

**CANTON LOCAL DIGITAL ACADEMY
STARK COUNTY**

REGULAR AUDIT

FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004



**Auditor of State
Betty Montgomery**

**CANTON LOCAL DIGITAL ACADEMY
STARK COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Canton Local Digital Academy
Stark County
4526 Ridge Avenue SE
Canton, Ohio 44707

To the Board of Directors:

We have audited the accompanying basic financial statements of the Canton Local Digital Academy, Stark County, Ohio, (the Academy) a component unit of the Canton Local School District, for the period January 13, 2004 through June 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these basic 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Canton Local Digital Academy, Stark County, Ohio, for the period January 13, 2004 through June 30, 2004, and the changes in financial position and cash flows for the period 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 February 25, 2005 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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

February 25, 2005

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004
UNAUDITED

The discussion and analysis of the Canton Local Digital Academy's (the "Digital Academy") financial performance provides an overall review of the Digital Academy's financial activities for the period January 13, 2004 through June 30, 2004. 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.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. However, because this is the first fiscal year of financial reporting for the Digital Academy and the first fiscal year of adoption of the new reporting model, comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets were \$174,194 at June 30, 2004.
- The Digital Academy had operating revenues of \$114,409 and operating expenses of \$90,214 for fiscal year 2004. The Digital Academy also received \$150,000 in federal and state grants during fiscal year 2004. Total change in net assets for the fiscal year was an increase of \$174,195.

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 2004?" 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 takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004
UNAUDITED

These two statements report the Digital Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Digital Academy as a whole, the *financial position* of the Digital Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

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

The table below provides a summary of the Digital Academy's net assets for fiscal year 2004. Since this is the first year that the Digital 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	
	<u>2004</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 50,288
Receivables:	
Intergovernmental	<u>125,000</u>
Total assets	<u>175,288</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	<u>\$ 1,094</u>
Total liabilities	<u>1,094</u>
<u>Net Assets</u>	
Unrestricted	<u>174,194</u>
Total net assets	<u><u>\$ 174,194</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Digital Academy's net assets totaled \$174,194. These net assets were unrestricted in use.

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

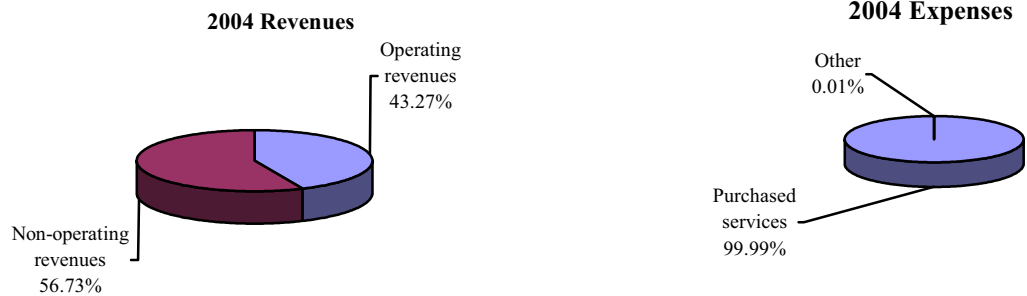
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004
UNAUDITED

The table below shows the changes in net assets for fiscal year 2004. Since this is the first year the Digital 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

	2004
<u>Operating Revenues:</u>	
State foundation	\$ 114,409
Total operating revenue	114,409
<u>Operating Expenses:</u>	
Purchased services	90,207
Other	7
Total operating expenses	90,214
<u>Non-operating revenues:</u>	
Federal and state grants	150,000
Total non-operating revenues	150,000
Change in net assets	\$ 174,195

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



Current Financial Related Activities

The Digital Academy is sponsored by the 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 for round three of the Federal Sub-Grant once round two monies are expended. It is the intent of the Digital Academy to apply for other State and Federal funds that are made available.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004
UNAUDITED

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.

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

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

Assets:

Current assets:

Cash and cash equivalents.	\$ 50,288
Receivables:	
Intergovernmental.	<u>125,000</u>

Total assets	<u>175,288</u>
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Liabilities:

Current liabilities:

Accounts payable	<u>1,094</u>
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Total liabilities	<u>1,094</u>
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Net Assets:

Unrestricted.	<u>174,194</u>
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Total net assets	<u><u>\$ 174,194</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004

Operating revenues:	
State foundation	\$ 114,409
Total operating revenue	<u>114,409</u>
Operating expenses:	
Purchased services	90,207
Other	<u>7</u>
Total operating expenses	<u>90,214</u>
Operating income	<u>24,195</u>
Non-operating revenues:	
Federal and state grants	<u>150,000</u>
Total non-operating revenues	<u>150,000</u>
Change in net assets	174,195
Net assets at beginning of year	<u>(1)</u>
Net assets at end of year	<u><u>\$ 174,194</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004

Cash flows from operating activities:	
Cash received from State foundation.	\$ 114,409
Cash payments to suppliers for goods and services . .	(89,113)
Cash payments for other expenses	(7)
	25,289
 Cash flows from noncapital financing activities:	
Federal and state grants.	25,000
	25,000
Net cash provided by noncapital financing activities	25,000
	25,000
Net increase in cash and cash equivalents	50,289
Cash and cash equivalents at beginning of year . . .	(1)
Cash and cash equivalents at end of year.	\$ 50,288
	50,288
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 24,195
 Changes in assets and liabilities:	
Increase in accounts payable	1,094
	1,094
Net cash provided by operating activities	\$ 25,289
	25,289

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004

NOTE 1 - DESCRIPTION OF THE DIGITAL ACADEMY

The Canton Local Digital Academy (the "Digital Academy") was established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Canton Local School District (the "Sponsor") addressing the needs of students. 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.

