

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

**(A Component Unit of Canton Local School District)**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2007**

**A. MICHAEL BICHSEL, TREASURER**





Mary Taylor, CPA  
Auditor of State

Board of Directors  
Canton Local Digital Academy  
4526 Ridge Avenue SE  
Canton, Ohio 44707

We have reviewed the *Independent Auditor's Report* of the Canton Local Digital Academy, Stark County, prepared by Julian & Grube, Inc., for the audit period July 1, 2006 through June 30, 2007. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

December 20, 2007

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**CANTON LOCAL DIGITAL ACADEMY**  
**(A Component Unit of Canton Local School District)**

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

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### 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 (A Component Unit of Canton Local School District), Stark County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise Canton Local Digital Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Canton Local 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 the Comptroller General of the United States' *Government Auditing Standards*. 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 Canton Local Digital Academy, as of June 30, 2007, and the respective 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 21, 2007, on our consideration of Canton Local Digital 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 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.  
November 21, 2007

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

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

The management's 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, 2007. 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 2007 are as follows:

- In total, net assets was a deficit \$1,021 at June 30, 2007.
- The Digital Academy had operating revenues of \$202,943, operating expenses of \$367,984 and non-operating revenues of \$30,778 for fiscal year 2007. Total change in net assets for the fiscal year was a decrease of \$134,263.

**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 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 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 6 and 7 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 8 of this report.

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**STARK COUNTY, OHIO**

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

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

	<b>Net Assets</b>	
	<u>2007</u>	<u>2006</u>
<b><u>Assets</u></b>		
Current assets	\$ 58,510	\$ 164,643
Total assets	<u>58,510</u>	<u>164,643</u>
<b><u>Liabilities</u></b>		
Current liabilities	<u>59,531</u>	<u>31,401</u>
Total liabilities	<u>59,531</u>	<u>31,401</u>
<b><u>Net Assets</u></b>		
Restricted	20,036	6,021
Unrestricted	<u>(21,057)</u>	<u>127,221</u>
Total net assets	<u>\$ (1,021)</u>	<u>\$ 133,242</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Digital Academy's net assets were a deficit balance of \$1,021.

A portion of the Digital Academy's net assets, \$20,036, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$21,057.

**CANTON LOCAL DIGITAL ACADEMY**  
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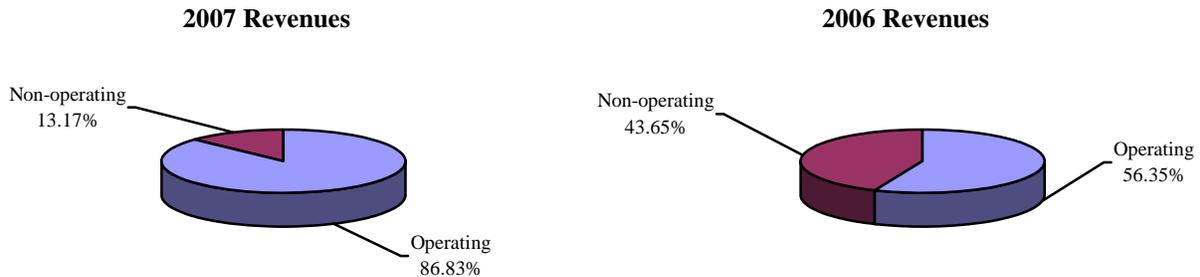
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

	2007	2006
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 189,470	\$ 206,507
Other	13,473	1,125
Total operating revenue	202,943	207,632
<b><u>Operating Expenses:</u></b>		
Purchased services	359,173	289,070
Materials and supplies	5,290	65,758
Other	3,521	1,305
Total operating expenses	367,984	356,133
<b><u>Non-operating Revenues:</u></b>		
Federal and State grants	30,778	160,864
Total non-operating revenues	30,778	160,864
Change in net assets	(134,263)	12,363
Net assets at beginning of year	133,242	120,879
Net assets at end of year	\$ (1,021)	\$ 133,242

