



Dave Yost • Auditor of State

MASSILLON DIGITAL ACADEMY
STARK COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Massillon Digital Academy, Stark County, Ohio (the Academy), a component unit of Massillon City School District, Stark County as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massillon Digital Academy, Stark County as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2018, 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.



Dave Yost
Auditor of State
Columbus, Ohio

April 5, 2018

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017

The discussion and analysis of Massillon Digital Academy's (the Academy) financial performance provides an overall view of the Academy's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- Net position decreased \$205,836.
- Operating revenues accounted for \$227,412 in revenue or 80 percent of all revenues.

Using this Annual Financial Report

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

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

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

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

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2017

Reporting the Academy as a Whole

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

Table 1 provides a summary of the Academy's net position for 2017 compared to 2016:

Table 1
Net Position

	2017	2016
Assets		
Current Assets	\$ 778,495	\$ 900,712
Capital Assets	21,479	36,092
<i>Total Assets</i>	799,974	936,804
Liabilities		
Current Liabilities	76,872	7,866
Net Position		
Investment in Capital Assets	21,479	36,092
Restricted	12,433	14,764
Unrestricted	689,190	878,082
<i>Total Net Position</i>	\$ 723,102	\$ 928,938

Total assets decreased by \$136,830. The majority of this decrease is a reduction in cash due to less foundation revenue. Capital assets decreased \$14,613 this was from depreciation reducing the book value of capital assets.

The Ohio Department of Education pays the Academy based on enrollment figures submitted by the Academy on a monthly basis. The Academy submits a final report of enrollment adjusted for students not attending on a full time status in June. Any adjustment in funding is reported as a payable or receivable depending on the enrollment numbers. For fiscal year 2017, the Academy had a payable of \$75,732, resulting in an increase in current liabilities of \$69,006.

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

The view of the Academy as a whole looks at all financial transactions and asks, "How did we do financially during 2017?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2017

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

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

Financial Analysis

Table 2 shows the changes in net position for fiscal year 2017 compared to fiscal year 2016:

Table 2
Changes in Net Position

	2017	2016
Operating Revenue		
Foundation Payments	\$ 221,028	\$ 435,960
State Distributed Casino Revenues	2,524	3,352
Customer Sales and Services	3,860	4,690
<i>Total Operating Revenues</i>	<u>227,412</u>	<u>444,002</u>
Operating Expenses		
Purchased Services	452,568	468,263
Materials and Supplies	14,631	2,491
Depreciation Expense	14,613	15,608
Other	8,131	8,955
<i>Total Operating Expenses</i>	<u>489,943</u>	<u>495,317</u>
Non-Operating Revenues (Expenses)		
Federal Grants	52,445	74,722
Miscellaneous Revenue	100	240
Interest Income	4,150	5,347
<i>Total Non-Operating Revenues (Expenses)</i>	<u>56,695</u>	<u>80,309</u>
<i>Change In Net Position</i>	(205,836)	28,994
<i>Net Position Beginning of Year</i>	<u>928,938</u>	<u>899,944</u>
<i>Net Position End of Year</i>	<u>\$ 723,102</u>	<u>\$ 928,938</u>

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2017

The Statement of Revenues, Expenses, and Changes in Net Position show the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating revenues associated with those expenses. That is, it identifies the amount of operating expenses supported by State and other funding. The Academy's foundation and grant revenue decreased \$214,932 and \$22,277 from 2017 to 2016, respectively. This decrease is due to the change in way the Academy has to calculate the FTE. In the past it was calculated on the number of courses that were taken. In 2017 it was calculated on the number of educational opportunities provided to students. Enrollment has remained the same.

The dependence upon state foundation revenues for operating activities is apparent. The majority of monies were used for purchased services. Purchased services decreased by \$15,695 due to a decrease in enrollment. The Academy's operating revenue is 80 percent of total revenue. State sources are by far the primary support for the Academy.

Budget

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the Academy had \$21,479 (net of \$59,209 in accumulated depreciation) invested in furniture and fixtures, computer equipment and vehicles. Table 3 shows fiscal year 2017 balances compared to 2016. More detailed information is presented in Note 4 of the notes to the basic financial statements.

Table 3
Capital Assets (Net of Depreciation)

	2017	2016
Computer Equipment	\$ 8,672	\$ 17,797
Vehicles	12,807	18,295
Total Capital Assets	\$ 21,479	\$ 36,092

Debt Administration

At June 30, 2017, the Academy had no debt.

