

**Mary Taylor, CPA**  
Auditor of State



EAST CANTON DIGITAL ACADEMY  
STARK COUNTY

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

East Canton Digital Academy  
Stark County  
310 Browning Street  
East Canton, Ohio 44730

To the Board of Directors:

We have audited the accompanying basic financial statements of the East Canton Digital Academy, Stark County, Ohio, (the Academy) a component unit of the Osnaburg Local School District, as of and for the year ended June 30, 2007, 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 respective financial position of the East Canton Digital Academy, Stark County, Ohio, as of June 30, 2007, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the Academy suspended operations effective June 30, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2008, 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 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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

January 4, 2008

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

The discussion and analysis of the East Canton Digital Academy (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- In total, net assets were \$89,918 at June 30, 2007.
- The Academy had operating revenues of \$155,797 and operating expenses of \$167,281 for fiscal year 2007. The Academy also received \$3,000 in state grants and \$60 in interest income during fiscal year 2007. Total change in net assets for the fiscal year was a decrease of \$8,424.

**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 2007?" 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 will take 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.

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.

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

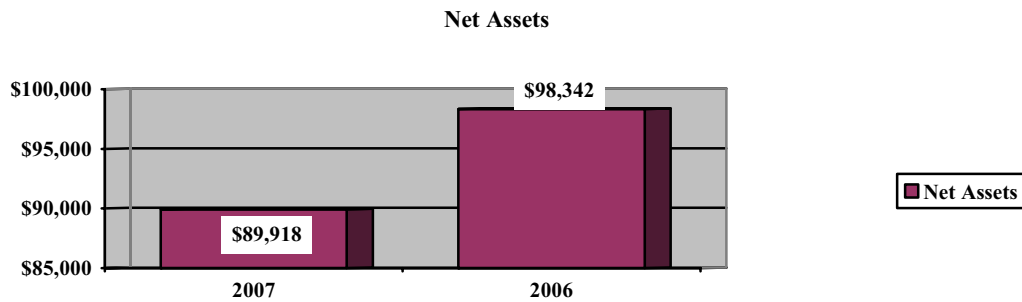
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)**

The table below provides a summary of the Academy's net assets for fiscal year 2007 and 2006.

<b>Net Assets</b>		
	2007	2006
<b><u>Assets</u></b>		
Current assets	\$ 12,893	\$ 4,246
Capital assets, net	78,011	104,287
Total assets	90,904	108,533
<b><u>Liabilities</u></b>		
Current liabilities	986	10,191
Total liabilities	986	10,191
<b><u>Net Assets</u></b>		
Invested in capital assets	78,011	104,287
Unrestricted (deficit)	11,907	(5,945)
Total net assets	\$ 89,918	\$ 98,342

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Academy's net assets totaled \$89,918.

At year-end, capital assets represented 85.82% of total assets. Capital assets consisted of furniture and 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.





**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)

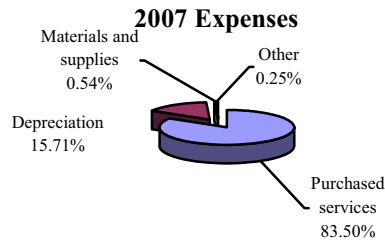
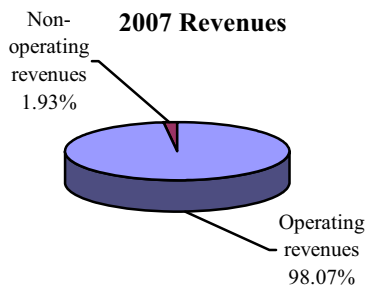
The table below shows the changes in net assets for fiscal year 2007 and 2006.

