

**Auditor of State
Betty Montgomery**

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Canton Academy Community School
Stark County
617 McKinley Avenue SW
Canton, Ohio 44707

To the Board of Directors:

We have audited the accompanying basic financial statements of the Canton Academy Community School, Stark County, Ohio, (the Academy) a component unit of the Canton City School District, for the period October 6, 2004 through June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Canton Academy Community School, for the period October 6, 2004 through June 30, 2005 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, 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, 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 6, 2006

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005
UNAUDITED

The discussion and analysis of the Canton Academy Community School's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period October 6, 2004 through June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the 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 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 2005 are as follows:

- In total, net assets were \$44,524 at June 30, 2005.
- The Academy had operating revenues of \$510,984, operating expenses of \$515,176 and non-operating revenues of \$48,716 for fiscal year 2005. Total change in net assets for the fiscal year was an increase of \$44,524.

Using these Basic Financial Statements

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

Reporting the Academy's Financial Activities

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005
UNAUDITED**

The table below provides a summary of the Academy's net assets for fiscal year 2005. Since this is the first year that the Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

	<u>2005</u>
<u>Assets</u>	
Current assets	\$ 122,453
Capital assets, net	<u>15,746</u>
Total assets	<u>138,199</u>
<u>Liabilities</u>	
Current liabilities	<u>93,675</u>
Total liabilities	<u>93,675</u>
<u>Net Assets</u>	
Invested in capital assets	15,746
Restricted	22,699
Unrestricted	<u>6,079</u>
Total net assets	<u>\$ 44,524</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Academy's net assets totaled \$44,524.

At year-end, capital assets represented 11.39% of total assets. Capital assets consisted of furniture and computer equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

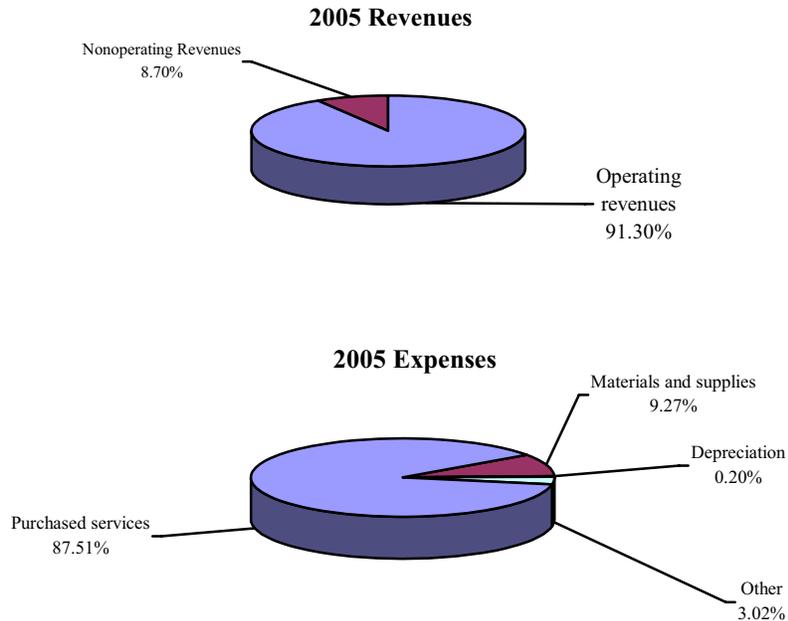
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005
UNAUDITED

The table below shows the changes in net assets for fiscal year 2005. Since this is the first year that the Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	<u>2005</u>
<u>Operating Revenues:</u>	
State foundation	\$ 468,015
Charges for services	985
Other	<u>41,984</u>
Total operating revenue	<u>510,984</u>
<u>Operating Expenses:</u>	
Purchased services	450,848
Materials and supplies	47,785
Depreciation	1,006
Other	<u>15,537</u>
Total operating expenses	<u>515,176</u>
<u>Non-operating Revenues:</u>	
Federal and State grants	<u>48,716</u>
Total non-operating revenues	<u>48,716</u>
Change in net assets	<u><u>\$ 44,524</u></u>

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



**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005
UNAUDITED**

Capital Assets

At June 30, 2005, the Academy had \$15,746 invested in furniture and equipment. See Note 4 to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The Academy is sponsored by Canton City School District. The Academy is reliant upon State Foundation monies and State and Federal Grants to offer quality, educational services to students.