Massillon Digital Academy
Stark County, Ohio
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2017

Current Financial Related Activities

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

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

Contacting the Academy's Financial Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Sandy Moeglin, Treasurer of Massillon Digital Academy, 930 17th Street N. E., Massillon, Ohio 44646.

Massillon Digital Academy
Stark County, Ohio
Statement of Net Position
June 30, 2017

Assets	
Current Assets:	
Equity in Pooled Cash and Investments	\$ 757,142
Intergovernmental Receivable	<u>21,353</u>
<i>Total Current Assets</i>	<u>778,495</u>
Noncurrent Assets:	
Depreciable Capital Assets, Net	<u>21,479</u>
<i>Total Assets</i>	<u>799,974</u>
Liabilities	
Current Liabilities:	
Accounts Payable	1,140
Intergovernmental Payable	<u>75,732</u>
<i>Total Current Liabilities</i>	<u>76,872</u>
Net Position	
Investment in Capital Assets	21,479
Restricted For:	
Federally Funded Programs	12,433
Unrestricted	<u>689,190</u>
<i>Total Net Position</i>	<u>\$ 723,102</u>

See accompanying notes to the basic financial statements.

Massillon Digital Academy
Stark County, Ohio

Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Operating Revenues	
Foundation Payments	\$ 221,028
State Distributed Casino Revenues	2,524
Customer Sales and Services	<u>3,860</u>
<i>Total Operating Revenues</i>	<u>227,412</u>
Operating Expenses	
Purchased Services	452,568
Materials and Supplies	14,631
Depreciation	14,613
Other	<u>8,131</u>
<i>Total Operating Expenses</i>	<u>489,943</u>
<i>Operating Loss</i>	<u>(262,531)</u>
Non-Operating Revenues (Expenses)	
Miscellaneous Revenue	100
Interest Income	4,150
Federal Grants	<u>52,445</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>56,695</u>
<i>Change in Net Position</i>	(205,836)
<i>Net Position Beginning of Year</i>	<u>928,938</u>
<i>Net Position End of Year</i>	<u><u>\$ 723,102</u></u>

See accompanying notes to the basic financial statements.

Massillon Digital Academy
Stark County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

Cash Flows From Operating Activities	
Cash Received from State Foundation	\$ 296,760
Cash Received from Casino Revenues	2,524
Customer Sales and Services	3,860
Other Cash Receipts	50,100
Cash Payments for Goods and Services	(457,276)
Cash Payments for Materials and Supplies	(14,631)
Cash Payments for Other Expenses	(8,109)
<i>Net Cash Used for Operating Activities</i>	<u>(126,772)</u>
Cash Flows From Non-Capital Financing Activities	
Grants Received	56,021
Other Non-Operating Revenues	100
<i>Net Cash Provided by Non-Capital Financing Activities</i>	<u>56,121</u>
Cash Flows From Investing Activities	
Interest on Investments	<u>4,150</u>
<i>Net Increase (Decrease) in Cash and Investments</i>	(66,501)
<i>Cash and Investments, Beginning of Year</i>	<u>823,643</u>
<i>Cash and Investments, End of Year</i>	<u><u>\$ 757,142</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
<i>Operating Loss</i>	\$ (262,531)
Adjustments:	
Depreciation	14,613
(Increase) Decrease Assets:	
Intergovernmental Receivable	52,140
(Decrease) Increase in Liabilities:	
Accounts Payable	(6,641)
Intergovernmental Payable	<u>75,647</u>
<i>Total Adjustments</i>	<u>135,759</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (126,772)</u></u>

See accompanying notes to the basic financial statements.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

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

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

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

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

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise Accounting

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

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

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

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

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

D. Cash and Investments

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

During 2017, the Academy investments were limited to Federal Farm Credit System Bank Bonds.

E. Intergovernmental Revenues

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

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

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

In fiscal year 2017, the Academy participated in federal grant programs. Revenue received from these programs is recognized as non-operating revenue in the accompanying financial statements.

F. Capital Assets and Depreciation

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

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

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

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

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

G. Accrued Liabilities

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

H. Net Position

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

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

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Directors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2017.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

L. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2017, the Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the Academy.

GASB Statement No. 78 amends the scope of GASB Statement No. 68 to exclude certain multiple-employer defined benefit pension plans provided to employees of state and local governments on the basis that obtaining the measurements and other information required by GASB Statement No. 68 was not feasible. The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the Academy as the Academy does not have any GASB Statement 77 tax abatements.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Academy.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Academy's fiscal year 2017 financial statements; however, there was no effect on beginning net position.

