

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY  
REGULAR AUDIT  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004**



**Auditor of State  
Betty Montgomery**



**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY**

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## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT**

Canton City Schools Digital Academy  
Stark County  
617 McKinley Avenue SW  
Canton, Ohio 44707

To the Board of Directors

We have audited the accompanying basic financial statements of the Canton City Schools Digital Academy, Stark County, Ohio, (the Academy) for the period December 16, 2003 through June 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Canton City Schools Digital Academy, Stark County, Ohio, for the period December 16, 2003 through June 30, 2004, and the changes in financial position and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 28, 2005

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004  
UNAUDITED

The discussion and analysis of the Canton City Digital Academy's (the "Digital Academy") financial performance provides an overall review of the Digital Academy's financial activities for the period December 16, 2003 through June 30, 2004. The intent of this discussion and analysis is to look at the Digital 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 Digital Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets were \$156,914 at June 30, 2004.
- The Digital Academy had operating revenues of \$434,521, operating expenses of \$262,908 and non-operating expenses of \$21,600 for fiscal year 2004. Total change in net assets for the fiscal year was an increase of \$150,013.

**Using these Basic Financial Statements**

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 Digital Academy's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Digital Academy, including all short-term and long-term financial resources and obligations.

**Reporting the Digital Academy's Financial Activities**

***Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Digital Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Digital Academy as a whole, the *financial position* of the Digital Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the Digital Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004  
UNAUDITED**

The table below provides a summary of the Digital Academy's net assets for fiscal year 2004. Since this is the first year that the Digital Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

	<u>2004</u>
<b><u>Assets</u></b>	
Current assets	\$ 136,124
Capital assets, net	<u>75,552</u>
Total assets	<u>211,676</u>
<b><u>Liabilities</u></b>	
Current liabilities	<u>54,762</u>
Total liabilities	<u>54,762</u>
<b><u>Net Assets</u></b>	
Invested in capital assets	75,552
Unrestricted	<u>81,362</u>
Total net assets	<u>\$ 156,914</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Digital Academy's net assets totaled \$156,914.

At year-end, capital assets represented 35.69% of total assets. Capital assets consisted of furniture and computer equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.



**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004  
UNAUDITED

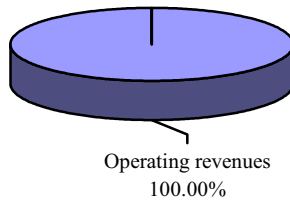
The table below shows the changes in net assets for fiscal year 2004. Since this is the first year that the Digital Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

**Change in Net Assets**

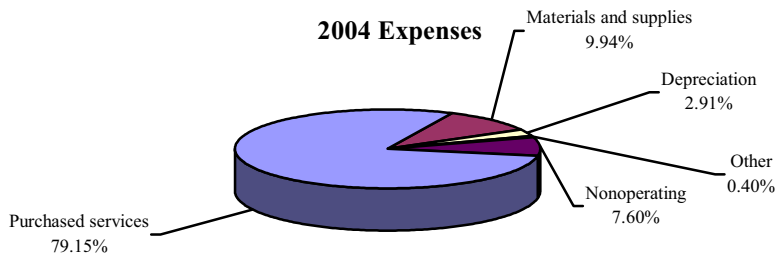
	<u>2004</u>
<b><u>Operating Revenues:</u></b>	
State foundation	\$ 434,521
Total operating revenue	<u>434,521</u>
<b><u>Operating Expenses:</u></b>	
Purchased services	225,209
Materials and supplies	28,283
Depreciation	8,272
Other	<u>1,144</u>
Total operating expenses	<u>262,908</u>
<b><u>Non-operating Expenses:</u></b>	
Other non-operating expenses	<u>(21,600)</u>
Total non-operating expenses	<u>(21,600)</u>
Change in net assets	<u>\$ 150,013</u>

The charts below illustrate the revenues and expenses for the Digital Academy during fiscal 2004.

**2004 Revenues**



**2004 Expenses**



**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004  
UNAUDITED**

**Capital Assets**

At June 30, 2004, the Digital Academy had \$75,552 invested in computers and equipment. See Note 4 to the basic financial statements for more detail on capital assets.

**Current Financial Related Activities**

The Digital Academy is sponsored by Canton City School District. The Digital Academy is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, online learning to students.