The Digital Academy provides opportunities for students who desire a program of online instruction in an independent environment that does not include the 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. The Digital Academy began operations on January 13, 2004. The Sponsor is responsible for evaluating the performance of the Digital Academy and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of the Digital Academy.

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004

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 the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Digital Academy has elected not to apply these FASB Statements and Interpretations. 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.

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.

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. 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 and Cash Equivalents

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004

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 had no restricted net assets at fiscal year end.

The District 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 all eligibility requirements have been met.

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 2004 received by the Digital Academy was \$150,000.

G. Accrued Liabilities

The Digital Academy has recognized certain expenses due but unpaid as of June 30, 2004. These expenses are reported as accrued liabilities in the accompanying financial statements, which includes payments to SPARCC, which have been reported as accounts payables.

H. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - DEPOSITS

At June 30, 2004, the carrying amount of the Digital Academy's deposits was \$50,288 and the bank balance was \$59,133. The bank balance was covered by federal depository insurance.

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004**

NOTE 4 - RECEIVABLES

The Digital Academy participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Digital Academy was awarded \$150,000 for fiscal year 2003 to offset start-up costs of the Digital Academy. Of this total, \$45,000 was received by June 30, 2003 with the remainder of \$105,000 being received during fiscal 2004. The Digital Academy was also awarded \$150,000 for fiscal year 2004 under this program. Of this total, \$25,000 was received by June 30, 2004 with the remaining balance of \$125,000 being recorded as an intergovernmental receivable at June 30, 2004. Revenue received from this program is recognized as federal and state grants in the financial statements.

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 2004, the Digital Academy was named on the Sponsor's policy with Indiana Insurance Company for property and general liability insurance. The Digital Academy provides employee bond coverage through a private insurance carrier in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

NOTE 6 – PURCHASED SERVICES

For fiscal year ended June 30, 2004, purchased services expenses were as follows:

Educational services	\$55,268
Instructional services	25,000
Tuition	<u>9,939</u>
Total	<u><u>\$90,207</u></u>

NOTE 7 - SERVICE AGREEMENTS

A. Stark-Portage Area Computer Consortium

The Digital Academy entered into a two-year agreement on March 24, 2003, for the 2002-03 and 2003-04 school years with the Stark-Portage Area Computer Consortium (SPARCC), in partnership with Tri-Rivers Educational Computer Association (TRECA), for planning, instructional, administrative and technical services required for the operation of the Digital Academy. Under this contract, SPARCC is required to provide the following services:

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004

NOTE 7 - SERVICE AGREEMENTS - (Continued)

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

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Digital 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 services to the Digital 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 Digital 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 Digital Academy is required to pay the following fees to SPARCC:

1. Annual Fee - The Digital Academy shall pay \$25,000 for the 2002-03 school year for services (planning, instructional, administrative and technical) and support (including equipment) acquired from SPARCC. The fee shall be due in two equal payments. The first and second installments are due upon receipt by the Digital Academy of the first installment paid to the Digital Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program (or any similar funding programs, regardless of name). The 2002-03 annual fee was paid in June 2003.

The Digital Academy shall pay to SPARCC a fee of \$25,000 for the 2003-04 school year for services acquired from SPARCC. The fee shall be due in two equal payments. The first payment shall be due upon receipt by the Digital Academy of the second installment paid to the Digital Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program (or any similar funding program, regardless of name) or by June 1, 2003, whichever is later. The second payment shall be due by December 1, 2003, or upon receipt of the aforementioned second installment of such grant, whichever is later.

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 Digital 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 Digital 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.

Note: In the event that payments to the Digital Academy from the Department of Education are reduced, the payments due from the Digital Academy to SPARCC shall be reduced accordingly. For fiscal year 2004, the Digital Academy has recorded expenses to SPARCC of \$25,000 (which was due upon receipt of the second installment of the Sub-grant) and \$9,939 for tuition services. Both of these amounts are recorded as purchased services expense on the financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004

NOTE 7 - SERVICE AGREEMENTS - (Continued)

B. Canton Local School District

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 2004. 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 2004 from the Digital Academy to Canton Local School District:

Educational services	\$ 55,268
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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. No payments were made for the period ending June 30, 2004.

NOTE 8 - SCHOOL FUNDING DECISION

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

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

NOTE 9 - CONTINGENCIES

A. Grants

The Digital Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 Digital Academy at June 30, 2004.

B. Litigation

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 13, 2004 THROUGH JUNE 30, 2004**

NOTE 9 – CONTINGENCIES – (Continued)

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. As a result of these reviews, the Digital Academy does not anticipate any significant adjustments to state funding for fiscal year 2005.

NOTE 10 - START-UP PERIOD

The Digital Academy began its operations January 13, 2004. Prior to the period beginning January 13, 2004, the Digital Academy had receipts of \$186,320 and expenditures of \$186,321, which resulted in beginning net assets as of January 13, 2004 of \$(1).

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Canton Local Digital Academy
Stark County
4526 Ridge Avenue SE
Canton, Ohio 44707

To the Board of Directors:

We have audited the financial statements of the Canton Local Digital Academy, Stark County, Ohio, (the Academy) as of and for the period January 13, 2004 through June 30, 2004, and have issued our report thereon dated February 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *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 for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Canton Local Digital Academy
Stark County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the management and the Board of Directors, and is not intended to be and should not be used by 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

February 25, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

**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
MARCH 29, 2005**