



**Auditor of State
Betty Montgomery**

**ZANESVILLE DIGITAL ACADEMY
MUSKINGUM COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements.....	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Zanesville Digital Academy
Muskingum County
160 North Fourth Street
Zanesville, Ohio 43701

To the Board of Directors:

We have audited the accompanying basic financial statements of Zanesville Digital Academy, Muskingum County, Ohio (ZDA), a component unit of Zanesville City School District, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of ZDA'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 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 Zanesville Digital Academy, Muskingum County, as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the financial statements, ZDA discontinued operations effective August 18, 2004 and filed for dissolution with the Ohio Secretary of State on October 14, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005 on our consideration of ZDA'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 controls over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the 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

August 19, 2005

**Zanesville Digital Academy
Muskingum County**

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited***

The discussion and analysis of Zanesville Digital Academy's (ZDA's) financial performance provides an overall review of ZDA's financial activities for the period ended June 30, 2004. Readers should also review the basic financial statements and notes to enhance their understanding of ZDA's financial performance.

Highlights

ZDA was created on July 25, 2002; however, it did not begin providing services to students until February 2004 as a kindergarten through twelfth grade online internet school. Each student was provided a computer and scanner which were used to access a curriculum based on the state model and which used certified/licensed instructors. Enrollment varied during the year with a low of 24 and a high of 46 students. ZDA ceased student operations on August 18, 2004.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how ZDA did financially during the period ended June 30, 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the period revenues and expenses regardless of when cash is received or paid.

These statements report ZDA's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of ZDA has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

ZDA uses enterprise presentation for all of its activities.

**Zanesville Digital Academy
Muskingum County**

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited***

Table 1 provides a summary of ZDA's net assets as of June 30, 2004:

Table 1
Net Assets

<u>Assets:</u>	
Current and Other Assets	\$121,242
Capital Assets	<u>12,149</u>
Total Assets	<u>133,391</u>
 <u>Liabilities:</u>	
Current and Other Liabilities	<u>32,088</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	12,149
Unrestricted	<u>89,154</u>
Total Net Assets	<u>\$101,303</u>

ZDA had net assets of \$101,303 after its first year of operation. ZDA receives Foundation payments from the State based on the number of full-time equivalency students.

Table 2 reflects the changes in net assets for the period ended June 30, 2004.

<u>Operating Revenues:</u>	
Foundation	<u>\$125,363</u>
Total Operating Revenues	<u>125,363</u>
 <u>Non-Operating Revenues:</u>	
Grants	105,000
Interest Income	<u>414</u>
Total Non-Operating Revenues	<u>105,414</u>
 Total Revenue	 <u>230,777</u>
 <u>Operating Expenses:</u>	
Purchased Services	113,386
Materials and Supplies	10,482
Other Operating Expenses	27,283
Depreciation	<u>3,038</u>
Total Operating Expenses	<u>154,189</u>
 Total Increase in Net Assets	 <u>\$76,588</u>

**Zanesville Digital Academy
Muskingum County**

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited***

Budgeting

ZDA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

Capital Assets and Debt Administration

Capital Assets

A summary of the capital assets of ZDA as of June 30, 2004 follows:

Equipment	\$15,187
Less: accumulated depreciation	<u>(3,038)</u>
Net capital assets	<u>\$12,149</u>

Debt

ZDA did not incur any debt during the year ended June 30, 2004.

Current Conditions

Due to changes in community school requirements and expectations of the operation of ZDA that would have resulted in deficit spending, and a lack of personnel to handle such requirements, ZDA ceased educational operations effective August 18, 2004 and filed a Certificate of Dissolution on October 14, 2004 with the Ohio Secretary of State.

Contacting ZDA's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of ZDA's finances and to show ZDA's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Cindy Nye, Treasurer, Zanesville Digital Academy, 160 North Fourth St., Zanesville, Ohio 43701.

This page intentionally left blank.

**Zanesville Digital Academy
Muskingum County**

**Statement of Net Assets
June 30, 2004**

<u>Assets:</u>	
Current Assets:	
Cash and Cash Equivalents	\$116,242
Intergovernmental Receivable	5,000
Total Current Assets	<u>121,242</u>
Non-Current Assets:	
Capital assets, net	12,149
Total Assets	<u>133,391</u>
 <u>Liabilities:</u>	
Current Liabilities:	
Intergovernmental Payable	<u>32,088</u>
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	12,149
Unrestricted	89,154
Total Net Assets	<u><u>\$101,303</u></u>

See accompanying notes to the basic financial statements.