In order to continually provide online learning opportunities to the Digital Academy's students, the Digital Academy will apply resources to best meet the needs of its students. It is the intent of the Digital Academy to apply for other State and Federal funds that are made available to finance its operations.

**Contacting the Digital Academy's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the Digital Academy's finances and to show the Digital Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jim Reinhard, Treasurer, Canton City Schools Digital Academy, 617 McKinley Avenue SW, Canton, Ohio 44707.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

**Assets:**

Current assets:

Cash and cash equivalents. . . . .	\$	135,368
Prepayments . . . . .		756

Total current assets . . . . .		136,124
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Non-current assets:

Capital assets, net. . . . .		75,552
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Total assets . . . . .		211,676
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**Liabilities:**

Current:

Accounts payable . . . . .		23,979
Intergovernmental payable . . . . .		30,783

Total current liabilities . . . . .		54,762
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**Net Assets:**

Invested in capital assets . . . . .		75,552
Unrestricted. . . . .		81,362

Total net assets . . . . .	\$	156,914
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 434,521
Total operating revenues . . . . .	<u>434,521</u>
<b>Operating expenses:</b>	
Purchased services . . . . .	225,209
Materials and supplies . . . . .	28,283
Depreciation . . . . .	8,272
Other . . . . .	1,144
Total operating expenses . . . . .	<u>262,908</u>
Operating income . . . . .	171,613
<b>Non-operating expenses:</b>	
Other non-operating expenses . . . . .	<u>(21,600)</u>
Total non-operating expenses . . . . .	<u>(21,600)</u>
Change in net assets . . . . .	150,013
<b>Net assets at beginning of year . . . . .</b>	<u>6,901</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ 156,914</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004

<b>Cash flows from operating activities:</b>	
Cash received from State foundation. . . . .	\$ 434,521
Cash payments to suppliers for goods and services . . .	(170,447)
Cash payments for materials and supplies . . . . .	(28,283)
Cash payments for other expenses . . . . .	(1,900)
	233,891
 <b>Cash flows from noncapital financing activities:</b>	
Cash used in non-operating expenses . . . . .	(21,600)
	(21,600)
 <b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	(2,055)
	(2,055)
Net cash used in capital and related financing activities . . . . .	(2,055)
Net increase in cash and cash equivalents . . . . .	210,236
<b>Cash and cash equivalents at beginning of year . . .</b>	<b>(74,868)</b>
<b>Cash and cash equivalents at end of year. . . . .</b>	<b>\$ 135,368</b>
	135,368
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income . . . . .	\$ 171,613
Adjustments:	
Depreciation. . . . .	8,272
Changes in assets and liabilities:	
(Increase) in prepayments . . . . .	(756)
Increase in accounts payable. . . . .	23,979
Increase in intergovernmental payable. . . . .	30,783
	30,783
Net cash provided by operating activities . . . . .	\$ 233,891
	233,891

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004**

**NOTE 1 - DESCRIPTION OF THE DIGITAL ACADEMY**

The Canton City Schools Digital Academy (the “Digital Academy”) was established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Canton City School District (the “Sponsor”) addressing the needs of students in grades K-12. The Digital Academy, which is part of the State’s education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Digital Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Digital Academy.

The Digital Academy provides opportunities 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 most ancillary components of a more traditional education. The Digital Academy uses the latest technology to reach a diverse student population. This population includes students within the Sponsor’s district that have specific career interests in a technology field. The students may be children who need an alternative to the traditional classroom. Enrollment is limited to students within the attendance area of the Sponsor. The Digital Academy uses the services of the Sponsor and the Stark-Portage Area Computer Consortium (SPARCC) to assist with overall programming and operations.

The Digital Academy was approved under contract with the Sponsor for a period of five years commencing July 1, 2002 through June 30, 2007 after which, the Digital Academy must apply for an additional contract with the Sponsor. The Digital Academy began operations on December 16, 2003. The Sponsor is responsible for evaluating the performance of the Digital Academy and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of the Digital Academy.

The Digital Academy operates under the direction of a five-member Board of Directors. The Board is composed of the Sponsor’s Associate Superintendent, the Sponsor’s Director of Pupil Personnel and the Sponsor’s Director of Instructional Technology and Assessment. The Board also includes two other persons who are neither officers nor staff members of the Digital Academy or Sponsor to serve as voting members. One of these members is the Assistant Superintendent of the Stark County Educational Service Center and the other is the Director of Technology Integration at SPARCC. The Board is responsible for carrying out the 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 qualification of teachers.

