

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY**

**REGULAR AUDIT**

**FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006**



**Mary Taylor, CPA**  
Auditor of State



**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Canton Arts Academy Community School  
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 Arts Academy Community School, Stark County, Ohio, (the Academy) a component unit of the Canton City School District, for the period September 14, 2005 through June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canton Arts Academy Community School, for the period September 14, 2005 through June 30, 2006, and the changes in its financial position and its 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 19, 2007, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA  
Auditor of State

January 19, 2007

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006  
(UNAUDITED)

The discussion and analysis of the Canton Arts Academy Community School's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period September 14, 2005 through June 30, 2006. 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.

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 Statement 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. However, because this is the first fiscal year of financial reporting for the Academy, comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

### **Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets were \$195,706 at June 30, 2006.
- The Academy had operating revenues of \$534,516, operating expenses of \$576,277 and non-operating revenues of \$237,467 for the period September 14, 2005 through June 30, 2006. Total change in net assets for the period was an increase of \$195,706.

### **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 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 Academy, including all short-term and long-term financial resources and obligations.

### **Reporting the 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 2006?" 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 Academy's *net assets* and changes in those assets. This change in net assets 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 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.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006  
(UNAUDITED)**

The statement of cash flows provides information about how the 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.

The table below provides a summary of the Academy's net assets at June 30, 2006. Since this is the first year that the 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.

**Net Assets**

	<u>2006</u>
<b><u>Assets</u></b>	
Current assets	\$ 186,519
Capital assets, net	<u>102,256</u>
Total assets	<u>288,775</u>
<b><u>Liabilities</u></b>	
Current liabilities	<u>93,069</u>
Total liabilities	<u>93,069</u>
<b><u>Net Assets</u></b>	
Invested in capital assets	102,256
Restricted	82,699
Unrestricted	<u>10,751</u>
Total net assets	<u>\$ 195,706</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the Academy's net assets totaled \$195,706.

At year-end, capital assets represented 35.41% 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 ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

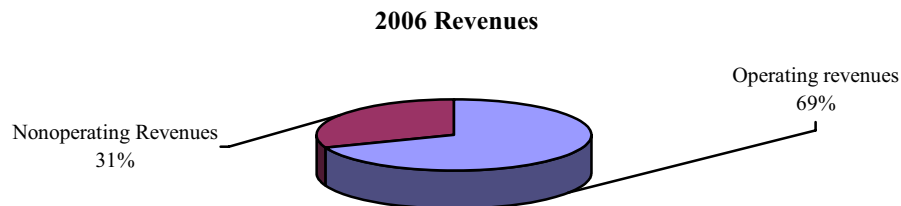
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006  
(UNAUDITED)

The table below shows the changes in net assets for fiscal 2006. Since this is the first year that the 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**

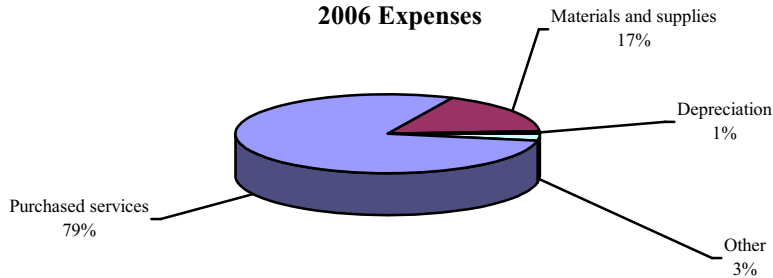
	<u>2006</u>
<b><u>Operating Revenues:</u></b>	
State foundation	\$ 527,814
Sales/charges for services	2,447
Other	<u>4,255</u>
Total operating revenue	<u>534,516</u>
<b><u>Operating Expenses:</u></b>	
Purchased services	455,849
Materials and supplies	97,406
Depreciation	6,682
Other	<u>16,340</u>
Total operating expenses	<u>576,277</u>
<b><u>Non-operating Revenues:</u></b>	
Federal and State grants	233,102
Miscellaneous	4,016
Interest income	<u>349</u>
Total non-operating revenues	<u>237,467</u>
Change in net assets	<u>\$ 195,706</u>

The charts below illustrate the revenues and expenses for the Academy for the period September 14, 2005 through June 30, 2006.



**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006  
(UNAUDITED)



**Capital Assets**

At June 30, 2006, the Academy had \$102,256 invested in furniture and computer equipment. See Note 4 to the basic financial statements for more detail on capital assets.

**Current Financial Related Activities**

The Academy is sponsored by Canton City School District. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality educational services to students.

