



**Auditor of State
Betty Montgomery**

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Kent Digital Academy
Portage County
321 North Depeyster Street
Kent, Ohio 44240

To the Governing Board:

We have audited the accompanying financial statements of Kent Digital Academy, Portage County, Ohio (the "Academy"), as of and for the year ended June 30, 2004, the initial audit of the Academy, which comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kent Digital Academy, Portage County, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 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, and contracts and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery
Auditor of State

December 30, 2005

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)**

This discussion and analysis of the Kent Digital Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis ("the MD & A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD & A. Subsequent reports will include comparative information.

Highlights

Kent Digital Academy opened for its first year of operation on August 29, 2003 as a kindergarten through twelfth grade community school.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how the Academy did financially during the fiscal year ended June 30, 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the initial period revenues and expenses regardless of when cash is received or paid.

These statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Academy has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

The Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)**

Table 1 provides a summary of the Academy's net assets as of June 30, 2004:

*Table 1
Net Assets*

| | <u>Net Assets</u> <u>2004</u> |
|--|----------------------------------|
| Assets: | |
| <i>Current and other assets</i> | \$ 205,621 |
| <i>Capital assets, net of depreciation</i> | <u>41,147</u> |
| <i>Total assets</i> | <u>246,768</u> |
| Liabilities: | |
| <i>Current and other liabilities</i> | <u>10,309</u> |
| Net Assets: | |
| <i>Invested in capital assets</i> | 41,147 |
| <i>Restricted</i> | 110,297 |
| <i>Unrestricted</i> | <u>85,015</u> |
| <i>Total net assets</i> | <u>\$ 236,459</u> |

Total assets were \$246,768. Cash amounted to \$130,621, State and federal grants receivable amounted to \$75,000 and net capital assets totaled \$41,147.

Total liabilities which consisted of accounts payable equaled \$10,309.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)**

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as a listing of revenues and expenses.

*Table 2
Changes in Net Assets*

| | 2004 |
|--------------------------------------|------------|
| Operating revenues: | |
| <i>Foundation payment</i> | \$ 154,096 |
| Non operating revenues: | |
| <i>State and federal grants</i> | 265,344 |
| <i>Interest earnings</i> | 67 |
| <i>Total revenues</i> | 419,507 |
| Operating expense: | |
| <i>Purchased services</i> | 186,215 |
| <i>Materials and supplies</i> | 4,507 |
| <i>Depreciation</i> | 6,559 |
| <i>Other</i> | 120 |
| <i>Total operating expenses</i> | 197,401 |
| <i>Net income</i> | 222,106 |
| <i>Net assets, beginning of year</i> | 14,353 |
| <i>Net assets, end of year</i> | \$ 236,459 |

Community schools receive no support from local taxes. The State Foundation Program and the Ohio Charter Schools Federal Sub-grant Program are the primary support for the Academy's existence.

Budgeting

The Academy is not required to follow the budgetary provision set forth in Ohio Revised Code Chapter 5705.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)**

Capital Assets

The Academy had \$41,147 invested in capital assets (net of accumulated depreciation). Capital assets consist of \$47,706 in furniture, fixtures and equipment. These capital assets were off-set by \$6,559 in accumulated depreciation resulted in net capital assets of \$41,147. See Note 5 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

Debt

The Academy did not incur any debt during the fiscal year ended June 30, 2004.

Current Financial Issues

The Academy's Board of Directors adopted a revised Five Year Budget Plan on May 11, 2004. This Plan projected a positive cash balance through June 30, 2008. Revenue projections were based on an annual enrollment of 25 students. The Plan also assumes the approval of a third \$150,000 federal sub grant. However, actual shortfalls from these revenue assumptions will negatively impact the Academy's future financial position.

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 any questions about this report or need additional information, contact Deborah A. Krutz, Treasurer, at Kent Digital Academy, 321 North Depeyster St. Kent, Ohio 44240.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

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

ASSETS

Current assets:

| | |
|--------------------------|----------------|
| Cash | \$ 130,621 |
| Receivables: | |
| State and federal grants | 75,000 |
| Total current assets | <u>205,621</u> |

Noncurrent assets:

| | |
|--|--------------------------|
| Capital assets, net of accumulated depreciation | <u>41,147</u> |
| Total assets | <u>\$ 246,768</u> |

LIABILITIES AND NET ASSETS

Current liabilities:

| | |
|------------------|------------------|
| Accounts payable | <u>\$ 10,309</u> |
|------------------|------------------|

