

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY**

**REGULAR AUDIT**

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



**Mary Taylor, CPA**  
Auditor of State



**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Canton City Schools Digital Academy  
Stark County  
617 McKinley Avenue S.W.  
Canton, Ohio 44707

To the Board of Directors:

We have audited the accompanying basic financial statements of the Canton City Schools Digital Academy, Stark County, Ohio, (the Digital Academy) a component unit of the Canton City School District, as of and for the year ended June 30, 2007, as listed in the Table of Contents. These financial statements are the responsibility of the Digital Academy's management. Our responsibility is to express opinions 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Canton City Schools Digital Academy, Stark County, Ohio, as of June 30, 2007, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the Digital Academy's sponsor, the Canton City School District, approved closing the Digital Academy.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2008, on our consideration of the Digital 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 accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting 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 "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 5, 2008

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)**

The discussion and analysis of the Canton City Digital Academy's (the "Digital Academy") financial performance provides an overall review of the Digital Academy's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Digital Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Digital Academy's financial performance.

**Financial Highlights**

Key financial highlights for 2007 are as follows:

- In total, net assets were \$932,918 at June 30 2007.
- The Digital Academy had operating revenues of \$1,294,118, operating expenses of \$937,316 and non-operating revenues of \$144,492 for fiscal year 2007. Total change in net assets for the fiscal year was an increase of \$501,294.

**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 ask the question, "How did we do financially during 2007?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

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

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

	<b>Net Assets</b>	
	<u>2007</u>	<u>2006</u>
<b><u>Assets</u></b>		
Current assets	\$ 859,598	\$ 302,863
Capital assets, net	<u>277,834</u>	<u>178,331</u>
Total assets	<u>1,137,432</u>	<u>481,194</u>
<b><u>Liabilities</u></b>		
Current liabilities	<u>204,514</u>	<u>49,570</u>
Total liabilities	<u>204,514</u>	<u>49,570</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	277,834	178,331
Restricted for state funded programs	136,484	2,000
Unrestricted	<u>518,600</u>	<u>251,293</u>
Total net assets	<u>\$ 932,918</u>	<u>\$ 431,624</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the Digital Academy's net assets totaled \$932,918.

At year-end, capital assets represented 24.43% 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 CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)**

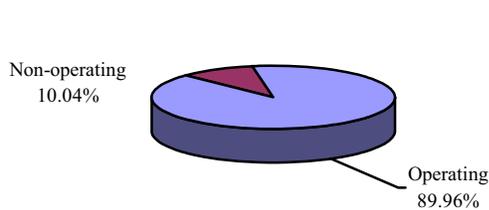
The table below shows the changes in net assets for fiscal year 2007 and 2006.

**Change in Net Assets**

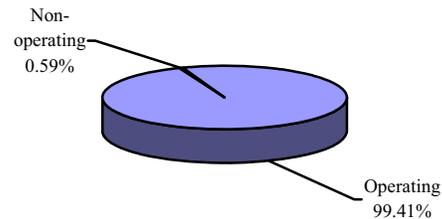
	<u>2007</u>	<u>2006</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 1,294,118	\$ 836,455
Total operating revenue	<u>1,294,118</u>	<u>836,455</u>
<b><u>Operating Expenses:</u></b>		
Purchased services	793,427	376,156
Materials and supplies	30,787	147,300
Depreciation	66,650	40,313
Other	<u>46,452</u>	<u>28,404</u>
Total operating expenses	<u>937,316</u>	<u>592,173</u>
<b><u>Non-operating Revenues:</u></b>		
Federal and State grants	143,298	5,000
Interest income	<u>1,194</u>	<u>-</u>
Total non-operating revenues	<u>144,492</u>	<u>5,000</u>
Change in net assets	501,294	249,282
Net assets at beginning of year	<u>431,624</u>	<u>182,342</u>
Net assets at end of year	<u>\$ 932,918</u>	<u>\$ 431,624</u>

