



**EAST CANTON DIGITAL ACADEMY
STARK COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**EAST CANTON DIGITAL ACADEMY
STARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

East Canton Digital Academy
Stark County
310 East 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, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the School'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 the East Canton Digital Academy, as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2006, 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, these reports describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. These reports are 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 applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

April 20, 2006

**EAST CANTON 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 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, 2005. 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 2005 are as follows:

- In total, net assets were \$75,992 at June 30 2005.
- The Academy had operating revenues of \$164,452 and operating expenses of \$299,996 for fiscal year 2005. The Academy also received \$153,000 in federal and state grants and \$189 in interest income during fiscal year 2005. Total change in net assets for the fiscal year was an increase of \$17,645.

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 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 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**

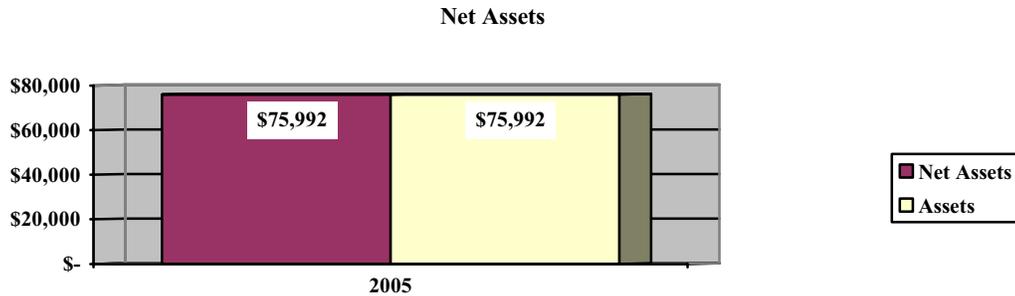
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The table below provides a summary of the Academy's net assets for fiscal year 2005. 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	
	2005
<u>Assets</u>	
Current assets	\$ 29,686
Capital assets, net	46,306
Total assets	75,992
<u>Net Assets</u>	
Invested in capital assets	46,306
Unrestricted	29,686
Total net assets	\$ 75,992

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Academy's net assets totaled \$75,992.

At year-end, capital assets represented 60.94% 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**

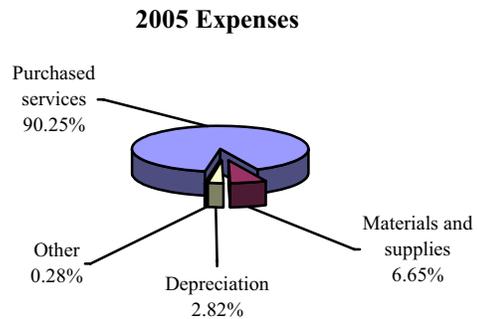
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

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

	2005
<u>Operating Revenues:</u>	
State foundation	\$ 164,452
Total operating revenue	164,452
<u>Operating Expenses:</u>	
Purchased services	270,735
Materials and supplies	19,946
Depreciation	8,465
Other	850
Total operating expenses	299,996
<u>Non-operating revenues:</u>	
Federal and state grants	153,000
Interest income	189
Total non-operating revenues	153,189
Change in net assets	17,645
Net assets at beginning of year	58,347
Net assets at end of year	\$ 75,992

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



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

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

Capital Assets

At June 30, 2005, the Academy had \$46,306 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 the Osnaburg Local School District. The Academy relies on the State Foundation Funds as well as the Federal Sub-Grants to provide the monies necessary to begin the start-up of a technology oriented educational program. These funds will help expand the current program.

The future of the Academy is dependent upon continued funding from the State Foundation Funds as no local revenue can be generated through tuition or property taxes. It is the intention of the management of the Academy to pursue other State and Federal sub grants as they become available.

In conclusion, the Academy has committed itself to providing state of the art technology based educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of the Academy.

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, Osnaburg Local School District, 310 Browning Street, East Canton, Ohio 44730.

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

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents. . .	\$ 29,686
	<hr/>
Total current assets	29,686
	<hr/>
Non-current assets:	
Capital assets, net.	46,306
	<hr/>
Total assets	75,992
	<hr/>
Net Assets:	
Invested in capital assets	46,306
Unrestricted	29,686
	<hr/>
Total net assets	\$ 75,992
	<hr/> <hr/>

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, 2005

Operating revenues:	
State foundation	\$ 164,452
Total operating revenues.	<u>164,452</u>
 Operating expenses:	
Purchased services.	270,735
Materials and supplies	19,946
Depreciation	8,465
Other	<u>850</u>
Total operating expenses.	<u>299,996</u>
 Operating loss	 <u>(135,544)</u>
 Non-operating revenues:	
Federal and state grants	153,000
Interest income	<u>189</u>
Total non-operating revenues	<u>153,189</u>
 Change in net assets	 17,645
 Net assets at beginning of year	 <u>58,347</u>
Net assets at end of year	<u><u>\$ 75,992</u></u>