**Zanesville Digital Academy
Muskingum County**

***Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2004***

<u>Operating Revenues:</u>	
Foundation	<u>\$125,363</u>
<u>Operating Expenses:</u>	
Purchased Services	113,386
Materials and Supplies	10,482
Other Operating Expenses	27,283
Depreciation	<u>3,038</u>
Total Operating Expenses	<u>154,189</u>
Operating Loss	(28,826)
<u>Non-Operating Revenues:</u>	
Grants	105,000
Interest Income	<u>414</u>
Total Non-Operating Revenues	<u>105,414</u>
Change in Net Assets	76,588
Net Assets at Beginning of Year	<u>24,715</u>
Net Assets at End of Year	<u><u>\$101,303</u></u>

See accompanying notes to the basic financial statements.

**Zanesville Digital Academy
Muskingum County**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Foundation	\$140,575
Cash Payments to Suppliers for Goods and Services	(117,799)
Other Operating Expenses	<u>(21,476)</u>
Net Cash Used for Operating Activities	<u>1,300</u>

Cash Flows from Noncapital Financing Activities:

Grants Received	<u>105,000</u>
-----------------	----------------

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	<u>(15,187)</u>
-------------------------------	-----------------

Cash Flows from Investing Activities:

Interest on Investments	<u>414</u>
-------------------------	------------

Net Increase in Cash and Cash Equivalents	91,527
---	--------

Cash and Cash Equivalents Beginning of Year	<u>24,715</u>
---	---------------

Cash and Cash Equivalents End of Year	<u><u>\$116,242</u></u>
---------------------------------------	-------------------------

**Reconciliation of Operating Loss to
Net Cash Used for Operating Activities:**

Operating Loss	(\$28,826)
----------------	------------

Adjustments to Reconcile Operating Loss to Net Cash
Used for Operating Activities:

Depreciation	3,038
--------------	-------

Changes in Assets and Liabilities:

(Increase) in Intergovernmental Receivable	(5,000)
--	---------

Increase in Intergovernmental Payable	<u>32,088</u>
---------------------------------------	---------------

Net Cash Used for Operating Activities	<u><u>\$1,300</u></u>
--	-----------------------

See accompanying notes to the basic financial statements.

This page intentionally left blank.

**Zanesville Digital Academy
Muskingum County
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2004**

Note 1 - Description of the School

The Zanesville Digital Academy (ZDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. ZDA 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 ZDA's tax exempt status. ZDA's mission is to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schoolers, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students with the Zanesville City School District, the sponsor school district, that desire a specific course not currently offered but is available through online instruction.

The Academy was certified by the State of Ohio Secretary of State as a non-profit organization on June 25, 2002. The Academy was approved for operation under a contract between the Zanesville City School District (the "Sponsor") commencing July 25, 2002. The Academy began accepting students in February of 2004.

ZDA operates under the direction of a five-member Board of Directors which consists of the Zanesville City School District Superintendent, Assistant Superintendent, Director of Instructional Services, Director of Personnel, and Director of Technology, and two board members who shall not be officers or employees of the Zanesville City School District, but shall be a public educator or official, one of which is to be appointed by Tri-Rivers Educational Computer Association (TRECA). Due to the amount of influence the Zanesville City School District has over ZDA's Board, ZDA is a component unit of the District. 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 Treasurer of Zanesville City School District is the Chief Financial Officer.

The Board of Directors entered into an agreement with Tri-Rivers Educational Computer Association (TRECA) to provide the planning, design, implementation, instructional, administrative, and technical services (See Note 5).

Note 2 - Summary of Significant Accounting Policies

The financial statements of the ZDA have been prepared in conformity with generally accepted accounting principles (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. ZDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of ZDA's accounting policies are described below.

A. Basis of Presentation

ZDA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

ZDA uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**Zanesville Digital Academy
Muskingum County
Notes to Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004**

Note 2 - Summary of Significant Accounting Policies (Continued)

B. Measurement Focus

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of ZDA are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how ZDA finances meet its cash flow needs.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. ZDA's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, in which ZDA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which ZDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to ZDA on a reimbursement basis. Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

E. Cash and Cash Equivalents

Cash received by ZDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. ZDA had no investments during the fiscal year ended June 30, 2004.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. ZDA maintains a capitalization threshold of \$5,000. ZDA does not have any infrastructure. All capital assets are depreciated using the straight-line method. Equipment is depreciated over five years.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by ZDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. ZDA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

H. Operating Revenues and Expenses

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

**Zanesville Digital Academy
Muskingum County
Notes to Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004**

Note 2 - Summary of Significant Accounting Policies (Continued)

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At June 30, 2004, the carrying amount of ZDA's deposits was \$116,242 and the bank balance was \$116,242. Of the bank balance:

1. The amount of \$100,000 was covered by the federal deposit insurance corporation; and
2. The amount of \$16,242 was uninsured and uncollateralized.

There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

Note 4 - Capital Assets

Capital Assets

A summary of the capital assets of ZDA as of June 30, 2004 follows:

	<u>Balance 7/1/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2004</u>
Equipment	\$0	\$15,187	\$0	\$15,187
Less:				
Accumulated depreciation	<u>0</u>	<u>(3,038)</u>	<u>0</u>	<u>(3,038)</u>
Net capital assets	<u>\$0</u>	<u>\$12,149</u>	<u>\$0</u>	<u>\$12,149</u>

Note 5 – Service Agreements

A. Tri-Rivers Educational Computer Association

ZDA entered into a two year contract on February 12, 2003, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement ZDA's educational plan and ZDA's assessment and accountability plan.

