



**CANTON CITY SCHOOLS DIGITAL ACADEMY
STARK COUNTY**

FINAL AUDIT

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



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
1312 5th Street 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 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 City Schools Digital Academy, 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 Digital 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 February 6, 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

February 6, 2009

**CANTON CITY SCHOOLS DIGITAL ACADEMY
(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 City Schools Digital Academy's (the "Digital Academy") financial performance provides an overall review of the Digital 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 Digital 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 Digital Academy's financial performance.

Financial Highlights

The Digital Academy ceased operations effective June 5, 2008. The Digital Academy began operations on December 16, 2003. The Digital Academy averaged 137 students per year over five years of operations. The assets and liabilities of the Digital Academy reverted to the Canton City School District (the Sponsor) upon the dissolution. Canton City School District will use these assets to continue addressing the needs of students who benefited from the Digital 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 Digital Academy's financial activities. The statement of revenues, expenses and changes in net assets provides information about the activities of the Digital Academy.

Reporting the Digital 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 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. 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 Digital 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 CITY SCHOOLS DIGITAL ACADEMY
(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 Digital Academy's assets, liabilities and net assets at June 5, 2008 and at June 30, 2007:

	Net Assets	
	2008	2007
<u>Assets</u>		
Current assets	\$ -	\$ 859,598
Capital assets, net	-	277,834
Total assets	-	1,137,432
<u>Liabilities</u>		
Current liabilities	-	204,514
Total liabilities	-	204,514
<u>Net Assets</u>		
Invested in capital assets	-	277,834
Restricted	-	136,484
Unrestricted	-	518,600
Total net assets	\$ -	\$ 932,918

The Digital Academy ceased operations on June 5, 2008 and transferred all assets and liabilities to the Canton City School District. The Digital Academy transferred \$1,166,266 in cash, \$358 in prepayments, \$391,441 in intergovernmental receivables, \$221,470 in capital assets, net of accumulated depreciation, \$13,556 in accounts payable and \$131,896 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 CITY SCHOOLS DIGITAL ACADEMY
(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	\$ 1,382,362	\$ 1,294,118
Other	<u>574</u>	<u>-</u>
Total operating revenue	<u>1,382,936</u>	<u>1,294,118</u>
<u>Operating expenses:</u>		
Purchased services	683,649	793,427
Materials and supplies	12,165	30,787
Depreciation	80,589	66,650
Other	<u>37,925</u>	<u>46,452</u>
Total operating expenses	<u>814,328</u>	<u>937,316</u>
<u>Non-operating revenues (expenses):</u>		
Federal and state grants	127,996	143,298
Interest income	4,561	1,194
Net assets to Canton City School District upon dissolution	<u>(1,634,083)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(1,501,526)</u>	<u>144,492</u>
Change in net assets	(932,918)	501,294
Net assets at beginning of period	<u>932,918</u>	<u>431,624</u>
Net assets at end of period	<u>\$ -</u>	<u>\$ 932,918</u>

As stated in Note 8 to the basic financial statements, the Digital 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 Digital Academy ceased operations and capital assets, net of accumulated depreciation, of \$221,470, became the property of the Canton City School District. See Note 3 to the basic financial statements for more detail on capital assets.

**CANTON CITY SCHOOLS DIGITAL ACADEMY
(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 Digital Academy relied on state foundation funds as well as federal sub-grants to provide the monies necessary to begin the start-up of the technology program. The Digital Academy committed itself to providing a program of on-line instruction in an independent environment that does not include most ancillary components of a more traditional education. However, due to financial consideration, the Digital Academy ceased operations effective June 5, 2008. The program of the Digital Academy will continue to be provided through 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 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: Treasurer, Canton City School District, 1312 5th Street SW, Canton, Ohio 44707-4798.