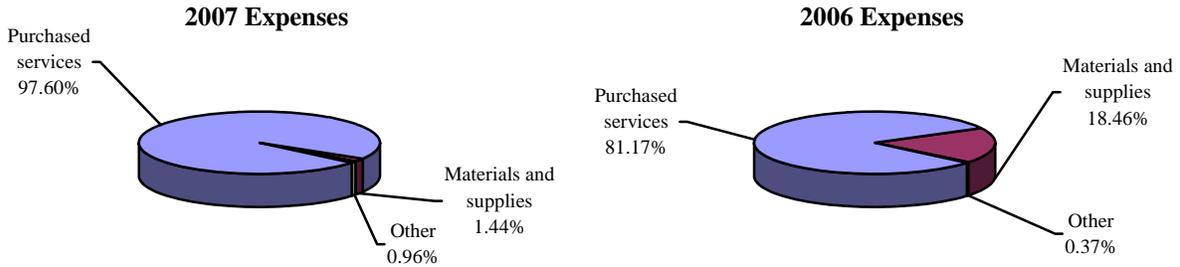
The decrease in federal grants is due to the ending of the federal planning grant funds for the Digital Academy. The Digital Academy received \$150,000 a year, for three years, to plan, equip, and implement the community school plan. For fiscal year 2007 and beyond, the Digital Academy must rely primarily on State foundation funds. The increase in purchased services expenditures is primarily due to a timing issue in payment for services that were provided by Canton Local School District.

The charts below and on the following page illustrate the revenues and expenses for the Digital Academy during fiscal 2007 and 2006.



**CANTON LOCAL DIGITAL ACADEMY**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007



**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**  
**(A Component Unit of Canton Local School District)**  
**STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2007

<b>Assets:</b>	
Current assets:	
Cash and cash equivalents. . . . .	\$ 34,998
Receivables:	
Intergovernmental. . . . .	22,999
Prepayments . . . . .	<u>513</u>
Total assets . . . . .	<u>58,510</u>
 <b>Liabilities:</b>	
Current liabilities:	
Intergovernmental payable . . . . .	<u>59,531</u>
Total liabilities . . . . .	<u>59,531</u>
 <b>Net Assets:</b>	
Restricted for:	
State funded programs. . . . .	20,000
Federally funded programs. . . . .	36
Unrestricted (deficit). . . . .	<u>(21,057)</u>
Total net assets (deficit) . . . . .	<u><u>\$ (1,021)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON LOCAL DIGITAL ACADEMY**  
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS/(DEFICIT)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 189,470
Other . . . . .	13,473
Total operating revenue . . . . .	<u>202,943</u>
<b>Operating expenses:</b>	
Purchased services . . . . .	359,173
Materials and supplies . . . . .	5,290
Other . . . . .	3,521
Total operating expenses . . . . .	<u>367,984</u>
Operating loss . . . . .	<u>(165,041)</u>
<b>Non-operating revenues:</b>	
Federal and state grants . . . . .	<u>30,778</u>
Total non-operating revenues . . . . .	<u>30,778</u>
Change in net assets . . . . .	(134,263)
<b>Net assets at beginning of year . . . . .</b>	<u>133,242</u>
<b>Net assets (deficit) at end of year . . . . .</b>	<u><u>\$ (1,021)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON LOCAL DIGITAL ACADEMY**  
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STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Cash flows from operating activities:</b>		
Cash received from State foundation. . . . .	\$	189,470
Cash received from other operations . . . . .		13,473
Cash payments to suppliers for goods and services . . . . .		(331,062)
Cash payments for materials and supplies . . . . .		(5,290)
Cash payments for other expenses . . . . .		(3,521)
		(136,930)
Net cash used in operating activities . . . . .		(136,930)
<b>Cash flows from noncapital financing activities:</b>		
Federal and state grants. . . . .		13,168
Net cash provided by noncapital financing activities . . . . .		13,168
Net decrease in cash and cash equivalents . . . . .		(123,762)
<b>Cash and cash equivalents at beginning of year . . . . .</b>		<b>158,760</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b>\$</b>	<b>34,998</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
<b>operating activities:</b>		
Operating loss . . . . .	\$	(165,041)
Changes in assets and liabilities:		
(Increase) in prepayments. . . . .		(19)
Increase in intergovernmental payable . . . . .		28,130
		28,130
Net cash used in operating activities . . . . .	\$	(136,930)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON LOCAL DIGITAL ACADEMY**  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**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 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 thirty-two students.