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

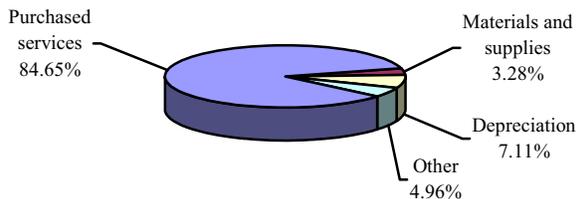
**2007 Revenues**



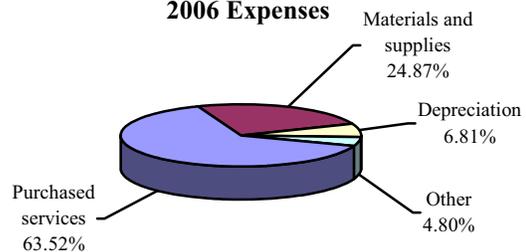
**2006 Revenues**



**2007 Expenses**



**2006 Expenses**



**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007  
(UNAUDITED)**

**Capital Assets**

At June 30, 2007, the Digital Academy had \$277,834 invested in furniture and equipment. See Note 4 to the basic financial statements for more detail on the capital assets.

**Current Financial Related Activities**

The Digital Academy is sponsored by Canton City School District. The Digital Academy is reliant upon State Foundation monies and federal 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 all financial resources to best meet the needs of its students. It is the intent of the Digital Academy to apply for other State and Federal funds that are made available to finance its operations.

**Contacting the Digital Academy's Financial Management**

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

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2007

<b>Assets:</b>	
Current assets:	
Cash and cash equivalents. . . . .	\$ 719,158
Receivables:	
Intergovernmental. . . . .	121,443
Accounts . . . . .	18,580
Prepayments . . . . .	417
Total current assets . . . . .	<u>859,598</u>
Non-current assets:	
Capital assets, net. . . . .	<u>277,834</u>
Total assets . . . . .	<u>1,137,432</u>
<b>Liabilities:</b>	
Current:	
Accounts payable . . . . .	90,986
Intergovernmental payable. . . . .	<u>113,528</u>
Total liabilities . . . . .	<u>204,514</u>
<b>Net Assets:</b>	
Invested in capital assets . . . . .	277,834
Restricted for:	
State funded programs . . . . .	2,116
Federally funded programs. . . . .	134,368
Unrestricted . . . . .	<u>518,600</u>
Total net assets . . . . .	<u>\$ 932,918</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 1,294,118
Total operating revenues. . . . .	<u>1,294,118</u>
 <b>Operating expenses:</b>	
Purchased services. . . . .	793,427
Materials and supplies . . . . .	30,787
Depreciation . . . . .	66,650
Other. . . . .	46,452
Total operating expenses. . . . .	<u>937,316</u>
 Operating income. . . . .	 356,802
 <b>Non-operating revenues:</b>	
Federal and State grants. . . . .	143,298
Interest income . . . . .	1,194
Total non-operating revenues . . . . .	<u>144,492</u>
 Change in net assets . . . . .	 501,294
 <b>Net assets at beginning of year . . . . .</b>	 <u>431,624</u>
<b>Net assets at end of year . . . . .</b>	<b><u><u>\$ 932,918</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<b>Cash flows from operating activities:</b>	
Cash received from State foundation. . . . .	\$ 1,294,118
Cash payments to suppliers for goods and services . .	(724,203)
Cash payments for materials and supplies . . . . .	(14,339)
Cash payments for other expenses . . . . .	<u>(47,439)</u>
Net cash provided by operating activities . . . . .	<u>508,137</u>
<b>Cash flows from noncapital financing activities:</b>	
Federal and state grants. . . . .	<u>21,855</u>
Net cash provided by noncapital financing activities . . . . .	<u>21,855</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	<u>(114,461)</u>
Net cash used in capital and related financing activities . . . . .	<u>(114,461)</u>
<b>Cash flows from investing activities:</b>	
Interest received . . . . .	<u>1,194</u>
Net cash provided by investing activities . . . . .	<u>1,194</u>
Net increase in cash and cash equivalents . . . . .	416,725
<b>Cash and cash equivalents at beginning of year . . .</b>	<u>302,433</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u><u>\$ 719,158</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income. . . . .	\$ 356,802
Adjustments:	
Depreciation. . . . .	66,650
Changes in assets and liabilities:	
Increase in accounts receivable . . . . .	(18,580)
Decrease in prepayments . . . . .	13
(Decrease) in accounts payable. . . . .	35,939
(Decrease) in intergovernmental payable. . . . .	<u>67,313</u>
Net cash provided by operating activities . . . . .	<u><u>\$ 508,137</u></u>