**Change in Net Assets**

	<u>2007</u>	<u>2006</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 155,797	\$ 142,585
Total operating revenue	<u>155,797</u>	<u>142,585</u>
<b><u>Operating Expenses:</u></b>		
Purchased services	139,676	222,049
Materials and supplies	909	39,807
Depreciation	26,276	18,537
Other	<u>420</u>	<u>645</u>
Total operating expenses	<u>167,281</u>	<u>281,038</u>
<b><u>Non-operating revenues (expenses):</u></b>		
Federal and state grants	3,000	161,584
Interest income	60	94
Loss on disposal of capital asset	<u>-</u>	<u>(875)</u>
Total non-operating revenues (expenses)	<u>3,060</u>	<u>160,803</u>
Change in net assets	(8,424)	22,350
Net assets at beginning of year	<u>98,342</u>	<u>75,992</u>
Net assets at end of year	<u>\$ 89,918</u>	<u>\$ 98,342</u>

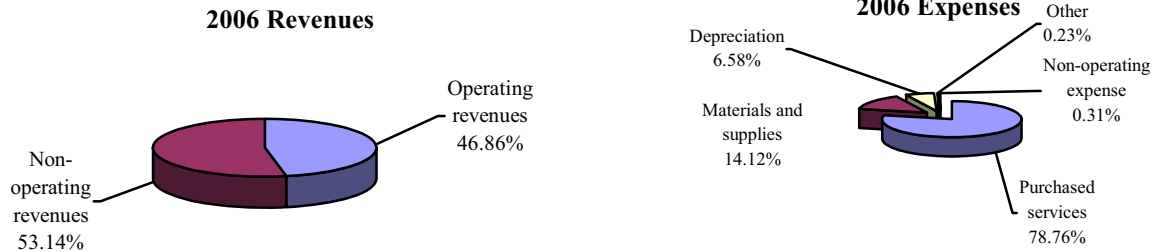
The decrease in net assets can be attributed to the Academy not receiving any federal grants during fiscal year 2007. Accordingly, operating expenses decreased, but not by enough to be offset by current year operating and non-operating revenues.

The charts below illustrate the revenues and expenses for the Academy during fiscal year 2007 and 2006.



**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)**



***Capital Assets***

At June 30, 2007, the Academy had \$78,011 invested in furniture and equipment. See Note 4 to the basic financial statements for more detail on capital assets.

**Current Financial Related Activities**

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

In June 2007 the Osnauburg Local Board of Education suspended the operation of the Academy due to lack of new funding due to declining enrollment. The Ohio Department of Education has informed the Academy and the Sponsor that the Academy should be closed.

**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: Ms. Christine Robenstine, Treasurer, Osnauburg Local School District, 310 Browning Street, East Canton, Ohio 44730.

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2007

<b>Assets:</b>	
Current assets:	
Equity in pooled cash and cash equivalents. . .	\$ 986
Receivables:	
Intergovernmental. . . . .	<u>11,907</u>
Total current assets . . . . .	<u>12,893</u>
Non-current assets:	
Capital assets, net. . . . .	<u>78,011</u>
Total assets . . . . .	<u>90,904</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable . . . . .	<u>986</u>
Total current liabilities . . . . .	<u>986</u>
<b>Net Assets:</b>	
Invested in capital assets . . . . .	78,011
Unrestricted . . . . .	<u>11,907</u>
Total net assets . . . . .	<u><u>\$ 89,918</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 155,797
Total operating revenues. . . . .	<u>155,797</u>
 <b>Operating expenses:</b>	
Purchased services. . . . .	139,676
Materials and supplies . . . . .	909
Depreciation . . . . .	26,276
Other . . . . .	420
Total operating expenses. . . . .	<u>167,281</u>
 Operating loss . . . . .	 <u>(11,484)</u>
 <b>Non-operating revenues:</b>	
State grants . . . . .	3,000
Interest income . . . . .	60
Total non-operating revenues . . . . .	<u>3,060</u>
 Change in net assets . . . . .	 (8,424)
 <b>Net assets at beginning of year . . . . .</b>	 <u>98,342</u>
<b>Net assets at end of year . . . . .</b>	<b><u><u>\$ 89,918</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Cash flows from operating activities:</b>	
Cash received from State foundation. . . . .	\$ 143,890
Cash payments for other expenses. . . . .	(420)
Cash payments to suppliers for goods and services . . . . .	(148,881)
Cash payments for materials and supplies . . . . .	<u>(909)</u>
Net cash used in operating activities . . . . .	<u>(6,320)</u>
<b>Cash flows from noncapital financing activities:</b>	
State grants. . . . .	<u>3,000</u>
Net cash provided by noncapital financing activities . . . . .	<u>3,000</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>60</u>
Net cash provided by investing activities . . . . .	<u>60</u>
Net decrease in cash and cash equivalents . . . . .	(3,260)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>4,246</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u><u>\$ 986</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss . . . . .	\$ (11,484)
Adjustments:	
Depreciation. . . . .	26,276
Changes in assets and liabilities:	
Increase in intergovernmental receivable . . . . .	(11,907)
Decrease in accounts payable . . . . .	<u>(9,205)</u>
Net cash used in operating activities . . . . .	<u><u>\$ (6,320)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 1 - DESCRIPTION OF THE SCHOOL**