NOTE 3 - DEPOSITS AND INVESTMENTS

According to State law, public depositories must give security for all uninsured public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of uninsured public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During fiscal year 2017, the Academy and public depositories complied with the provisions of these statutes.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

Custodial credit risk is the risk that, in the event of a bank failure, the Academy’s deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Academy’s policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Deposits with Financial Institutions

At June 30, 2017, the carrying amount of the Academy’s deposits was \$257,527. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2017, \$7,558 of the Academy’s bank balance of \$257,558 was exposed to custodial risk as discussed above, while \$250,000 was covered by Federal Deposit Insurance Corporation. There are no significant statutory restrictions regarding deposit and investment of funds by the Academy.

Investments

As of June 30, 2017, the Academy had the following investment:

<u>Ratings</u>	<u>Investment Type</u>	<u>Measurement Amount</u>	<u>Investment Maturity 0-12 Months</u>	<u>% of Investments</u>
AA+	Federal Farm Credit System Bank Bonds	<u>\$ 499,615</u>	<u>\$499,615</u>	<u>100.00%</u>

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, 2017. All investments of the Academy are valued using quoted market prices (Level 1 inputs).

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Academy’s policy is to follow State statute which is to invest funds with the highest interest rate bid.

Credit Risk: S & P global ratings have rated the Federal Farm Credit System Bank Bonds as AA+.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

Concentration of Credit Risk: The Academy places no limit on the amount that may be invested in any one issuer. The table above includes the percentage of total of each investment type held by the Academy at June 30, 2017.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets during the fiscal year ended June 30, 2017 follows:

	Balance 07/01/2016	Additions	Reductions	Balance 06/30/2017
<i>Capital Assets, Being Depreciated:</i>				
Furniture and Fixtures	\$ 2,646	\$ 0	\$ 0	\$ 2,646
Computer Equipment	50,600	0	0	50,600
Vehicles	27,442	0	0	27,442
	<u>80,688</u>	<u>0</u>	<u>0</u>	<u>80,688</u>
<i>Total Capital Assets, Being Depreciated</i>				
 <i>Less: Accumulated Depreciation</i>				
Furniture and Fixtures	(2,646)	0	0	(2,646)
Computer Equipment	(32,803)	(9,125)	0	(41,928)
Vehicles	(9,147)	(5,488)	0	(14,635)
	<u>(44,596)</u>	<u>(14,613)</u>	<u>0</u>	<u>(59,209)</u>
<i>Total Accumulated Depreciation</i>				
	<u>\$ 36,092</u>	<u>\$ (14,613)</u>	<u>\$ 0</u>	<u>\$ 21,479</u>
<i>Total Capital Assets Being Depreciated, Net</i>				

NOTE 5 - FISCAL OFFICER

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

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

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

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

NOTE 6 - RELATED PARTY TRANSACTION

The Academy is a component unit of the Massillon City School District (the District). The District is the Academy's sponsor. The Academy and the District renewed a 5-year sponsorship agreement commencing on the July 1, 2016, whereby terms of the sponsorship were established. The Academy is required to pass a waiver stating that the Massillon City School District Treasurer/CFO will be the Fiscal Officer of the school. The Academy is required to pay \$150 per student per year to the District, from funding provided to the Academy by the Ohio Department of Education pursuant to Section 3314.08 of the Ohio Revised Code. In fiscal year 2017, the fee per student was waived by the District.

NOTE 7 - RISK MANAGEMENT

Insurance Coverage

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended June 30, 2017, the Academy contracted with the Ohio Casualty Insurance Company through its agent Leonard Insurance Services of Canton, Ohio. Settlements have not exceeded coverage in any of the last three fiscal years. There has not been a significant reduction in coverage from the prior year.

NOTE 8 - PURCHASED SERVICES

For the year ended June 30, 2017, purchased service expenses were recognized for professional services rendered by various vendors as follows:

Massillon Board of Education	\$ 399,946
SPARCC	14,609
Kajeet, Inc.	12,570
Other	<u>25,443</u>
Total Purchased Services	<u>\$ 452,568</u>

For the year ended June 30, 2017, the Academy recognized \$399,946 in expenses for educational services and curriculum provided by the Massillon Board of Education.

NOTE 9 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2017, if applicable, cannot be determined at this time.

Massillon Digital Academy
Stark County, Ohio
Notes to the Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2017

B. Litigation

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

C. School District Funding

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

Under Ohio Rev. Code Section 3314.08 ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2017. The Academy appealed their fiscal year 2017 FTE review, which as of the date of this report, has not been settled. As a result, the impact of the appealed FTE Review on the fiscal year 2017 financial statements is not determinable, at this time. Management believes this may result in a liability of the Academy.