Noncash Transactions:

The Digital Academy had \$51,692 in capital assets purchased on account at June 30, 2007.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

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

**NOTE 1 - DESCRIPTION OF THE DIGITAL ACADEMY**

The Canton City Schools 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 City School District (the “Sponsor”) addressing the needs of students in grades K-12. The Digital Academy, which is part of the State’s education program, is 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. The Digital 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 Digital Academy provides opportunities for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include most ancillary components of a more traditional education. The Digital Academy uses the latest technology to reach a diverse student population. This population includes students within the Sponsor’s district that have specific career interests in a technology field. The students may be children who need an alternative to the traditional classroom. Enrollment is limited to students within the attendance area of the Sponsor. The Digital Academy uses the services of the Sponsor and the Jefferson County ESC Virtual Learning Academy (“VLA”) to assist with overall programming and operations. The VLA is an internet-based educational delivery system designed for grades 2-12, providing alternative educational options for credit deficiencies, alternative programs, students being schooled at home, and summer school programs.

The Digital Academy was approved under contract with the Sponsor for a period of five years commencing July 1, 2002 through June 30, 2007 after which, the Digital Academy must apply for an additional contract with the Sponsor. The Digital Academy began operations on December 16, 2003. 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 Board of Directors 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 Assistant to the Superintendent-Elementary Instruction, the Sponsor’s Director of Special Education and the Sponsor’s Director of Instructional Technology and Assessment. 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 the Assistant Superintendent of the Stark County Educational Service Center and the other is the Director of Technology Integration at the Stark Portage Area Computer Consortium (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 Digital Academy, under contractual agreement with VLA, provides planning, instructional and technical services (see Note 8). Personnel providing services to the Digital Academy on behalf of VLA under the contractual agreement are considered employees of the VLA and the VLA shall be solely responsible for all payroll functions.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 192 students.

The basic financial statements (BFS) of the Digital Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Digital Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Digital Academy has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The Digital Academy's significant accounting policies are described below.

**A. Basis of Presentation**

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The difference between total assets and liabilities are defined as net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the Digital Academy's contract with its Sponsor except for Ohio Revised Code Section 5705.391 as it relates to five year forecasts. The contract between the Digital Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

**D. Cash**

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

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

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

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

**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 Digital Academy maintains a capitalization threshold of \$500. The Digital Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Furniture and equipment is depreciated over five to thirty 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 District 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 Digital Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which they are earned, essentially the same as the fiscal year.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Digital Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Digital Academy on a reimbursement basis. During fiscal year 2007, the Digital Academy received \$21,855 in State and Federal grants.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

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

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

**I. Operating Revenues and Expenses**

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

**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, 2007, the carrying amount of the Digital Academy's deposits was \$719,158. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$620,133 of the Digital Academy's bank balance of \$720,133 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, 2007, was as follows:

	<u>Balance at June 30, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2007</u>
Furniture and equipment	\$ 256,313	\$ 166,153	\$ -	\$ 422,466
Less: accumulated depreciation	<u>(77,982)</u>	<u>(66,650)</u>	<u>-</u>	<u>(144,632)</u>
Capital assets, net	<u>\$ 178,331</u>	<u>\$ 99,503</u>	<u>\$ -</u>	<u>\$ 277,834</u>

**NOTE 5 - RISK MANAGEMENT**

The Digital Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2007, the Digital Academy was named on the Sponsor's policy for property and general liability insurance. The Digital Academy provides employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000, Executive Director \$20,000 and Board of Directors \$20,000.

Settled claims of the Sponsor have not exceeded commercial coverage in any of the past three fiscal years, and there has been no significant reduction in coverage from the prior fiscal year.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

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

**NOTE 6 - PURCHASED SERVICES**

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

Professional and technical services	\$ 710,306
Property services - rentals	69,248
Travel and meetings	5,900
Communications	1,559
Miscellaneous	<u>6,414</u>
Total	<u>\$ 793,427</u>

Included in the above is \$655,300 of purchased services provided by the Sponsor.