The Digital Academy, under a contractual agreement with SPARCC, provides planning, instructional, and technical services in partnership with Tri-Rivers Educational Computer Association (TRECA) (See Note 8). Personnel providing services to the Academy on behalf of SPARCC under the contractual agreement are considered employees of SPARCC, and SPARCC shall be solely responsible for all payroll functions.

The Sponsor, under a purchased services basis with the Digital Academy, provides planning, instructional, administrative and technical services. Personnel providing services to the Digital Academy on behalf of the Sponsor under the purchased services basis are considered employees of the Sponsor, and the Sponsor is solely responsible for all payroll functions. The Digital Academy provides services to approximately eighty-five students.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the Digital Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Digital Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Digital Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Digital Academy's significant accounting policies are described below.

**A. Basis of Presentation**

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 (expenses) 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 net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**B. Measurement Focus and Basis of Accounting**

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 assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. 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 Revised Code Section 5705, unless specifically provided in the Digital Academy's contract with its Sponsor. The contract between the Digital Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

**D. Cash**

All monies received by the Digital Academy are deposited in a demand deposit account.

**E. Capital Assets and Depreciation**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Digital Academy maintains a capitalization threshold of \$500. The Digital Academy does not have 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.



**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

All 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. Equipment is depreciated over five to thirty years.

**F. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Digital Academy had no restricted net assets at fiscal year-end.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**G. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**H. Intergovernmental Revenue**

The Digital Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which they are earned, essentially the same as the fiscal year.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Digital Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Digital Academy on a reimbursement basis. The Digital Academy did not receive any federal or State grants for the period December 16, 2003 through June 30, 2004.

**I. Operating Revenues and Expenses**

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

**J. Estimates**

The preparation of financial statements in conformity with GAAP 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.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004

**NOTE 3 - DEPOSITS**

At June 30, 2004, the carrying amount of the Digital Academy's deposits was \$135,368 and the bank balance was \$280,710. Of the bank balance, \$100,000 was covered by federal depository insurance with the remaining \$180,710 being uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Digital Academy to a successful claim by the FDIC.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at <u>December 16, 2003</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>June 30, 2004</u>
Furniture and equipment	\$ 85,888	\$ 2,055	\$ -	\$ 87,943
Less: accumulated depreciation	<u>(4,119)</u>	<u>(8,272)</u>	<u>-</u>	<u>(12,391)</u>
Capital assets, net	<u>\$ 81,769</u>	<u>\$ (6,217)</u>	<u>\$ -</u>	<u>\$ 75,552</u>

**NOTE 5 - RECEIVABLES**

The Digital Academy participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Digital Academy was awarded \$150,000 from April 1, 2003 through October 31, 2003 to offset start-up costs of the Digital Academy. This entire balance was received and spent prior to December 16, 2003.

**NOTE 6 - RISK MANAGEMENT**

The Digital Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2004, the Digital Academy was named on the Sponsor's policy for property and general liability insurance. The Digital Academy provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000, Executive Director \$20,000 and Board of Directors \$20,000.

**NOTE 7 - PURCHASED SERVICES**

For fiscal year ended June 30, 2004, purchased services expenses were as follows:

Professional and technical services	\$220,678
Printing and binding	85
Travel and meetings	2,850
Communications	<u>1,596</u>
Total	<u>\$225,209</u>

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004**

**NOTE 8 - SERVICE AGREEMENT**

The Digital Academy entered into a two-year agreement on February 24, 2003, for the 2002-03 and 2003-04 school years with the Stark-Portage Area Computer Consortium (SPARCC), in partnership with TRECA, for planning, instructional, administrative and technical services required for the operation of the Digital Academy.

For these services, the Digital Academy is required to pay the following fees to SPARCC:

1. Annual Fee - The Digital Academy shall pay \$25,000 for the 2002-03 school year for services acquired from SPARCC. The fee shall be due in two payments. The first installment of \$12,000 is due upon receipt by the Digital Academy of the first installment paid to the Digital Academy pursuant to the Ohio Charter Schools State Sub-grant Program (or any similar funding programs, regardless of name), whichever is later. The second installment of \$13,000 is due upon receipt of the Ohio Charter Schools Federal Sub-grant Program (or any similar funding programs, regardless of name). The entire \$25,000 was paid to SPARCC in fiscal 2003.

