

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

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2005**

A. MICHAEL BICHSEL, TREASURER



**Auditor of State
Betty Montgomery**

Board of Directors
Canton Local Digital Academy
4526 Ridge Avenue, S.E.
Canton, Ohio 44707

We have reviewed the *Independent Auditor's Report* of the Canton Local Digital Academy, Stark County, prepared by Julian and Grube, Inc., for the audit period July 1, 2004 to June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Canton Local Digital Academy is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 27, 2005

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Stark County, Ohio
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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Board of Directors
Canton Local Digital Academy
4526 Ridge Avenue, S.E.
Canton, Ohio 44707

We have audited the accompanying financial statements of Canton Local Digital Academy (the "Digital Academy"), Stark County, Ohio, a component unit of Canton Local School District, as of and for the fiscal year ended June 30, 2005, which collectively comprise the Digital Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Digital 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 respective financial position of the Canton Local Digital Academy, as of June 30, 2005, and the changes in financial position and its cash flows for the fiscal 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 November 9, 2005, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Julian & Grube, Inc.

Julian & Grube, Inc.
November 9, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The discussion and analysis of the Canton Local Digital Academy's (the "Digital Academy") financial performance provides an overall review of the Digital Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Digital Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Digital Academy's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets were \$120,879 at June 30 2005.
- The Digital Academy had operating revenues of \$200,977, operating expenses of \$257,292 and non-operating revenues of \$3,000 for fiscal year 2005. Total change in net assets for the fiscal year was a decrease of \$53,315.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Digital Academy's financial activities. The *Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets* provide information about the activities of the Digital Academy, including all short-term and long-term financial resources and obligations.

Reporting the Digital Academy's Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2005?" 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 Digital Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Digital Academy as a whole, the *financial position* of the Digital Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The table below provides a summary of the Digital Academy's net assets for fiscal year 2005 and 2004.

	Net Assets	
	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current assets	\$ 120,879	\$ 175,288
Total assets	<u>120,879</u>	<u>175,288</u>
<u>Liabilities</u>		
Current liabilities	<u>-</u>	<u>1,094</u>
Total liabilities	<u>-</u>	<u>1,094</u>
<u>Net Assets</u>		
Restricted	23,028	-
Unrestricted	<u>97,851</u>	<u>174,194</u>
Total net assets	<u>\$ 120,879</u>	<u>\$ 174,194</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Digital Academy's net assets totaled \$120,879.

A portion of the Digital Academy's net assets, \$23,028, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$97,851 may be used to meet the Digital Academy's ongoing obligation to the students and creditors.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

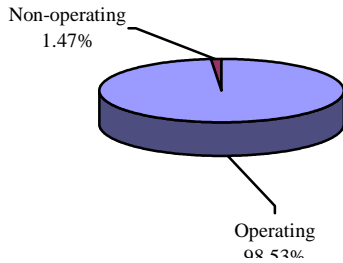
The table below shows the changes in net assets for fiscal year 2005 and 2004.

Change in Net Assets

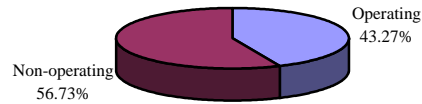
	<u>2005</u>	<u>2004</u>
<u>Operating Revenues:</u>		
State foundation	\$ 191,399	\$ 114,409
Other	9,578	-
Total operating revenue	<u>200,977</u>	<u>114,409</u>
<u>Operating Expenses:</u>		
Purchased services	212,196	90,207
Materials and supplies	40,697	-
Other	4,399	7
Total operating expenses	<u>257,292</u>	<u>90,214</u>
<u>Non-operating Revenues (Expenses):</u>		
Federal and State grants	3,000	150,000
Total non-operating revenues (expenses)	<u>3,000</u>	<u>150,000</u>
Change in net assets	(53,315)	174,195
Net assets at beginning of year	<u>174,194</u>	<u>(1)</u>
Net assets at end of year	<u>\$ 120,879</u>	<u>\$ 174,194</u>

The charts below illustrate the revenues and expenses for the Digital Academy during fiscal 2005 and 2004.