**CANTON LOCAL DIGITAL ACADEMY**  
**(A Component Unit of Canton Local School District)**  
**STARK COUNTY, OHIO**

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

**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.

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

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

**E. Net Assets**

Net assets represent the difference between assets and liabilities. 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.

**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 2007 received by the Digital Academy was \$30,778.

**G. Prepayments**

Certain payments to vendors reflected the costs applicable to future accounting periods and were recorded as prepaid items in the financial statements. These items were reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts was recorded at the time of the purchase and the expense is reported in the year in which services are consumed.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the 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.

**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.

**CANTON LOCAL DIGITAL ACADEMY**  
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NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

**NOTE 3 - DEPOSITS**

At June 30, 2007, the carrying amount and the bank balance of the Digital Academy's deposits was \$34,998. The entire balance was covered by federal depository insurance.

**NOTE 4 - RECEIVABLES**

At June 30, 2007, receivables consisted of intergovernmental revenues which are considered collectible within one year and presented on the statement of net assets in the amount of \$22,999.

**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 2007, the Digital Academy was named on the Sponsor's policy for property and general liability insurance. The Digital Academy provides employee bond coverage through Leonard Insurance Services in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

**NOTE 6 - PURCHASED SERVICES**

For fiscal year ended June 30, 2007, purchased services expenses were as follows:

Professional and technical services	\$ 9,599
Instructional services	348,942
Travel and meetings	<u>632</u>
Total	<u>\$ 359,173</u>

**NOTE 7 - SERVICE AGREEMENT**

The Community School Sponsorship Contract (the "Contract") between the Digital Academy and Canton Local School District outlined the specific payments to be made by the Digital Academy to Canton Local School District during fiscal year 2007. 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 Canton Local School District. The following payments were made in fiscal year 2007 from the Digital Academy to Canton Local School District:

Educational services	\$ 359,173
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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.

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

**NOTE 8 - 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, 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 Digital Academy cannot presently be determined.

**NOTE 9 - 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 Digital Academy ultimately responsible for remitting contributions to each of the systems noted below:

**A. School Employees Retirement System**

The Digital Academy's Sponsor 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.

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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 Digital Academy is required to contribute at an actuarially determined rate. The current Digital Academy rate is 14 percent of annual covered payroll. A portion of the Digital 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 Digital Academy's required contribution for pension obligations to SERS for fiscal year ended 2007 were paid by the Digital Academy's Sponsor.

**B. State Teachers Retirement System**

The Digital 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.

**CANTON LOCAL DIGITAL ACADEMY**  
**(A Component Unit of Canton Local School District)**  
**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 Digital Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. 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 Digital Academy's required contribution for pension obligations to STRS Ohio for fiscal year ended 2007 were paid by the Digital Academy's Sponsor.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

The Digital 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.

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. The surcharge is capped at 2 percent of each employer's SERS salaries.

**CANTON LOCAL DIGITAL ACADEMY**  
**(A Component Unit of Canton Local School District)**  
**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 - SUBSEQUENT EVENT**

The District extended its contract with the Sponsor for a period of five years commencing July 1, 2007 through June 30, 2012.



## **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 Canton Local Digital Academy (a component unit of Canton Local School District) as of and for the fiscal year ended June 30, 2007, which collectively comprise Canton Local Digital Academy's basic financial statements and have issued our report thereon dated November 21, 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 *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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Canton Local Digital Academy's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Canton Local Digital 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 the normal course of 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 Canton Local Digital Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Canton Local Digital Academy's financial statements that is more than inconsequential will not be prevented or detected by Canton Local Digital Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Canton Local Digital Academy's internal control.

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 deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors  
Canton Local Digital Academy

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 Directors of Canton Local Digital Academy and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
November 21, 2007



**Mary Taylor, CPA**  
Auditor of State

**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  
JANUARY 3, 2008**