Net assets:

| | |
|----------------------------|-----------------------|
| Invested in capital assets | 41,147 |
| Restricted | 110,297 |
| Unrestricted | 85,015 |
| Total net assets | <u><u>236,459</u></u> |

See accompanying notes to the basic financial statements.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

| | |
|---------------------------------------|-------------------|
| <u>Operating revenue:</u> | |
| State foundation | \$ 154,096 |
| Total operating revenue | <u>154,096</u> |
| <u>Operating expenses:</u> | |
| Purchased services | 186,215 |
| Materials and supplies | 4,507 |
| Depreciation | 6,559 |
| Other | 120 |
| Total operating expenses | <u>197,401</u> |
| Operating loss | <u>(43,305)</u> |
| <u>Non-operating revenues:</u> | |
| State and federal grants | 265,344 |
| Interest | 67 |
| Total non-operating revenues | <u>265,411</u> |
| Net income | 222,106 |
| Net assets at beginning of year | <u>14,353</u> |
| Net assets at end of year | <u>\$ 236,459</u> |

See accompanying notes to the basic financial statements.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

| | |
|---|---------------------------|
| Cash flows from operating activities: | |
| Cash from the State of Ohio | \$ 154,096 |
| Cash payments to suppliers for goods and services | (177,913) |
| Cash payment for other operating expenses | (5,963) |
| Net cash used for operating activities | <u>(29,780)</u> |
| Cash flows from noncapital financing activities: | |
| State and Federal grants | <u>190,344</u> |
| Net cash provided by noncapital financing activities | <u>190,344</u> |
| Cash flows from capital and related financing activities: | |
| Cash payments from capital acquisitions | <u>(44,950)</u> |
| Net cash used for capital and related financing activities | <u>(44,950)</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>67</u> |
| Net cash provided by investing activities | <u>67</u> |
| Net increase in cash | 115,681 |
| Cash at beginning of year | <u>14,940</u> |
| Cash at end of year | <u><u>\$ 130,621</u></u> |
| Reconciliation of operating loss to <u>net cash used for operating activities:</u> | |
| Operating loss | <u>\$ (43,305)</u> |
| Adjustments to reconcile operating loss to net cash used for operating activities: | |
| Depreciation | 6,559 |
| Increase (decrease) in liabilities: | |
| Accounts payable | <u>6,966</u> |
| Total adjustments | <u>13,525</u> |
| Net cash used for operating activities | <u><u>\$ (29,780)</u></u> |

See accompanying notes to the basic financial statements.

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**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Kent Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702 to educate students in kindergarten through twelfth grade. The 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 Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Board of Education of the Kent City School District (the Sponsor) for a period of five years commencing with fiscal year July 1, 2002 through June 30, 2003. The Academy operates under a five-member Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles 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 Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its basic financial statements provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the Academy's accounting policies.

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, including depreciation) 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.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

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 all liabilities are included on the balance sheet. 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 Academy's contract with the Sponsor. The contract between the Academy and the Sponsor, the Board of Education of the Kent City School District, does not prescribe a budgetary process for the Academy.

D. Cash

Cash received by the Academy is maintained in a demand deposit account.

E. 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 these estimates.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy capitalized all assets that were capital in nature. The Academy does not possess any infrastructure and does not capitalize interest costs.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture, fixtures, and equipment is computed using the straight-line method over estimated useful lives of five to ten years.

G. Tax Exemption Status

The Academy is a non-profit organization that, in the opinion of legal counsel, is exempt from federal income taxes due to the Academy's status as an integral part of its sponsoring political subdivision, the Kent City School District.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

H. Net Asset

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

I. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Other 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 fiscal year when use is 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.

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate enrollment data to the State, upon which State Foundation funding is calculated. This review resulted in no errors being identified.

In January 2005, the Ohio Department of Education conducted its final calculation of fiscal year 2004 State Foundation payments for community schools. The final calculation was based on updated enrollment data that was used subsequent to the June 2004 monthly payment. Based on that recalculation, an overpayment of \$1,671 in fiscal year 2004 State Foundation funding to the Academy was identified and corrected beginning with the February 2005 monthly payment.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the school was awarded \$180,000 in fiscal year 2004 to offset start up costs of the Academy. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

NOTE 3 - DEPOSITS

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At fiscal year end, the carrying amount of the Academy's deposits was \$130,621 and the bank balance was \$164,012. Federal depository insurance covered the total checking and the total time deposits of the Academy for a maximum of \$100,000 each. A pledged collateral pool was used by the bank to secure higher deposits in accordance with Ohio Revised Code Section 135.181(b). There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 - STATE AND FEDERAL GRANTS RECEIVABLE

Receivables at June 30, 2004 consisted of State and federal grants. All State and federal grants are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. The State and federal grants receivable consisted of a federal start up grant in the amount of \$75,000.