The East Canton Digital Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.02. The Academy is an approved tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect their tax exempt status. The Academy's objective is to provide equal opportunity and access to all students to meet their needs in a challenging, supportive environment. It is to be operated in cooperation with the Osnaburg Local School District to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and other, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. The Academy, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. The Academy may acquire facilities as needed and contract for any services necessary for the operation of the school.

The Academy was certified by the State of Ohio Secretary of State as a non-profit organization on February 11, 2003 and began operations on March 24, 2004. The Academy was approved for operation under a contract with the Osnaburg Local School District (the "Sponsor") for a five year period commencing July 1, 2003. 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 five member Board of Directors made up of members appointed by the Osnaburg Local School District Board of Education; therefore, the Academy is a component unit of Osnaburg Local School District. The Board of Directors consists of the Osnaburg Local School District superintendent, the principals of the Osnaburg High School, Middle and Elementary Schools, a teacher with the Osnaburg Local School District, and a member of the local community appointed by the Board of Directors. The treasurer and any members of the Osnaburg Local School District's Board of Education that may be appointed shall be a non-voting ex officio member of Academy's Board of Directors. The Board of Directors 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 qualifications of teachers. The Superintendent of Osnaburg Local School District is the Chief Administrative Officer of Academy and the Treasurer of Osnaburg Local School District is the Chief Financial Officer.

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 twenty-five students.

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

The basic financial statements (BFS) of the Academy has 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.

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**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 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 School's contract with its Sponsor, except for the 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.

**D. Cash and Investments**

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 disposals during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$750. 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 are depreciated over five to twenty years.



**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

**F. 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.

**G. Intergovernmental Revenue**

The Academy currently participates in the State Foundation Program and the Education Management Information System Grant Program through the Ohio Department of Education. Revenues received from these programs are recognized as operating revenues in the accompanying financial statements. 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.

**H. 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.

**I. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation.

**NOTE 3 - DEPOSITS**

At June 30, 2007, the carrying amount of the Academy's deposits was \$986 and the bank balance was \$974. Based on the criteria described in GASB Statement No. 40, "Deposits and Investments Risk Disclosures", the entire bank balance was covered by federal depository insurance.

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.