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

Contacting the Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jim Reinhard, Treasurer, Canton Academy Community School, 617 McKinley Avenue SW, Canton, Ohio 44707.

BASIC
FINANCIAL STATEMENTS

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets:	
Current assets:	
Cash and cash equivalents	\$ 120,798
Prepayments	1,655
Total current assets	<u>122,453</u>
Non-current assets:	
Capital assets, net.	<u>15,746</u>
Total assets	<u>138,199</u>
Liabilities:	
Current:	
Accounts payable	35,379
Intergovernmental payable	<u>58,296</u>
Total liabilities	<u>93,675</u>
Net Assets:	
Invested in capital assets	15,746
Restricted for:	
State funded programs	7,559
Federally funded programs.	15,140
Unrestricted	<u>6,079</u>
Total net assets	<u>\$ 44,524</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005

Operating revenues:	
State foundation.	\$ 468,015
Charges for services	985
Other.	<u>41,984</u>
 Total operating revenues	 <u>510,984</u>
 Operating expenses:	
Purchased services.	450,848
Materials and supplies	47,785
Depreciation	1,006
Other	<u>15,537</u>
Total operating expenses.	<u>515,176</u>
 Operating loss	 (4,192)
 Non-operating revenues:	
Federal and State grants.	<u>48,716</u>
Total non-operating revenues	<u>48,716</u>
 Change in net assets	 44,524
 Net assets at beginning of year	 <u>-</u>
Net assets at end of year	<u><u>\$ 44,524</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005

Cash flows from operating activities:	
Cash received from State foundation.	\$ 468,015
Cash received from sales/charges for services.	985
Cash received from other operations	41,984
Cash payments to suppliers for goods and services	(393,740)
Cash payments for materials and supplies	(12,873)
Cash payments for other expenses	(15,537)
	88,834
Net cash provided by operating activities	88,834
Cash flows from noncapital financing activities:	
Federal and state grants.	48,716
	48,716
Net cash provided by noncapital financing activities	48,716
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(16,752)
	(16,752)
Net cash used in capital and related financing activities	(16,752)
Net increase in cash and cash equivalents	120,798
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year.	\$ 120,798
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (4,192)
Adjustments:	
Depreciation.	1,006
Changes in assets and liabilities:	
Increase in prepayments	(1,655)
Increase in accounts payable.	35,379
Increase in intergovernmental payable.	58,296
	58,296
Net cash provided by operating activities	\$ 88,834

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Canton Academy Community School (the "Academy") was established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Canton City School District (the "Sponsor") addressing the needs of students in grades 9-12. The Academy, which is part of the State's education program, is nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the Canton City School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy is designed to meet the academic and mental health needs of high school students, grades 9 through 12, ages 14 through 22, who are unsuccessful in the traditional educational setting. Typically, they are identified as students with special needs or are "at highest risk" for academic failure. Even with such significant issues, these students have a desire for an education when presented in a manner that can optimize learning. This can be done in an environment that does not include most ancillary components of a more traditional education, and supports the mental health needs of the student. Enrollment is limited to students within the attendance area of the Sponsor. The Academy uses the services of the Sponsor to assist with overall operations.

The Academy was approved under contract with the Sponsor for a period of five years commencing July 1, 2004 through July 31, 2009 after which, the Academy must apply for an additional contract with the Sponsor. The Academy began operations on October 6, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration.