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

**Contacting the Academy's Financial Management**

This financial report is designed to provide our clients 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 financial information contact Tim Pickana, Treasurer, Canton Arts Academy Community School, 617 McKinley Avenue SW, Canton, Ohio 44707.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

<b>Assets:</b>	
Current assets:	
Cash and cash equivalents . . . . .	\$ 125,984
Receivables:	
Intergovernmental . . . . .	60,522
Prepayments . . . . .	13
Total current assets . . . . .	186,519
Non-current assets:	
Capital assets, net. . . . .	102,256
Total assets . . . . .	288,775
<b>Liabilities:</b>	
Current:	
Accounts payable . . . . .	14,943
Intergovernmental payable . . . . .	78,126
Total liabilities . . . . .	93,069
<b>Net Assets:</b>	
Invested in capital assets . . . . .	102,256
Restricted for:	
Locally funded programs . . . . .	9,077
State funded programs . . . . .	3,179
Federally funded programs . . . . .	70,443
Unrestricted. . . . .	10,751
Total net assets . . . . .	\$ 195,706

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006

<b>Operating revenues:</b>	
State foundation. . . . .	\$ 527,814
Sales/charges for services . . . . .	2,447
Other. . . . .	<u>4,255</u>
 Total operating revenues . . . . .	 <u>534,516</u>
<b>Operating expenses:</b>	
Purchased services. . . . .	455,849
Materials and supplies . . . . .	97,406
Depreciation . . . . .	6,682
Other . . . . .	<u>16,340</u>
Total operating expenses. . . . .	<u>576,277</u>
 Operating loss. . . . .	 <u>(41,761)</u>
<b>Non-operating revenues:</b>	
Federal and State grants. . . . .	233,102
Miscellaneous. . . . .	4,016
Interest income . . . . .	<u>349</u>
Total non-operating revenues . . . . .	<u>237,467</u>
 Change in net assets . . . . .	 195,706
 <b>Net assets at beginning of period . . . . .</b>	 <u>-</u>
<b>Net assets at end of period . . . . .</b>	<b><u>\$ 195,706</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006

<b>Cash flows from operating activities:</b>	
Cash received from State foundation. . . . .	\$ 527,852
Cash received from sales/charges for services. . . . .	2,447
Cash received from other operations . . . . .	4,255
Cash payments to suppliers for goods and services . . . . .	(372,046)
Cash payments for materials and supplies . . . . .	(91,178)
Cash payments for other expenses . . . . .	(16,353)
	<hr/>
Net cash provided by operating activities . . . . .	54,977
<b>Cash flows from noncapital financing activities:</b>	
Federal and state grants. . . . .	172,580
Cash received from non-operating revenues . . . . .	4,016
	<hr/>
Net cash provided by noncapital financing activities . . . . .	176,596
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	(105,938)
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Net cash used in capital and related financing activities . . . . .	(105,938)
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	349
	<hr/>
Net cash provided by investing activities . . . . .	349
Net increase in cash and cash equivalents . . . . .	125,984
<b>Cash and cash equivalents at beginning of period . . . . .</b>	<b>-</b>
<b>Cash and cash equivalents at end of period. . . . .</b>	<b>\$ 125,984</b>
	<hr/> <hr/>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss. . . . .	\$ (41,761)
Adjustments:	
Depreciation. . . . .	6,682
Changes in assets and liabilities:	
(Increase) in prepayments . . . . .	(13)
Increase in accounts payable. . . . .	11,943
Increase in intergovernmental payable. . . . .	78,126
	<hr/>
Net cash provided by operating activities . . . . .	<b>\$ 54,977</b>
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**Non-cash transactions:**

At June 30, 2006, the Canton Arts Academy had \$3,000 in capital assets purchased on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE ACADEMY**

The Canton Arts Academy Community School (the "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 3-8. The Academy, which is part of the State's education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the Canton City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy is designed to meet the academic and mental health needs of students, grades 3 through 8, ages 9 through 14, who have an interest in visual and music arts. The Academy seeks to promote a lifelong love of learning for students who are gifted in the arts, or who are responsive to the arts. This will be accomplished through an integrated arts and health-oriented curriculum that uses the creative spirit of each student and the passion of its staff as means of promoting achievement in any academic or artistic endeavor. In addition to a healthy dietary approach to learning, the Academy will initiate a physical education program based upon martial arts. In conjunction with visual art, music, dance, drama, and a healthy food program, martial arts foster principles that affect the whole student. This holistic child-centered approach empowers students to make viable choices, enjoy good health and adopt a sustainable positive approach toward learning and personal achievement. The Academy uses the services of the Sponsor to assist with overall operations.