In addition, the Academy's contracts with their Sponsor require payment based on student FTEs. As discussed above, additional FTE adjustments for fiscal year 2017 are not finalized. Until such adjustments are finalized by ODE, the impact on the fiscal year 2017 financial statements, related to additional reconciliation necessary with these contracts, is not determinable. Management believes this may result in either an additional receivable to, or liability of, the School.

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

In addition, the Academy contracts with their Sponsor require payment based on student FTEs. As discussed above, additional FTE adjustments for fiscal year 2017 are finalized. However, in fiscal year 2017 the School District waived the per student fee and therefore will not result in an additional receivable to, or liability of, the School District.

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Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Massillon Digital Academy, Stark County, (the Academy) a component unit of the Massillon City School District, Stark County as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated April 5, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. We consider finding 2017-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2017-002 and 2017-003 described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2017-001 through 2017-003.

Academy's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

April 5, 2018

**MASSILLON DIGITAL ACADEMY
STARK COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017**

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

<i>Finding Number</i>	2017-001
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NONCOMPLIANCE AND MATERIAL WEAKNESS

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

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

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

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

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

Full-Time Equivalent (FTE) Reporting (Continued)

<i>Finding Number</i>	2017-001 (Continued)
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The Academy should implement procedures to accurately identify and adjust times within their online systems that overlap or duplicate time reported elsewhere. This may help ensure the Academy is not over-reporting FTE's. The Academy should also utilize the "time on activity" report which may help ensure time reported does not include idle time.

Officials Response:

The Massillon Digital Academy will implement procedures to accurately identify and adjust times within their online system so as not to overlap or duplicate time reported elsewhere.

Sponsor Monitoring and Contract Language

<i>Finding Number</i>	2017-002
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NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

Ohio Rev. Code § 3314.27 states in part "each internet- or computer-based community school shall keep an accurate record of each individual student's participation in learning opportunities each day." Furthermore, Ohio Rev. Code Section 3314.03(A)(23) states in part that each contract entered into between a sponsor and the governing authority of a community school shall specify the following "[a] description of the learning opportunities that will be offered to students including both classroom-based and non-classroom-based learning opportunities that is in compliance with criteria for student participation established by the department under division (H)(2) of section 3314.08 of the Revised Code[.]"

Upon review of the Academy's contract with the Massillon City School District (the Sponsor), at no point within the contract does it specify how the Academy or the Sponsor intends to comply with documenting the "criteria for student participation" requirements as established by the Ohio Department of Education.

This could result in the Academy's failure to comply with required Ohio law and with requirements established by the Ohio Department of Education. These potential failures could affect the Sponsor's ability to continue sponsoring schools in the future as well as have a potential impact on the Academy's funding from the Ohio Department of Education.

The Sponsor and the Academy should develop a contract that provides specific definitions and procedures that will help ensure compliance with the various Ohio Rev. Code Sections, as well as the various requirements of the Ohio Department of Education.

Official's Response:

The Sponsor, Massillon City Schools, will work with their Attorney to amend the current contract to reflect the "criteria for student participation" requirements as established by ODE.

Documentation of Absences

<i>Finding Number</i>	2017-003
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NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY

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

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

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

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

Official's Response:

The Massillon Digital Academy will update the Attendance Policy.

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Massillon City Schools

In Pursuit of Excellence

930 17th St. NE :: Massillon, OH 44646 :: p:330-830-3900

Sandra Moeglin, *Treasurer*

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS June 30, 2017

2016 -001 Full-Time Equivalent (FTE) Reporting – The Academy report 145 hours more to ODE than they had support for. Manual off line logs did not include dates, times, or teacher certifications.

The reasons for the recurrence:

When the information came to the MDA Administration, it was already partway through the year. Steps were taken to help decrease/eliminate the over-reporting; but we were unable to correct what had already been submitted.

Corrective Action Plan

1. MDA Staff has participated in professional development provided through the ITC on FTE Reporting.
2. New procedures were implemented for counting hours for MDA students.

016-002 Corrected.

2016-003 Sponsor Monitoring and Contract Language – The contract with the Sponsor does not specify how the Academy or the Sponsor intends to comply with documenting the “criteria for student participation” requirements as established by the Ohio Department of Education.

The reason for recurrence:

This correction was missed when revising the contract language.

Corrective Action Plan

1. The Sponsor’s Attorney will draft an addendum addressing this issue.

Sandra J. Moeglin, Treasurer
Massillon City Schools
(330) 830-7437
smoeglin@massillonschools.org

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Dave Yost • Auditor of State

MASSILLON DIGITAL ACADEMY

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2018**