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 4 - CAPITAL ASSETS**

A summary of capital assets at June 30, 2007 follows:

	Balance				Balance
	<u>6/30/06</u>	Additions	Disposals		<u>6/30/07</u>
Furniture and equipment	\$ 134,161	\$ -	\$ -		\$ 134,161
Less: accumulated depreciation	<u>(29,874)</u>	<u>(26,276)</u>	<u>-</u>		<u>(56,150)</u>
Net capital assets	<u>\$ 104,287</u>	<u>\$ (26,276)</u>	<u>\$ -</u>		<u>\$ 78,011</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 employees; and natural disasters. The Academy is named as an additional insured party on Osnaburg Local School District's, the Sponsor, insurance policy with Indiana Insurance Company for general liability insurance and property insurance. The entire risk of loss; less any deductibles, transfers to the commercial carrier. The following limits and deductibles are in aggregate for both Academy and the Sponsor. Indiana Insurance Company provides general liability coverage. The general liability coverage insures up to \$5,000,000 each occurrence and \$5,000,000 aggregate.

Indiana Insurance Company also provides property, crime, and equipment breakdown insurance coverage.

**NOTE 6 - CONTINGENCIES**

**A. Grants**

The Academy received financial assistance from state agencies in the form of grants. The expense of funds received under these programs generally requires compliance with terms and conditions, specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. 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, 2007.

**B. Litigation**

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #: 3:04CV197* was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 7 - SERVICE CONTRACT**

**Osnaburg Local School District**

The Community School Sponsorship Contract between the Academy and Osnaburg Local School District outlined the specific payments to be made by the Academy to Osnaburg Local School District during fiscal year 2007. In addition the Community School Sponsorship Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to the Academy by Osnaburg Local School District. The following payments were made in fiscal year 2007 from the Academy to Osnaburg Local School District:

Professional and technical services	\$ 10,048
Property services	30,558
Tuition	<u>99,070</u>
 Total	 <u>\$ 139,676</u>

The above transactions are related party transactions since these services are purchased through the Sponsor.

**NOTE 8 - FULL TIME EQUIVALENCY**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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 Ohio Department of Education's review of fiscal year 2007 has resulted in an underpayment of \$11,907 in State funding which is presented in the financial statements as a receivable.

**NOTE 9 - PENSION PLANS**

The Academy has contracted with its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the Academy of the obligation for remitting pension contributions. The retirement systems consider the Academy as the Employer-of-Record and the Academy is ultimately responsible for remitting contributions to each of the systems noted below:

**A. School Employees Retirement System**

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 9 - PENSION PLANS - (Continued)**

Plan members are required to contribute 10 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS were paid through the Academy's Sponsor. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,080, \$639 and \$0, respectively; 37.13 percent has been contributed for fiscal year 2007 and 100 percent for fiscal year 2006.

**B. State Teachers Retirement System of Ohio**

The Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 9 - PENSION PLANS - (Continued)**

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Academy's required contributions for pension obligations to STRS Ohio were paid through the Academy's Sponsor. The Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$5,985, \$6,714 and \$6,158, respectively; 81.66 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$460 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the Academy, the amount contributed to fund health care benefits, during the 2007 fiscal year equaled \$336.

**EAST CANTON DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)**

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**NOTE 11 - SUSPENDED OPERATIONS**

On June 6, 2007, the Board approved to suspend operations effective June 30, 2007 due to lack of new funding due to declining enrollment. The contract with the Sponsor expired June 30, 2007. The Ohio Department of Education has informed the Academy and the Sponsor that the Academy should be closed.



# 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*

East Canton Digital Academy  
Stark County  
310 Browning Street  
East Canton, Ohio 44730

To the Board of Directors:

We have audited the financial statements of the East Canton Digital Academy, Stark County, Ohio, (the Academy) a component unit of the Osnauburg Local School District, as of and for the year ended June 30, 2007, and have issued our report thereon dated January 4, 2008, in which we noted the Academy suspended its operations as of June 30, 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **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*.

We did note a certain noncompliance or other matter that we reported to the Academy's management in a separate letter dated January 4, 2008.

We intend this report solely for the information and use of management, the Board of Directors, and the East Canton Digital Academy's Sponsor (the Osnaburg Local School District). We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

January 4, 2008





**Mary Taylor, CPA**  
Auditor of State

**EAST CANTON 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 13, 2008**