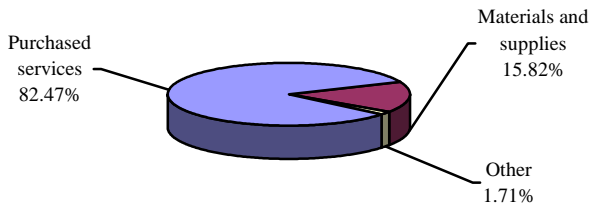
2005 Revenues



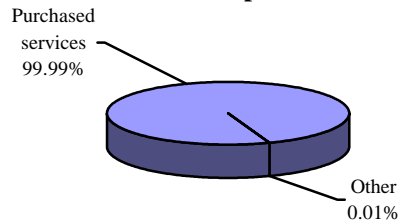
2004 Revenues



2005 Expenses



2004 Expenses



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

Current Financial Related Activities

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

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

Contacting the Digital Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Digital Academy's finances and to show the Digital Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. A. Michael Bichsel, Treasurer, Canton Local Digital Academy, 4526 Ridge Avenue, Canton, Ohio 44707.

**BASIC
FINANCIAL STATEMENTS**

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

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

Assets:	
Current assets:	
Cash and cash equivalents.	\$ 108,890
Receivables:	
Intergovernmental.	<u>11,989</u>
Total assets	<u>120,879</u>
Net Assets:	
Restricted for:	
State funded programs.	3,000
Federally funded programs.	20,028
Unrestricted.	<u>97,851</u>
Total net assets	<u><u>\$ 120,879</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Operating revenues:	
State foundation.	\$ 191,399
Other.	9,578
Total operating revenues	<u>200,977</u>
 Operating expenses:	
Purchased services.	212,196
Materials and supplies	40,697
Other	4,399
Total operating expenses.	<u>257,292</u>
 Operating loss	 <u>(56,315)</u>
 Non-operating revenues:	
Federal and state grants	<u>3,000</u>
Total non-operating revenues	<u>3,000</u>
 Change in net assets	 (53,315)
 Net assets at beginning of year	 <u>174,194</u>
Net assets at end of year	<u><u>\$ 120,879</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Cash flows from operating activities:	
Cash received from State foundation	\$ 191,399
Cash received from other operations	9,578
Cash payments to suppliers for goods and services	(213,290)
Cash payments for materials and supplies	(40,697)
Cash payments for other expenses	<u>(4,399)</u>
Net cash used in operating activities	<u>(57,409)</u>
Cash flows from noncapital financing activities:	
Federal and state grants	<u>116,011</u>
Net cash provided by noncapital financing activities	<u>116,011</u>
Net increase in cash and cash equivalents	58,602
Cash and cash equivalents at beginning of year	<u>50,288</u>
Cash and cash equivalents at end of year	<u><u>\$ 108,890</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
operating activities:	
Operating loss	\$ (56,315)
Changes in assets and liabilities:	
Decrease in accounts payable	<u>(1,094)</u>
Net cash used in operating activities	<u><u>\$ (57,409)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE DIGITAL ACADEMY

The Canton Local Digital Academy (the "Digital Academy") is a non-profit 501(c)(3) corporation established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Canton Local School District (the "Sponsor") addressing the needs of students in grades K-12. The Digital Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices and all other operations. The Digital Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Digital Academy. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Digital Academy's tax-exempt status. The Digital Academy is considered a component unit of the Canton Local School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39.

The Digital Academy provides opportunities for students who desire a program of online instruction in an independent environment that does not include most ancillary components of a more traditional education. The Digital Academy uses the latest technology to reach a diverse student population. This population includes students within the Sponsor's district that have specific career interests in a technology field. The students may be children who need an alternative to the traditional classroom. Enrollment is limited to students within the attendance area of the Sponsor. The Digital Academy uses the services of the Sponsor and the Stark-Portage Area Computer Consortium (SPARCC) to assist with overall programming and operations.

The Digital Academy was approved under contract with the Sponsor for a period of five years commencing July 1, 2002 through June 30, 2007 after which, the Digital Academy must apply for an additional contract with the Sponsor. The Digital Academy began operations on January 13, 2004. The Sponsor is responsible for evaluating the performance of the Digital Academy and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of the Digital Academy.

The Digital Academy operates under the direction of a five-member Board of Directors. The Board is composed of the Sponsor's Superintendent, together with two other licensed administrators who are employed by the Sponsor. The Board also includes two other persons who are neither officers nor staff members of the Digital Academy or Sponsor to serve as voting members. One of these members is a public educator and the other is the Director of SPARCC. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers.

