



**CANTON ARTS ACADEMY COMMUNITY SCHOOL
STARK COUNTY**

FINAL AUDIT

FOR THE PERIOD JULY 1, 2007 TO JUNE 5, 2008



Mary Taylor, CPA
Auditor of State

**CANTON ARTS ACADEMY COMMUNITY SCHOOL
STARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Canton Arts Academy Community School
Stark County
1312 5th Street S.W.
Canton, Ohio 44707

To the Board of Directors:

We have audited the accompanying basic financial statements of the Canton Arts Academy Community School, Stark County, Ohio, (the Academy) a component unit of the Canton City School District, as of June 5, 2008 and for the period July 1, 2007 to June 5, 2008, as listed in the table of contents. These financial statements are the responsibility of the 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, for the Canton Arts Academy Community School, Stark County, Ohio, the respective changes in financial position and its cash flows for the period July 1, 2007 to June 5, 2008 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8, the Academy ceased operations effective June 5, 2008 at which time all assets, liabilities, and net assets were distributed to the sponsor, Canton City School District.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2009, 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 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

January 23, 2009

CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008
(UNAUDITED)

The discussion and analysis of the Canton Arts Academy Community School's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the period July 1, 2007 through June 5, 2008. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

The Academy ceased operations effective June 5, 2008. The Academy began operations on September 14, 2005. The Academy averaged 112 students per year over three years of operations. The assets and liabilities of the Academy reverted to the Canton City School District (as Sponsor) upon the dissolution. Canton City School District will use these assets to continue addressing the needs of students who benefited from the Academy's curriculum.

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 revenues, expenses and changes in net assets provides information about the activities of the Academy.

Reporting the Academy's Financial Activities

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 2008?" The statement of revenues, expenses and changes in net assets answers this question. This statement includes all 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.

This statement reports 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. The statement of revenues, expenses and changes in net assets can be found on page 7 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 8 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 9-14 of this report.

CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008
(UNAUDITED)

The table below provides a summary of the Academy's assets, liabilities and net assets at June 5, 2008 and at June 30, 2007:

	Net Assets	
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current assets	\$ -	\$ 289,193
Capital assets, net	-	<u>210,594</u>
Total assets	<u>-</u>	<u>499,787</u>
<u>Liabilities</u>		
Current liabilities	-	<u>177,383</u>
Total liabilities	<u>-</u>	<u>177,383</u>
<u>Net Assets</u>		
Invested in capital assets	-	210,594
Restricted		157,235
Unrestricted	<u>-</u>	<u>(45,425)</u>
Total net assets	<u>\$ -</u>	<u>\$ 322,404</u>

The Academy ceased operations on June 5, 2008 and transferred all assets and liabilities to the Canton City School District. The Academy transferred \$457,234 in cash, \$26 in prepayments, \$59,486 in intergovernmental receivables, \$188,495 in capital assets, net of accumulated depreciation, \$15,724 in accounts payable and \$314,450 in intergovernmental payables to the Canton City School District on June 5, 2008. See Note 8 to the basic financial statements for more detail.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008
(UNAUDITED)

The table below shows the changes in net assets for the period July 1, 2007 through June 5, 2008 and fiscal year 2007.

Change in Net Assets

	<u>2008</u>	<u>2007</u>
<u>Operating revenues:</u>		
State foundation	\$ 998,208	\$ 818,755
Sales/charges for services	10,928	8,804
Other	<u>420</u>	<u>616</u>
Total operating revenue	<u>1,009,556</u>	<u>828,175</u>
<u>Operating expenses:</u>		
Purchased services	997,084	935,835
Materials and supplies	109,138	185,641
Depreciation	31,489	19,310
Other	<u>38,430</u>	<u>45,230</u>
Total operating expenses	<u>1,176,141</u>	<u>1,186,016</u>
<u>Non-operating revenues (expenses):</u>		
Federal and state grants	216,625	480,449
Interest income	1,601	1,213
Contributions and donations	1,022	1,991
Miscellaneous	-	886
Net assets to Canton City School		
District upon dissolution	<u>(375,067)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(155,819)</u>	<u>484,539</u>
Change in net assets	(322,404)	126,698
Net assets at beginning of year	<u>322,404</u>	<u>195,706</u>
Net assets at end of year	<u>\$ -</u>	<u>\$ 322,404</u>

As stated in Note 8 to the basic financial statements, the Academy ceased operations effective June 5, 2008. All assets and liabilities at June 5, 2008 were transferred to the Canton City School District in accordance with the Sponsorship Contract.