The Digital Academy shall pay to SPARCC a fee of \$25,000 for the 2003-04 school year for services acquired from SPARCC. The fee shall be due in two equal payments. The first payment shall be due upon receipt by the Digital Academy of the second installment paid to the Digital Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program (or any similar funding program, regardless of name) or by June 1, 2003, whichever is later. The second payment shall be due by December 1, 2003, or upon receipt of the aforementioned second installment of such grant, whichever is later.

2. Enrollment - \$3,500 per full time Grade 9-12 student and \$2,500 per full-time K-8 student enrolled per year. Part-time students may be enrolled on such terms as are agreed to by the parties. In case of a student enrolled with an IEP, the Digital Academy will determine if special education will be provided by SPARCC or otherwise. If substantially all of the special education and services are provided to such a student other than by SPARCC, the Digital Academy does not have to pay SPARCC the enrollment fee per the agreement, instead, actual costs for that student provided by SPARCC. If the special education for a student is provided by SPARCC, then any additional amount received from Department of Education for special education and related services is due to SPARCC for that student.

Note: In the event that payments to the Digital Academy from the Department of Education are reduced, the payments due from the Digital Academy to SPARCC shall be reduced accordingly. Also, under this agreement, all obligations hereunder are contingent upon the Digital Academy's receipt of the first installment paid to the Digital Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program. In the event the Digital Academy does not receive a second installment under such program, the Digital Academy may terminate the Agreement for the 2003-04 school year by giving notice to SPARCC between January 1 and June 1 immediately preceding the commencement of such school year.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD DECEMBER 16, 2003 THROUGH JUNE 30, 2004**

**NOTE 9 - SCHOOL FUNDING DECISION**

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The Digital Academy is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**NOTE 10 - CONTINGENCIES**

**A. Grants**

The Digital 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Digital Academy at June 30, 2004.

**B. Litigation**

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state's Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Digital Academy is not presently determinable. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the states public educational system and the matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Digital Academy is not presently determinable.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Digital Academy was reviewed two times during this initial year of operations and zero errors were found in enrollment, withdrawals and attendance. The Digital Academy does not anticipate any significant adjustments to state funding for fiscal year 2005, as a result of the reviews which have yet to be completed.

**NOTE 11 - START-UP PERIOD**

The Digital Academy began its start-up operations December 16, 2003. At December 16, 2003, the Digital Academy recorded \$(74,868) in cash and \$81,769 in capital assets, net of depreciation. The combination of these transactions resulted in a beginning net assets at December 16, 2003 of \$6,901.



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Canton City Schools Digital Academy  
Stark County  
617 McKinley Avenue SW  
Canton, Ohio 44707

To the Board of Directors:

We have audited the basic financial statements of the Canton City Schools Digital Academy, Stark County, Ohio, (the Academy) for the period December 16, 2003 through June 30, 2004, and have issued our report thereon dated January 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

#### Compliance

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

However, we noted an immaterial instance of noncompliance that we have reported to the Academy's management in a separate letter dated January 28, 2005.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2004-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

In addition, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Academy's management in a separate letter dated January 28, 2005.

This report is intended solely for the information and use of the management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 28, 2005

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2004**

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

**FINDING NUMBER 2004-001**

**Collection of Computer Equipment**

Each student enrolled in the Digital Academy is provided a computer. Upon receipt of the computer, the student is required to sign a liability form acknowledging their responsibility for the computer. After the student has completed their required coursework, the computer is to be returned to the Digital Academy.

During fiscal year 2004, 22 computers utilized by the Digital Academy but owned by Tri-Rivers Educational Computer Association (TRECA) were not returned by the respective student. In turn, the Digital Academy remitted \$21,600 to the Stark County Educational Service Center who in return forwarded the money to TRECA for the unreturned computers. Additionally, during fiscal year 2004, 12 computers owned by the Digital Academy were not returned by the respective student. While the Digital Academy has attempted to contact the student in an attempt to reacquire the computers, the Digital Academy has been unsuccessful. Finally, the Digital Academy has not taken further action in an attempt to recoup the computers.

The Digital Academy should make vigorous attempts to collect the computers that have not been returned. The Digital Academy should consider involving the local authorities or a collection agency to help locate and collect the computers that have not been returned to the Digital Academy.







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**CANTON CITY SCHOOLS 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**

**MARCH 15, 2005**