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

A summary of the Academy's fixed assets at June 30, 2004, follows:

| | <i>Balance 6/30/2003</i> | <i>Additions</i> | <i>Reductions</i> | <i>Balance 6/30/2004</i> |
|--|------------------------------|------------------|-------------------|------------------------------|
| <i>Furniture, Fixtures and Equipment</i> | \$ 2,756 | \$ 44,950 | \$ - | \$ 47,706 |
| <i>Less: Accumulated Depreciation</i> | - | (6,559) | - | (6,559) |
| <i>Net Capital Assets</i> | \$ 2,756 | \$ 38,391 | \$ - | \$ 41,147 |

NOTE 6 - PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors as follows:

| | |
|------------------------------------|------------|
| <i>Property Services</i> | \$ 2,616 |
| <i>Professional Services</i> | 183,259 |
| <i>Travel and Meeting Expenses</i> | 340 |
| <i>Total</i> | \$ 186,215 |

NOTE 7 – CONTRACT WITH TRECA

On January 16, 2003, the Academy entered into a contract, for the 2002-03 and 2003-04 school years, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract TRECA shall provide the Academy with instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational, assessment and accountability plans. All personnel providing services provided by TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to its employees. All personnel providing such services shall possess any certification or licensure which may be required by law.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 8 – CONTRACT WITH KENT CITY SCHOOL DISTRICT

The Community School Sponsorship Contract between Kent Digital Academy and Kent CSD provides for payments that the Academy had to make to the Kent CSD during fiscal year 2004. The payments totaled \$26,417 for supplies, facility use, and reimbursement of personnel costs for the services of Kent CSD employees who work directly with Kent Digital Academy.

NOTE 9 - RISK MANAGEMENT

Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the Academy contracted with a commercial insurance carrier for general liability insurance. There is a \$1,000 deductible and a \$1 million limit per occurrence and a general aggregate limit of \$2 million.

NOTE 10 – STARTUP PERIOD

The Kent Digital Academy was incorporated on October 29, 2002. The table below summarizes the Academy's start up activities from the period of its incorporation to June 30, 2003.

| | |
|--|------------------|
| <i>Start up receipts:</i> | |
| <i>State grants</i> | \$ 36,300 |
| <i>Federal grants</i> | <u>45,000</u> |
| <i>Total grants</i> | <u>81,300</u> |
| | |
| <i>Start up disbursements:</i> | |
| <i>Professional services</i> | (66,065) |
| <i>Materials and supplies</i> | (175) |
| <i>Other</i> | <u>(120)</u> |
| <i>Total start up expenses</i> | <u>(66,360)</u> |
| <i>Beginning cash balance</i> | <u>\$ 14,940</u> |
| | |
| <u>Summary of beginning balance</u> | |
| <i>Assets:</i> | |
| <i>Cash</i> | \$ 14,940 |
| <i>Capital assets</i> | <u>2,756</u> |
| <i>Total assets</i> | <u>\$ 17,696</u> |
| | |
| <i>Liabilities:</i> | |
| <i>Accounts payable</i> | <u>\$ 3,343</u> |
| | |
| <i>Net assets:</i> | |
| <i>Invested in capital assets</i> | 2,756 |
| <i>Restricted for other puposes</i> | <u>11,597</u> |
| <i>Total net assets</i> | <u>\$ 14,353</u> |

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 11 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 Academy at June 30, 2004.

B. Litigation

A lawsuit 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 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. On August 24, 2004, the Court of Appeals rendered a decision that the Community Schools are part of the state public educational systems and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. No oral argument has been set to date. The effect of this suit, if any, on the Academy is not presently determinable.

NOTE 12 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding 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 Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.



**Auditor of State
Betty Montgomery**

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

Kent Digital Academy
Portage County
321 North Depeyster Street
Kent, Ohio 44240

To the Board of Directors:

We have audited the financial statements of Kent Digital Academy (the "Academy") as of and for the year ended June 30, 2004, the initial audit of the Academy, which comprise the Academy's basic financial statements and have issued our report thereon dated December 30, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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, and contracts, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Kent Digital Academy
Portage County
Independent Accountants' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Required By *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Directors. It is not intended for 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

December 30, 2005



**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

KENT DIGITAL ACADMEY

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 21, 2006**