Capital Assets

At June 5, 2008, the Academy ceased operations and capital assets, net of accumulated depreciation, of \$188,495, became the property of the Canton City School District. See Note 3 to the basic financial statements for more detail on capital assets.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008
(UNAUDITED)

Current Financial Related Activities

The Academy relied on the state foundation funds as well as federal sub-grants to provide the monies necessary to begin the start-up of the arts program. The Academy committed itself to promoting a lifelong love of learning for students who are gifted in the arts or who are responsive to the arts. However, due to financial consideration, the Academy ceased operations effective June 5, 2008. The activities of the Academy will continue to be provided as a theme/magnet school of the Canton City School District.

At June 5, 2008, all assets and liabilities reverted to the Canton City School District in accordance with the Sponsorship Contract. The Canton City School District is working with the Office of Community Schools to return the value of the supplies and equipment purchased through federal funds to the Ohio Department of Education.

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: Treasurer, Canton City School District, 1312 5th Street SW, Canton, Ohio 44707-4798.

CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008

Operating revenues:	
State foundation.	\$ 998,208
Sales/charges for services	10,928
Other.	<u>420</u>
Total operating revenues	<u>1,009,556</u>
Operating expenses:	
Purchased services.	997,084
Materials and supplies	109,138
Depreciation	31,489
Other	<u>38,430</u>
Total operating expenses.	<u>1,176,141</u>
Operating loss.	<u>(166,585)</u>
Non-operating revenues (expenses):	
Federal and State grants.	216,625
Contributions and donations	1,022
Interest income	1,601
Net assets to Canton City School District upon dissolution	<u>(375,067)</u>
Total non-operating revenues (expenses)	<u>(155,819)</u>
Change in net assets	(322,404)
Net assets at beginning of period	<u>322,404</u>
Net assets at end of period	<u><u>\$ -</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO

STATEMENT OF CASH FLOWS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008

Cash flows from operating activities:	
Cash received from State foundation.	\$ 998,208
Cash received from sales/charges for services.	11,043
Cash received from other operations	420
Cash payments to suppliers for goods and services	(821,041)
Cash payments for materials and supplies	(118,591)
Cash payments for other expenses	(38,687)
	<hr/>
Net cash provided by operating activities	31,352
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Cash flows from noncapital financing activities:	
Federal and state grants.	267,671
Cash payments to Canton City School District upon dissolution	(457,234)
Contributions and donations	1,022
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Net cash used in noncapital financing activities	(188,541)
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Cash flows from capital and related financing activities:	
Acquisition of capital assets	(22,699)
	<hr/>
Net cash used in capital and related financing activities	(22,699)
	<hr/>
Cash flows from investing activities:	
Interest received	1,601
	<hr/>
Net cash provided by investing activities	1,601
	<hr/>
Net decrease in cash and cash equivalents	(178,287)
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Cash and cash equivalents at beginning of period	178,287
Cash and cash equivalents at end of period.	\$ -
	<hr/> <hr/>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (166,585)
Adjustments:	
Depreciation.	31,489
Net assets to Canton City School District upon dissolution	330,148
Changes in assets and liabilities:	
Decrease in accounts receivable.	117
Decrease in prepayments	257
(Decrease) in accounts payable.	(28,943)
(Decrease) in intergovernmental payable.	(135,131)
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Net cash provided by operating activities	\$ 31,352
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Noncash transactions:

The Academy purchased \$13,309 in capital assets on account at June 30, 2007.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008

NOTE 1 - DESCRIPTION OF THE ACADEMY

The Canton Arts 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 3-8. The Academy, which was part of the State’s education program, was nonsectarian in its programs, admission policies, employment practices and all other operations. The Academy could sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy was 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 was designed to meet the academic and mental health needs of students, grades 3 through 8, ages 9 through 14, who have an interest in visual and music arts. The Academy sought to promote a lifelong love of learning for students who are gifted in the arts, or who are responsive to the arts. This was accomplished through an integrated arts and health-oriented curriculum that used the creative spirit of each student and the passion of its staff as means of promoting achievement in any academic or artistic endeavor. In addition to a healthy dietary approach to learning, the Academy initiated a physical education program based upon martial arts. In conjunction with visual art, music, dance, drama, and a healthy food program, martial arts foster principles that affect the whole student. This holistic, child-centered approach empowered students to make viable choices, enjoy good health and adopt a sustainable positive approach toward learning and personal achievement. The Academy used the services of the Sponsor to assist with overall operations.