CANTON CITY SCHOOLS DIGITAL ACADEMY
(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.	\$ 1,382,362
Other.	<u>574</u>
Total operating revenues	<u>1,382,936</u>
Operating expenses:	
Purchased services.	683,649
Materials and supplies	12,165
Depreciation	80,589
Other	<u>37,925</u>
Total operating expenses.	<u>814,328</u>
Operating income	<u>568,608</u>
Non-operating revenues (expenses):	
Federal and State grants.	127,996
Interest income	4,561
Net assets to Canton City School District upon dissolution	<u>(1,634,083)</u>
Total non-operating revenues (expenses)	<u>(1,501,526)</u>
Change in net assets	(932,918)
Net assets at beginning of period	<u>932,918</u>
Net assets at end of period	<u><u>\$ -</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CANTON CITY SCHOOLS DIGITAL ACADEMY
(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.	\$	1,215,639
Cash received from other operations		574
Cash payments to suppliers for goods and services		(663,554)
Cash payments for materials and supplies		(17,073)
Cash payments for other expenses		(37,866)
		<hr/>
Net cash provided by operating activities		497,720
Cash flows from noncapital financing activities:		
Federal and state grants.		24,721
Cash payments to Canton City School District upon dissolution		(1,166,266)
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Net cash used in noncapital financing activities		(1,141,545)
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(79,894)
		<hr/>
Net cash used in capital and related financing activities		(79,894)
Cash flows from investing activities:		
Interest received		4,561
		<hr/>
Net cash provided by investing activities		4,561
		<hr/>
Net decrease in cash and cash equivalents		(719,158)
Cash and cash equivalents at beginning of period		719,158
Cash and cash equivalents at end of period.	\$	-
		<hr/> <hr/>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$	568,608
Adjustments:		
Depreciation.		80,589
Net assets to Canton City School District upon dissolution		(28,207)
Changes in assets and liabilities:		
Decrease in accounts receivable.		18,580
Decrease in prepayments		417
(Decrease) in accounts payable.		(28,739)
(Decrease) in intergovernmental payable.		(113,528)
		<hr/>
Net cash provided by operating activities	\$	497,720
		<hr/> <hr/>

Noncash transactions:

The Digital Academy purchased \$5,850 and \$61,519 in capital assets on account at June 5, 2008 and June 30, 2007, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CANTON CITY SCHOOLS DIGITAL ACADEMY
(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 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 the Canton City School District (the “Sponsor”) addressing the needs of students in grades K-12. The Digital Academy, which was part of the State’s education program, was nonsectarian in its programs, admission policies, employment practices and all other operations. The Digital Academy could sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Digital Academy. The Digital 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 Digital Academy provided opportunities for students who had a desire for, and whose education could be optimized by, a program of online instruction in an independent environment that did not include most ancillary components of a more traditional education. The Digital Academy used the latest technology to reach a diverse student population. This population included students within the Sponsor’s district that had specific career interests in a technology field. The students included children who needed an alternative to the traditional classroom. Enrollment was limited to students within the attendance area of the Sponsor. The Digital Academy used the services of the Sponsor and the Jefferson County ESC Virtual Learning Academy (“VLA”) to assist with overall programming and operations. The VLA was an internet-based educational delivery system designed for grades 2-12 that provided alternative educational options for credit deficiencies, alternative programs, students being schooled at home, and summer school programs.

The Digital Academy was approved under a Community School Sponsorship Contract (the “Sponsorship Contract”) with the Sponsor for a period of five years commencing July 1, 2002 through June 30, 2007 after which, the Digital Academy was required to apply for an additional Sponsorship Contract with the Sponsor. The Digital Academy began operations on December 16, 2003 and ceased operations on June 5, 2008 (see Note 8). The Sponsor was responsible for evaluating the performance of the Digital Academy and had the authority to deny renewal of the contract at expiration.

The Digital Academy operated under the direction of a five-member Board of Directors. The Board was 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 included two other persons who are neither officers nor staff members of the Digital Academy or Sponsor to serve as voting members. One of those members was the Assistant Superintendent of the Stark County Educational Service Center and the other was the Director of Technology Integration at the Stark Portage Area Computer Consortium (SPARCC). The Board was responsible for carrying out the provisions of the contract, which included, but were not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers.

The Sponsor, under a purchased services basis with the Digital Academy, provided planning, instructional, administrative and technical services. Personnel that provided services to the Digital 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 Digital Academy provided services to 178 students during the period July 1, 2007 through June 5, 2008.

CANTON CITY SCHOOLS DIGITAL ACADEMY
(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

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.

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

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 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.