The Academy was approved under contract with the Sponsor for a period of five years commencing July 1, 2005 through July 31, 2010 after which, the Academy must apply for an additional contract with the Sponsor. The Academy began operations on September 14, 2005. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operates under the direction of a Board of Directors (the "Governing Authority"). The Governing Authority shall have among its voting members one person serving as the representative of the Sponsor. In addition, the voting members of the Governing Authority shall include not more than six other persons who are neither officers nor employees of the Sponsor. No person may become a voting member of the Governing Authority without prior approval of the Sponsor. Attempts are made to elect members representing community arts organizations that desire to further the establishment and operation of the Academy and parents served by the Academy. The Governing Authority 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 Sponsor, under a purchased services basis with the Academy, provides planning, instructional, administrative and technical services. Personnel providing services to the 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 Academy provides services to approximately 83 students.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE ACADEMY – (Continued)**

Under the contract between the Academy and the Sponsor, the Academy is required to pay the Sponsor three percent (3%) from the funding provided to the Academy by the Ohio Department of Education as an administrative fee. In addition, in the event that the Sponsor provides substantially all of the special education and services required by an IEP, the Academy shall pay the Sponsor the funds the Academy received from the Ohio Department of Education on account of such student, except that the Academy may retain sufficient funds to cover its actual costs related to such student, if any. Any other payments from the Academy to the Sponsor shall be mutually agreed upon between the Academy and the Sponsor.

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

The basic financial statements (BFS) of the 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 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 Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The 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 Academy's contract with its Sponsor, except for Ohio Revised Code Section 5705.391 as it relates to five year forecasts. The contract between the Academy and its Sponsor 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.



**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006

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

**D. Cash**

All monies received by the 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 Academy maintains a capitalization threshold of \$500. The 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.

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. Furniture and equipment is depreciated over five years to ten 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. Net assets have been restricted for local, state and federally funded programs.

The Academy 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 expense is reported in the year in which services are consumed.

**H. 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.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006

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

**I. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Program through the Ohio Department of Education and a State of Ohio start up grant. Revenues from these programs are 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 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 Academy received the State of Ohio Educational Management Information Systems (EMIS) and the Federal Title VI-B grants during the period September 14, 2005 through June 30, 2006.

**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.

**NOTE 3 - DEPOSITS**

At June 30, 2006, the carrying amount of the Academy's deposits was \$125,984. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2006, \$88,589 of the Academy's bank balance of \$188,589 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the period September 14, 2005 through June 30, 2006, was as follows:

	Balance at <u>September 14, 2005</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>June 30, 2006</u>
Furniture and equipment	\$ -	\$ 108,938	\$ -	\$ 108,938
Less: accumulated depreciation	-	(6,682)	-	(6,682)
Capital assets, net	<u>\$ -</u>	<u>\$ 102,256</u>	<u>\$ -</u>	<u>\$ 102,256</u>

**NOTE 5 - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For the period September 14, 2005 through June 30, 2006, the Academy was named on the Sponsor's policy for property and general liability insurance. The 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 6 - PURCHASED SERVICES**

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Professional and technical services	\$ 452,399
Property services	4
Travel, mileage and meetings	1,996
Communications	290
Contracted craft or trade services	469
Pupil transportation	691
Total	<u>\$ 455,849</u>

**NOTE 7 - 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 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, 2006.

**B. Litigation**

A suit was filed in the U.S. District Court, Southern District of Ohio, Western Division on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the Canton Arts Academy Community School is not presently determinable.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL  
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE PERIOD SEPTEMBER 14, 2005 THROUGH JUNE 30, 2006**

**NOTE 7 – CONTINGENCIES – (Continued)**

**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 Academy did have a review for fiscal year 2006 which resulted in \$38 being owed to the Ohio Department of Education. This amount is reported as an “intergovernmental payable” on the financial statements at June 30, 2006.

**NOTE 8 – RELATED PARTY TRANSACTIONS**

For the fiscal period ended June 30, 2006, the Academy had expenses of \$535,297 to their sponsor.



# Mary Taylor, CPA

Auditor of State

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

Canton Arts Academy Community School  
Stark County  
617 McKinley Avenue SW  
Canton, Ohio 44707

To the Board of Directors:

We have audited the financial statements of the Canton Arts Academy Community School, Stark County, Ohio, (the Academy) a component unit of the Canton City School District, for the period September 14, 2005 through June 30, 2006, and have issued our report thereon dated January 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures 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. In a separate letter to the Academy's management dated January 19, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Academy's management dated January 19, 2007, we reported other matters related to noncompliance we deemed immaterial.

Canton Arts Academy Community School  
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Independent Accountants' Report on Internal Control Over  
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Required by *Government Auditing Standards*  
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We intend this report solely for the information and use of the 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA  
Auditor of State

January 19, 2007



**Mary Taylor, CPA**  
Auditor of State

**CANTON ARTS ACADEMY COMMUNITY SCHOOL**

**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 20, 2007**