The Academy was approved under a Community School Sponsorship Contract (the “Sponsorship Contract”) with the Sponsor for a period of five years commencing July 1, 2005 through July 31, 2010 after which, the Academy was required to apply for an additional Sponsorship Contract with the Sponsor. The Academy began operations on September 14, 2005 and ceased operations on June 5, 2008 (see Note 8). The Sponsor was responsible for evaluating the performance of the Academy and had the authority to deny renewal of the contract at expiration.

The Academy operated under the direction of a Board of Directors (the “Governing Authority”). The Governing Authority had among its voting members one person serving as the representative of the Sponsor. In addition, the voting members of the Governing Authority included not more than six other persons who are neither officers nor employees of the Sponsor. No person could become a voting member of the Governing Authority without prior approval of the Sponsor. Attempts were made to elect members representing community arts organizations that desired to further the establishment and operation of the Academy and parents served by the Academy. The Governing Authority was responsible for carrying out the provisions of the contract, which included, but was 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, provided planning, instructional, administrative and technical services. Personnel who provided services to the Academy on behalf of the Sponsor under the purchased services basis were considered employees of the Sponsor, and the Sponsor was solely responsible for all payroll functions. The Academy provided services to approximately 142 students during the period July 1, 2007 through June 5, 2008.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008**

NOTE 1 - DESCRIPTION OF THE ACADEMY - (Continued)

Under the Sponsorship Contract between the Academy and the Sponsor, the Academy was required to pay the Sponsor three percent (3%) from the funding provided to the Academy by the Ohio Department of Education as an administrative fee. In addition, in the event that the Sponsor provided substantially all of the special education and services required by an IEP, the Academy was required to pay the Sponsor the funds the Academy received from the Ohio Department of Education on account of such student, except that the Academy was allowed to retain sufficient funds to cover its actual costs related to such student, if any. Any other payments from the Academy to the Sponsor were mutually agreed upon between the Academy and the Sponsor.

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.

In accordance with the Sponsorship Contract and as discussed in Note 8, the Academy transferred all assets, liabilities and net assets to the Canton City School District on June 5, 2008; therefore, the Academy does not present a statement of net assets at June 5, 2008.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008

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

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. The contract between the Academy and its Sponsor required a detailed school budget for each year of the contract; however, the budget did not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash

All monies received by the Academy were deposited in a demand deposit account. In accordance with the Sponsorship Contract and as discussed in Note 8, the Academy transferred all remaining cash to the Canton City School District on June 5, 2008.

E. Capital Assets and Depreciation

All capital assets were capitalized at cost and updated for additions and reductions during the year. Donated capital assets were recorded at their fair market value on the date donated. The Academy maintained a capitalization threshold of \$500. The Academy did not have any infrastructure. Improvements were 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 were not capitalized.

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

In accordance with the Sponsorship Contract and as discussed in Note 8, the Academy transferred all capital assets, net of accumulated depreciation, to the Canton City School District on June 5, 2008.

F. Intergovernmental Revenue

The Academy participated in the State Foundation Program through the Ohio Department of Education. Revenues from this program were recognized as operating revenue in the accounting period in which it is earned, essentially the same as the fiscal year.

Grants and entitlements were recognized as non-operating revenues in the accounting period in which all eligibility requirements were met. Eligibility included timing requirements, which specified the year when the resources were required to be used or the fiscal year when use was first permitted; matching requirements, in which the Academy must have provided local resources to be used for a specified purpose; and expenditure requirements, in which the resources were provided to the Academy on a reimbursement basis. The Academy received the State of Ohio Educational Management Information Systems (EMIS) and the Ohio Reads grant. In addition, the Academy received the following federal grants: food service reimbursements, Title I, Title V, Title IV-A Drug Free, Title II-A and other miscellaneous federal grants. Federal and State grant revenue for the period July 1, 2007 through June 5, 2008 was \$216,625.