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, 2005

Cash flows from operating activities:	
Cash received from State foundation.	\$ 164,452
Cash payments for other expenses.	(111,909)
Cash payments to suppliers for goods and services . . .	(271,585)
Cash payments for materials and supplies	<u>(19,946)</u>
Net cash used in operating activities	<u>(238,988)</u>
Cash flows from noncapital financing activities:	
Federal and state grants.	<u>153,000</u>
Net cash provided by noncapital financing activities	<u>153,000</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(25,272)</u>
Net cash used in capital and related financing activities	<u>(25,272)</u>
Cash flows from investing activities:	
Interest received	<u>189</u>
Net cash provided by investing activities	<u>189</u>
Net decrease in cash and cash equivalents	(111,071)
Cash and cash equivalents at beginning of year . . .	<u>140,757</u>
Cash and cash equivalents at end of year.	<u><u>\$ 29,686</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (135,544)
Adjustments:	
Depreciation.	8,465
Changes in assets and liabilities:	
Decrease in accounts payable	<u>(111,909)</u>
Net cash used in operating activities	<u><u>\$ (238,988)</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, 2005**

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 Middle and Elementary Schools, the assistant superintendent of the Stark County Educational Service Center, 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-six 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, 2005
(Continued)

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 and spending plans. 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

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. Equipment is 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, 2005
(Continued)

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

H. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program and the Federal Charter School 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 School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

I. 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 Academy's deposits was \$29,686 and the bank balance was \$29,686. Based on the criteria described in GASB Statement No. 40, "Deposits and Investments Risk Disclosures", all of the bank balance was covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

A summary of capital assets at June 30, 2005 follows:

	<u>Balance</u>		<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>
	<u>6/30/04</u>				<u>6/30/05</u>
Furniture and equipment	\$ 32,468	\$	25,272	\$ -	\$ 57,740
Less: accumulated depreciation	<u>(2,969)</u>	<u>(8,465)</u>	<u>-</u>	<u>-</u>	<u>(11,434)</u>
Net capital assets	<u>\$ 29,499</u>	<u>\$ 16,807</u>	<u>\$ -</u>	<u>\$ 46,306</u>	

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

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 Marsh 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. Marsh provides general liability coverage. The general liability coverage insures up to \$5,000,000 each occurrence and \$5,000,000 aggregate.

Marsh also provides property, crime, and equipment breakdown insurance coverage.

NOTE 6 - 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 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, 2005.

B. Litigation

Pending 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 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the 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. There are no significant adjustments to state funding for fiscal year 2005, as a result of the year end reviews.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 7 – 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 District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 8 - SERVICE CONTRACT

A. Stark-Portage Area Computer Consortium

The Academy entered into a two-year agreement on March 13, 2003, for the 2003-04 and 2004-05 school years with the Stark-Portage Area Computer Consortium (SPARCC) for planning, instructional, administrative and technical services required for the operation of the Academy. Under this contract, SPARCC is required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy’s educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing to services to the Academy on behalf of SPARCC. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning any and all equipment to SPARCC.
4. Curricular services limited to standardized curriculum developed by SPARCC.

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

1. Annual Fee - The Academy shall pay \$25,000 for the 2003-04 school year for services acquired from SPARCC. The fee shall be due in two payments of \$12,000 and \$13,000 respectively. The first and second installments are due upon receipt by the Digital Academy of the first installment paid to the Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program (or any similar funding programs, regardless of name). The Academy has made all required payments to SPARCC by June 30, 2005.

The Academy shall pay to SPARCC a fee of \$25,000 for the 2004-05 school year for services acquired from SPARCC. The Academy made this required payment during fiscal year 2005.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

NOTE 8 - SERVICE CONTRACT – (Continued)

A. Stark-Portage Area Computer Consortium - (Continued)

Note: In the event that payments to the Academy from the Department of Education are reduced, the payments due from the Academy to SPARCC shall be reduced accordingly. Both of these amounts are recorded as purchased services expense on the financial statements.

The payments made to SPARCC are included below in the payments made to the Sponsor as the Sponsor makes the payments on behalf of the Academy and is then reimbursed by the Academy.

B. 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 2005. 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 2005 from the Academy to Osnaburg Local School District:

Professional and technical services	\$ 28,678
Property services	141,387
Tuition	<u>100,670</u>
Total purchased services	<u>\$ 270,735</u>

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

NOTE 9 – START-UP PERIOD

The Academy began operations March 24, 2004. At July 1, 2004, the Academy recorded \$140,757 in cash, \$111,909 payable to the Sponsor, Osnaburg Local School District, and net capital assets purchased prior to July 1, 2004, of \$29,499. The combination of these transactions resulted in beginning net assets at July 1, 2004 of \$58,347.



**Auditor of State
Betty Montgomery**

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

East Canton Digital Academy
Stark County
310 East 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, 2005, and have issued our report thereon dated April 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, 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*.

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www.auditor.state.oh.us

East Canton Digital Academy
Stark County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
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We intend this report solely for the information and use of management and the Board of Directors. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 20, 2006



**Auditor of State
Betty Montgomery**

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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
JUNE 13, 2006**