**Zanesville Digital Academy
Muskingum County
Notes to Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004**

Note 5 – Service Agreements (Continued)

- All personnel providing services to ZDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to ZDA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- ZDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of ZDA.
- Unless otherwise agreed to in writing, curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA to a maximum of 65 full time students.
- In exchange for the services and support (including equipment) provided by TRECA, ZDA shall pay to TRECA a fee of \$25,000 for the 2002-2003 school year and \$25,000 for the 2003-2004 school year.
- ZDA shall pay to TRECA \$3,500 per full-time high school student and \$2,500 per full-time K – 8 students enrolled in ZDA per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For the fiscal year, \$39,376 was payable under this contract. ZDA paid all but \$11,876 of this amount as of June 30, 2004. This amount is included in the Intergovernmental Payable total in the financial statements.

B. Zanesville City School District

The Community School Contract between ZDA and Zanesville City School District outlined the specific payments to be made by ZDA to Zanesville City School District during fiscal year 2004. In addition, the Community School Contract stated that the two parties agreed to pay other mutually agreed upon amounts, including fees for any services provided to ZDA by the School District. The following payments were made in fiscal year 2004 from ZDA to the School District:

Purchased services for administrative and fiscal services	\$63,640
Annual payments of 3% of funding provided by the Ohio Department of Education (management fee)	4,367
Other mutually agreed upon payments (reimbursement of purchase of equipment, training expenses, etc.)	<u>22,097</u>
Total amount of payments made by ZDA to the School District in fiscal year 2004	<u>\$90,104</u>

Note 6 – Risk Management

ZDA is exposed to various risks of loss related to torts, errors and omissions, and natural disasters. During the fiscal year ended June 30, 2004, ZDA obtained a public official's bond for the Treasurer.

**Zanesville Digital Academy
Muskingum County
Notes to Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004**

Note 7 - Contingencies

A. Grants

ZDA received financial assistance from federal and state agencies in the form of grants. The disbursement 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 of ZDA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of ZDA at June 30, 2004.

B. Litigation

A suit was filed alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The suit was filed in the Franklin County Court of Common Pleas on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the 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 on November 18, 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. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. No oral argument has been set to date. The effect of this suit, if any, on ZDA is not presently determinable.

C. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by ZDA. These reviews are conducted to ensure ZDA is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review conducted in December of 2004 revealed that ZDA was overpaid in the amount of \$20,212 for the fiscal year 2003-04. This amount is included in the Intergovernmental Payable total in the financial statements.

Note 8 - State School Funding

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 decision 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..." ZDA is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

Note 9 - Continued Existence

Due to changes in community school requirements and expectations of the operation of ZDA that would have resulted in deficit spending, and a lack of personnel to handle such requirements, ZDA ceased educational operations effective August 18, 2004 and filed a Certificate of Dissolution on October 14, 2004 with the Ohio Secretary of State. The articles of incorporation for ZDA require upon dissolution that any assets remaining shall be conveyed to Zanesville City School District to be used exclusively for public purposes.

**Zanesville Digital Academy
Muskingum County
Notes to Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2004**

Note 10 - Subsequent Event

As part of the Academy's Comprehensive Service Agreement (see Note 5A) with Tri-Rivers Educational Computer Association (TRECA), ZDA is responsible for recovering and returning equipment provided to TRECA if the equipment is damaged or not promptly returned. Subsequent to discontinuing operations, ZDA has been unable to recover certain computer equipment from students and, on March 28, 2005, ZDA paid TRECA \$15,500 to fulfill ZDA's contractual liability. ZDA is making attempts to recover this equipment from students and management is currently unable to determine the total amount of equipment, if any, that the Academy may be unable to recover.

ZDA is not aware of any other subsequent events that would have an effect on their financial statements.



**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***

Zanesville Digital Academy
Muskingum County
160 North Fourth Street
Zanesville, Ohio 43701

To the Board of Directors:

We have audited the financial statements of Zanesville Digital Academy, Muskingum County, Ohio (ZDA), a component unit of Zanesville City School District, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 19, 2005, wherein we noted ZDA discontinued operations effective August 18, 2004 and filed for dissolution with the Ohio Secretary of State on October 14, 2004. 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 ZDA's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to ZDA's management dated August 19, 2005, we reported an other matter involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether ZDA'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*.

Zanesville Digital Academy
Muskingum County
Independent Accountants' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required
by *Government Auditing Standards*
Page 2

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

August 19, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**ZANESVILLE DIGITAL ACADEMY
MUSKINGUM 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
SEPTEMBER 22, 2005**