**CANTON CITY SCHOOLS DIGITAL ACADEMY
(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)

D. Cash

All monies received by the Digital Academy were deposited in a demand deposit account. In accordance with the Sponsorship Contract and as discussed in Note 8, the Digital 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 Digital Academy maintained a capitalization threshold of \$500. The Digital Academy did not have any infrastructure. Improvements were capitalized. The costs of normal maintenance and repairs that did 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 were depreciated over five to thirty years.

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

F. Operating Revenues and Expenses

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

G. Intergovernmental Revenue

The Digital Academy participated in the State Foundation Program through the Ohio Department of Education. Revenues from these programs were recognized as operating revenue in the accounting period in which they are 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 had been 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 Digital Academy must have provided local resources to be used for a specified purpose; and expenditure requirements, in which the resources were provided to the Digital Academy on a reimbursement basis. The Digital Academy received the State of Ohio Educational Management Information Systems (EMIS) and various State and Federal grants during the period July 1, 2007 through June 5, 2008. Federal and State grant revenue for the period July 1, 2007 through June 5, 2008 was \$127,996.

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

**CANTON CITY SCHOOLS DIGITAL ACADEMY
(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)

H. Estimates

The preparation of financial statements in conformity with GAAP required 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	\$ 422,466	\$ 24,225	\$(446,691)	\$ -
Less: accumulated depreciation	<u>(144,632)</u>	<u>(80,589)</u>	<u>225,221</u>	<u>-</u>
Capital assets, net	<u>\$ 277,834</u>	<u>\$ (56,364)</u>	<u>\$(221,470)</u>	<u>\$ -</u>

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

NOTE 4 - RISK MANAGEMENT

The Digital 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 Digital Academy was named on the Sponsor's policy for property and general liability insurance. The Digital 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 commercial coverage in any of the past three fiscal years, and there was no significant reduction in coverage from the prior fiscal year.

CANTON CITY SCHOOLS DIGITAL ACADEMY
(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	\$ 661,389
Property services	8,439
Travel, mileage and meetings	8,463
Communications	2,345
Contracted craft or trade services	345
Other	<u>2,668</u>
Total	<u>\$ 683,649</u>

NOTE 6 - CONTINGENCIES

A. Grants

The Digital Academy received financial assistance from state and federal 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 Digital 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 resulted in the Digital Academy being owed \$166,723 from the State of Ohio. A receivable for this amount has been included in the calculation of "Net assets to Canton City School District upon dissolution" as the Canton City School District will ultimately receive the money for the underpayment.

NOTE 7 - RELATED PARTY TRANSACTIONS

For the period July 1, 2007 through June 5, 2008, the Digital Academy had expenses of \$599,324 to their Sponsor.

**CANTON CITY SCHOOLS DIGITAL ACADEMY
(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 Digital Academy become a program of the Canton City School District and cease to be a District sponsored charter school. Due to a lack of grant funding and the expectations of the operation of the Digital Academy that would have resulted in the ineffective spending and an overuse of personnel, the Digital Academy ceased operations effective June 5, 2008.

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

Assets:

Cash	\$ 1,166,266
Prepayments	358
Intergovernmental receivables	391,441
Capital assets, net of accumulated depreciation	<u>221,470</u>
Total assets to Canton City School District upon dissolution	<u>1,779,535</u>

Liabilities:

Accounts payable	13,556
Intergovernmental payable	<u>131,896</u>
Total liabilities to Canton City School District upon dissolution	<u>145,452</u>

Total net assets to Canton City School District upon dissolution	<u>\$ 1,634,083</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 Digital Academy consulted the Ohio Department of Education, Office of Community Schools. One of the procedures required of the Digital 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 City Schools Digital Academy
Stark County
1312 5th Street 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 June 5, 2008 and for the period July 1, 2007 to June 5, 2008, and have issued our report thereon dated February 6, 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 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 internal control matters that we reported to the Digital Academy's management in a separate letter dated February 6, 2009.

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 certain noncompliance or other matters that we reported to the Digital Academy's management in a separate letter dated February 6, 2009.

We intend this report solely for the information and use of management, the Board of Directors, and the Canton City Schools 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 6, 2009



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 24, 2009