In accordance with the Sponsorship Contract and as discussed in Note 8, the Academy transferred all intergovernmental receivables to the Canton City School District on June 5, 2008.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008

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

G. Operating Revenues and Expenses

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

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 - CAPITAL ASSETS

Capital asset activity for the period July 1, 2007 through June 5, 2008, was as follows:

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Transfer of Assets to Sponsor</u>	<u>Balance at June 5, 2008</u>
Furniture and equipment	\$ 236,586	\$ 9,390	\$ (245,976)	\$ -
Less: accumulated depreciation	<u>(25,992)</u>	<u>(31,489)</u>	<u>57,481</u>	<u>-</u>
Capital assets, net	<u>\$ 210,594</u>	<u>\$ (22,099)</u>	<u>\$ (188,495)</u>	<u>\$ -</u>

In accordance with the Sponsorship Contract and as discussed in Note 8, the Academy transferred all capital assets, net of accumulated depreciation, to the Canton City School District on June 5, 2008.

NOTE 4 - RISK MANAGEMENT

The Academy was 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 the period July 1, 2007 through June 5, 2008, the Academy was named on the Sponsor's policy for property and general liability insurance. The Academy provided 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 this commercial coverage in any of the past three fiscal years, and there was no significant reduction in coverage from the prior fiscal year.

CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008

NOTE 5 - PURCHASED SERVICES

For period July 1, 2007 through June 5, 2008, purchased services expenses were as follows:

Professional and technical services	\$ 927,386
Property services	59,855
Travel, mileage and meetings	9,020
Communications	520
Contracted craft or trade services	150
Other	<u>153</u>
Total	<u>\$ 997,084</u>

NOTE 6 - CONTINGENCIES

A. Grants

The Academy received financial assistance from state agencies in the form of grants. The expense 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. The Academy ceased operations on June 5, 2008 and all assets and liabilities were transferred to the Canton City School District. As such, any resulting liabilities would become a liability of the Canton City School District. In the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Canton City School District at June 30, 2008.

B. 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 the period July 1, 2007 through June 5, 2008 has been completed and the results of that review did not have a material effect on the financial statements.

NOTE 7 - RELATED PARTY TRANSACTIONS

For the period July 1, 2007 through June 5, 2008, the Academy had expenses of \$1,003,324 to their Sponsor.

**CANTON ARTS ACADEMY COMMUNITY SCHOOL
(A Component Unit of the Canton City School District)
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE PERIOD JULY 1, 2007 THROUGH JUNE 5, 2008

NOTE 8 - CONTINUED EXISTENCE

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 Academy become a PreK – 8 Canton City School District theme/magnet school and cease to be a District sponsored charter school. Due to a lack of grant funding and the expectations of the operation of the Academy that would have resulted in the ineffective spending and an overuse of personnel, the Academy ceased operations effective June 5, 2008.

In accordance with the Sponsorship Contract, upon dissolution, any remaining assets and liabilities of the Academy are to be conveyed to the Sponsor (Canton City School District). On June 5, 2008, the Academy transferred the following assets and liabilities to the Canton City School District in accordance with the Sponsorship Contract:

Assets:

Cash	\$ 457,234
Prepayments	26
Intergovernmental receivables	59,486
Capital assets, net of accumulated depreciation	<u>188,495</u>

Total assets to Canton City School District upon dissolution	<u>705,241</u>
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Liabilities:

Accounts payable	15,724
Intergovernmental payable	<u>314,450</u>

Total liabilities to Canton City School District upon dissolution	<u>330,174</u>
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Total net assets to Canton City School District upon dissolution	<u>\$ 375,067</u>
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This transfer of assets to the Sponsor is reflected on the financial statements as “Net assets to Canton City School District upon dissolution”.

During the dissolution process the Academy consulted the Ohio Department of Education, Office of Community Schools. One of the procedures required of the Academy and Sponsor was to obtain fair market values for property acquired using federal grants. As of the date of this report, this process is ongoing.



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 Arts Academy Community School
Stark County
1312 5th Street S.W.
Canton, Ohio 44707

To the Board of Directors:

We have audited the financial statements of the Canton Arts Academy Community School, Stark County, Ohio, (the Academy) a component unit of the Canton City School District, as of June 5, 2008 and for the period July 1, 2007 to June 5, 2008, and have issued our report thereon dated January 23, 2009, in which we noted the Academy ceased operations as of June 5, 2008 at which time all assets, liabilities, and net assets were distributed to the sponsor, Canton City School District. 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 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 Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the 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 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 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 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 internal control matters that we reported to the Academy's management in a separate letter dated January 23, 2009.

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*.

We did note certain noncompliance or other matters that we reported to the Academy's management in a separate letter dated January 23, 2009.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 23, 2009



Mary Taylor, CPA
Auditor of State

CANTON ARTS 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
MARCH 24, 2009