The Academy operated under the direction of a five-member Board of Directors (the "Governing Authority") through June 30, 2005. The Governing Authority is composed of one member from each of the following organizations: Stark County Community Mental Health Board, Stark County Family Council, City of Canton, Stark County Department of Job and Family Services and Canton City Schools. The Governing Authority 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 Academy, provides planning, instructional, administrative and technical services. Personnel providing services to the Academy on behalf of the Sponsor under the purchased services basis are considered employees of the Sponsor, and the Sponsor is solely responsible for all payroll functions. The Academy provides services to approximately 48 students.

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the 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 Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Academy's significant accounting policies are described below.

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 Academy's contract with its Sponsor except for Ohio Revised Code Section 5705.391 as it relates to five year forecasts and spending plans. The contract between the Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash

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

E. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of \$500. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005

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

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over five years.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets have been restricted for state and federally funded programs.

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

G. Prepayments

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

H. Intergovernmental Revenue

The Academy currently participates in the State Foundation Program through the Ohio Department of Education and a State of Ohio start up grant. Revenues from these programs are 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 Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. The Academy received the State of Ohio Educational Management Information Systems (EMIS) and the Federal Title VI-B grants during fiscal year 2005.

I. Operating Revenues and Expenses

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

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005

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

J. Estimates

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

NOTE 3 - DEPOSITS

At June 30, 2005, the carrying amount of the Academy's deposits was \$120,798. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$27,292 of the Academy's bank balance of \$127,292 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Academy.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance at June 30, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2005</u>
Furniture and equipment	\$ -	\$ 16,752	\$ -	\$ 16,752
Less: accumulated depreciation	<u>-</u>	<u>(1,006)</u>	<u>-</u>	<u>(1,006)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 15,746</u>	<u>\$ -</u>	<u>\$ 15,746</u>

NOTE 5 - RISK MANAGEMENT

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

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005**

NOTE 6 - PURCHASED SERVICES

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

Professional and technical services	\$ 421,436
Property services	23,241
Travel, mileage and meetings	1,560
Communications	10
Utility services	3,708
Tuition and other similar payments	655
Pupil transportation	<u>238</u>
Total	<u>\$ 450,848</u>

NOTE 7 - SCHOOL FUNDING DECISION

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

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

NOTE 8 - CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 Academy at June 30, 2005.

B. Litigation

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state's Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Academy is not presently determinable. On August 24, 2004, the Court of Appeals rendered a decision that community schools are part of the states public educational system and the matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the Academy is not presently determinable.

**CANTON ACADEMY COMMUNITY SCHOOL
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 6, 2004 THROUGH JUNE 30, 2005**

NOTE 8 – 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 Academy has not been reviewed as of June 30, 2005. The Academy does not anticipate any significant adjustments to state funding for fiscal year 2006, as a result of the reviews which have yet to be completed.

NOTE 9 – START-UP PERIOD

The Academy began its operations on October 6, 2004. Prior to the period beginning October 6, 2004, the Academy's Sponsor paid expenditures of \$17,879 on behalf of the Academy. These expenditures were subsequently reimbursed to the Sponsor and are reflected within the financial statements as a portion of purchased services expense.

NOTE 10 – RELATED PARTY TRANSACTIONS

For the fiscal year ended June 30, 2005, the Academy had expenses of \$473,806 to their sponsor.

NOTE 11 – SUBSEQUENT EVENT

The Ohio Department of Education notified the Academy in a letter dated July 27, 2005, that the Academy had been awarded a grant in the amount of \$300,000 for expenditures made from July 1, 2005 through June 30, 2006.



**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**

Canton Academy Community School
Stark County
617 McKinley Avenue SW
Canton, Ohio 44707

To the Board of Directors:

We have audited the financial statements of the Canton Academy Community School, Stark County, Ohio, (the Academy) a component unit of Canton City School District, as of and for the period October 6, 2004 through June 30, 2005, and have issued our report thereon dated February 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated February 6, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Canton Academy Community School
Stark 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 the 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

February 6, 2006



**Auditor of State
Betty Montgomery**

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**CANTON ACADEMY COMMUNITY SCHOOL
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
APRIL 4, 2006**