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Digital Academy's contract with its Sponsor. The contract between the Digital Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

E. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Digital Academy applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

F. Intergovernmental Revenue

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Digital Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Digital Academy on a reimbursement basis. Federal and State grants for the fiscal year 2005 received by the Digital Academy was \$3,000.

G. Operating Revenues and Expenses

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

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.

NOTE 3 - DEPOSITS

At June 30, 2005, the carrying amount of the Digital Academy's deposits was \$108,890 and the bank balance was \$122,699. Of the bank balance, \$100,000 was covered by federal depository insurance with the remaining \$22,699 being uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Digital Academy to a successful claim by the FDIC.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - RECEIVABLES

The Digital Academy participates in the Federal Charter School Grant Program through the Ohio Department of Education. The Digital Academy was awarded \$150,000 for fiscal year 2006 under this program. Of this total, \$25,000 was received by June 30, 2004, \$113,011 was received by June 30, 2005 and the remaining balance of \$11,989 is being recorded as an intergovernmental receivable at June 30, 2005.

NOTE 5 - RISK MANAGEMENT

The Digital Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2005, the Digital Academy was named on the Sponsor's policy for property and general liability insurance. The Digital Academy provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2005, purchased services expenses were as follows:

Professional and technical services	\$ 79,927
Tuition	1,094
Instructional services	112,225
Travel and meetings	<u>18,950</u>
Total	<u>\$ 212,196</u>

NOTE 7 - SERVICE AGREEMENT

The Community School Sponsorship Contract (the "Contract") between the Digital Academy and the Sponsor outlined the specific payments to be made by the Digital Academy to the Sponsor during fiscal year 2005. The Contract stated that the two parties agreed to pay mutually agreed upon amounts, including fees for any services provided to the Digital Academy by the Sponsor. The following payments were made in fiscal year 2005 from the Digital Academy to the Sponsor:

Educational services	\$184,980
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Additionally, the Contract allows, based on mutual agreement, for the payment of \$150 per student per year from the Digital Academy to the Sponsor, in accordance with Ohio Revised Code 3314.08.

NOTE 8 - SCHOOL FUNDING DECISION

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 9 - CONTINGENCIES

A. Grants

The Digital Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Digital Academy at June 30, 2005.

B. Litigation

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

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Digital Academy was reviewed two times during this initial year of operations and zero errors were found in enrollment, withdrawals and attendance. The Digital Academy does not anticipate any significant adjustments to state funding for fiscal year 2006, as a result of the reviews which have yet to be completed.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

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

A. School Employees Retirement System

The Digital Academy's Sponsor contributes on behalf of the Digital Academy to the School Employees Retirement System of Ohio (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 State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for the fiscal year 2005, 10.57% of annual covered salary was the portion to fund pension obligations. For fiscal year 2004, 9.09% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Digital Academy's required contributions for pension obligations for fiscal year 2005 and the period January 13, 2004 through June 30, 2004 were paid by the Digital Academy's Sponsor.

B. State Teachers Retirement System

The Digital Academy's Sponsor contributes on behalf of the Digital Academy to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer defined benefit pension plan. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during the fifth year of membership unless they permanently select the DC or Combined Plan

For the fiscal year 2005, plan members were required to contribute 10% of their annual covered salaries. The Academy was required to contribute 14%; 13% was the portion used to fund pension obligations. As a comparison, 13% was used to fund pension obligations in 2004. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The Academy's required contributions for pension obligations to STRS for fiscal year 2005 and the period January 13, 2004 through June 30, 2004 were paid by the Digital Academy's Sponsor.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - POSTEMPLOYMENT BENEFITS

The Digital Academy provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. The Digital Academy's costs were paid by the Digital Academy's Sponsor.



Julian & Grube, Inc.
Serving Ohio Local Governments

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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Board of Directors
Canton Local Digital Academy
4526 Ridge Avenue, S.E.
Canton, Ohio 44707

We have audited the financial statements of the Canton Local Digital Academy (the “Digital Academy”), Stark County, Ohio, a component unit of Canton Local School District, as of and for the fiscal year ended June 30, 2005, and have issued our report thereon dated November 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Canton Local Digital Academy’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Canton Local Digital Academy’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Julian & Grube, Inc.
November 9, 2005



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**CANTON LOCAL 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
DECEMBER 30, 2005**