference between projected and actual earnings on pension plan investments	72,110	172,176	244,286
Changes in employer proportion and differences between contributions and proportionate share of contributions	11,012	(15,140)	(4,128)
Academy contributions subsequent to the measurement date	<u>83,580</u>	<u>165,552</u>	<u>249,132</u>
Total Deferred Outflows of Resources	<u>\$183,001</u>	<u>\$484,137</u>	<u>\$667,138</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$118,965	\$518,525	\$637,490
Changes in employer proportion and differences between contributions and proportionate share of contributions	(14,927)	(99,671)	(114,598)
Changes in employer proportionate share of net pension liability	<u>95,350</u>	<u>606,258</u>	<u>701,608</u>
Total Deferred Inflows of Resources	<u>\$199,388</u>	<u>\$1,025,112</u>	<u>\$1,224,500</u>

\$249,132 reported as deferred outflows of resources related to pension resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	(\$42,001)	(\$213,808)	(\$255,809)
2017	(42,001)	(213,808)	(255,809)
2018	(42,083)	(213,809)	(255,892)
2019	15,107	(49,962)	(34,855)
Total	<u>(\$110,978)</u>	<u>(\$691,387)</u>	<u>(\$802,365)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Academy's proportionate share of the net pension liability	\$1,336,026	\$963,629	\$649,887

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Academy's proportionate share of the net pension liability	\$4,764,458	\$3,429,949	\$2,301,423

Note 9 - Post Employment Benefits

School Employees Retirement System

Health Care Plan Description - The Academy contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, 0.00 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the Academy's surcharge obligation was \$1,320.

The Academy's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$1,320, \$6,261, and \$10,853, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The Academy’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$14,208, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

Note 10 - Operating Leases

The Academy leases facilities space, copiers and a postage meter under non-cancelable operating leases. Total costs for such leases were \$289,196 for the fiscal year ended June 30, 2016.

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

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

Note 11 - Contingencies

Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2016.

Litigation

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

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 12 - Enrollment FTE

State Foundation Funding

Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Community schools must comply with minimum hours of instruction, instead of number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated, which can extend past the fiscal year end. On August 29, 2016, ODE made a determination that the Academy's fiscal year 2016 FTE was overstated by 80 percent, resulting in an overpayment of \$2.3 million. This determination is being appealed by the School.

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.

Note 14 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2016, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments and GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the Academy's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Academy.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Academy.

Akron Digital Academy
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Academy.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2015	2014	2013
Academy's Proportion of the Net Pension Liability	0.01241068%	0.01462562%	0.01462562%
Academy's Proportionate Share of the Net Pension Liability	\$3,429,949	\$3,557,457	\$4,226,208
Academy's Covered-Employee Payroll	\$1,177,843	\$1,609,284	\$1,440,398
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	291.21%	221.06%	293.41%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	74.70%

(1) - Information prior to 2013 is not available

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

	2015	2014	2013
Academy's Proportion of the Net Pension Liability	0.01688770%	0.018705%	0.018705%
Academy's Proportionate Share of the Net Pension Liability	\$963,629	\$946,649	\$1,112,660
Academy's Covered-Employee Payroll	\$617,390	\$549,025	\$718,480
Academy's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	156.08%	172.42%	154.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	71.70%

(1) - Information prior to 2013 is not available

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$165,552	\$164,898	\$209,207
Contributions in Relation to the Contractually Required Contribution	<u>(165,552)</u>	<u>(164,898)</u>	<u>(209,207)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Academy Covered-Employee Payroll	\$1,182,514	\$1,177,842	\$1,609,284
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%

(1) - Information prior to 2014 is not available

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$83,580	\$81,372	\$76,095
Contributions in Relation to the Contractually Required Contribution	<u>(83,580)</u>	<u>(81,372)</u>	<u>(76,095)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Academy Covered-Employee Payroll	\$597,000	\$617,390	\$549,025
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%

(1) - Information prior to 2014 is not available

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

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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Akron Digital Academy (the Academy), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 21, 2016.

Internal Controls Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2016-001 to be a significant deficiency.

Compliance and Other Matters


As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2016-001.

Entity's Response to Finding

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Academy's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Charles E. Harris & Associates, Inc.
December 21, 2016

**AKRON DIGITAL ACADEMY
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2016-001
Noncompliance and Significant Deficiency**

Pursuant to ORC 3314.08(H), the Ohio Department of Education conducted a final FTE review for Akron Digital Academy on August 29, 2016, which included a review of log-in and log-out records and non-classroom documentation. The department reviewed documentation of student participation in computer and non-computer non-classroom learning opportunities for a sample of students, which concluded that the hours of actual learning opportunities did not match the reported time in EMIS.

The District must update its computer software's ability to track and document each student's time logged into online learning opportunities.

Official's Response:

See Corrective Action Plan

AKRON DIGITAL ACADEMY
SUMMIT COUNTY
For the Year Ended June 30, 2016

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, as of June 30, 2015, reported no material citations or recommendations.

AKRON DIGITAL ACADEMY
SUMMIT COUNTY

CORRECTIVE ACTION PLAN
June 30, 2016

FINDING NUMBER	PLANNED CORRECTIVE ACTION	ANTICIPATED COMPLETION DATE	RESPONSIBLE CONTACT PERSON
2016-001	The Academy will update its computer software's ability to track and document each student's time logged into online learning opportunities.	Immediately	Markita Roberts, Compliance Manager

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Dave Yost • Auditor of State

AKRON DIGITAL ACADEMY

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 28, 2017