**NOTE 7 - CONTINGENCIES**

**A. Grants**

The Digital Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Digital Academy at June 30, 2007 .

**B. Litigation**

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al.*, Case #: 3:04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is currently pending, and the effect of this suit, if any, on the Academy cannot presently be determined.

**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 review for fiscal year 2007 did not have a material effect on the financial statements.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

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

**NOTE 8 - SERVICE CONTRACT**

For the period July 1, 2005 through June 30, 2007, the Digital Academy has contracted with the Jefferson County ESC Virtual Learning Academy ("VLA") for planning, instructional, administrative and technical services required for the operation of the Digital Academy. The Digital Academy is required to pay the following fees to VLA under the contract:

Fee for Services - The Digital Academy shall pay to VLA \$2,500 per student per contract year plus license costs and applicable teacher costs. Student VLA license fees are the responsibility of the Digital Academy and license costs for the period July 1, 2005 through June 30, 2007 will be \$150 per student.

During fiscal year 2007, \$74,144 was paid to the VLA for services under the contract.

**NOTE 9 - PENSION PLANS**

The Digital Academy has contracted with its Sponsor to provide employee services and pay those employees. However, these contract services do not relieve the Digital Academy of the obligation for remitting pension contributions. The retirement systems consider the Digital Academy as the Employer-of-Record and the Digital Academy is ultimately responsible for remitting contributions to each of the systems noted below:

**A. School Employees Retirement System**

The Digital Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853. It is also posted on SERS' website, [www.ohsers.org](http://www.ohsers.org), under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the Digital Academy is required to contribute at an actuarially determined rate. The current Digital Academy rate is 14 percent of annual covered payroll. A portion of the Digital Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Digital Academy's required contributions for pension obligations to SERS were paid through the Digital Academy's Sponsor. The Digital Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$3,010, \$2,501 and \$1,824, respectively; 42.15 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

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

**NOTE 9 - PENSION PLANS – (Continued)**

**B. State Teachers Retirement System**

The Digital Academy participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, or by calling (614) 227-4090, or by visiting the STRS Ohio website at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The Digital Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Digital Academy's required contributions for pension obligations to STRS Ohio were paid through the Digital Academy's Sponsor. The Digital Academy's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$51,935, \$21,658 and \$21,417, respectively; 83.11 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**CANTON CITY SCHOOLS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

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

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

The Digital Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Digital Academy, this amount equaled \$3,995 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS Ohio had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. Total surcharge is capped at 2 percent of each employer's SERS salaries. For the Digital Academy, the amount contributed to fund health care benefits, during the 2007 fiscal year equaled \$936.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

**NOTE 11 – SIGNIFICANT SUBSEQUENT EVENTS**

On February 4, 2008, the Canton City School District Board of Education accepted the recommendation of the Canton City School District Facilities Committee that the Digital Academy become a Canton City School District program and on June 30, 2008 cease to be a District sponsored charter school.



# Mary Taylor, CPA

Auditor of State

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

Canton City Schools Digital Academy  
Stark County  
617 McKinley Avenue S.W.  
Canton, Ohio 44707

To the Board of Directors:

We have audited the financial statements of the Canton City Schools Digital Academy, Stark County, Ohio, (the Digital Academy) a component unit of the Canton City School District, as of and for the year ended June 30, 2007, and have issued our report thereon dated February 5, 2008, in which we noted the Digital Academy's sponsor approved the closing of the Digital Academy. 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 Digital Academy's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Digital Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Digital Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Digital Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Digital Academy's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Digital Academy's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Digital Academy's management in a separate letter dated February 5, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Digital 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*.

We did note a certain noncompliance or other matter that we reported to the Digital Academy's management in a separate letter dated February 5, 2008.

We intend this report solely for the information and use of the audit committee, management, Board of Directors, and the Digital Academy's Sponsor (the Canton City School District). We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 5, 2008



**Mary Taylor, CPA**  
Auditor of State

**CANTON CITY SCHOOLS 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 13, 2008**