

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

FOR THE YEAR ENDED JUNE 30, 2009



Mary Taylor, CPA
Auditor of State

Board of Directors
Kent Digital Academy
321 North Depeyster Road
Kent, Ohio 44240

We have reviewed the *Independent Auditor's Report* of the Kent Digital Academy, Portage County, prepared by Rea & Associates, Inc., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Kent Digital Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 3, 2010

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**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

Focused on Your Future.

December 8, 2009

The Board of Directors
Kent Digital Academy
321 North Depeyster Road
Kent, Ohio 44240

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Kent Digital Academy (the Academy) as of and for the year ended June 30, 2009, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kea & Associates, Inc.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Unaudited)**

This discussion and analysis of the Kent Digital Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2009. Readers should also review the basic financial statements and notes to enhance their understanding of the Academy's financial performance.

Highlights

Key financial highlights for fiscal year 2009 are as follows:

- Total net assets decreased \$45,965 in fiscal year 2009, which represents a 19.6 percent decrease from fiscal year 2008.
- In 2009, total assets decreased \$63,257, which represents a 23.6 percent decrease from the fiscal year 2008.
- Total liabilities decreased \$17,292 in fiscal year 2009, which represents a 52.4 percent decrease from fiscal year 2008.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect how the Academy did financially during the fiscal year ended June 30, 2009. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the period revenues and expenses regardless of when cash is received or paid.

These statements report the Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the Academy has increased or decreased during the period. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

The Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Unaudited)**

Table 1 provides a summary of the Academy's net assets as of June 30, 2009 compared to 2008:

*Table 1
Net Assets*

	<i>Net Assets <u>2009</u></i>	<i>Net Assets <u>2008</u></i>
Assets:		
<i>Current and other assets</i>	\$ 98,707	\$ 132,227
<i>Capital assets, net of depreciation</i>	<u>105,607</u>	<u>135,344</u>
<i>Total assets</i>	<u>204,314</u>	<u>267,571</u>
 Liabilities:		
<i>Current and other liabilities</i>	<u>15,708</u>	<u>33,000</u>
 Net Assets:		
<i>Invested in capital assets</i>	105,607	135,344
<i>Restricted</i>	24,554	20,520
<i>Unrestricted</i>	<u>58,445</u>	<u>78,707</u>
<i>Total net assets</i>	<u>\$ 188,606</u>	<u>\$ 234,571</u>

Total assets were \$204,314 a decrease of \$63,257 or 23.6 percent from the previous year. This decrease is primarily due to decreases in cash held by the Academy. Cash amounted to \$86,119, and net capital assets totaled \$105,607.

Invested in capital assets represents a large portion of the Academy's net assets for fiscal year 2009. Capital assets include furniture, fixtures, and equipment and are used to provide services to students and are not available for future spending.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Unaudited)**

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2009 compared to 2008, as well as a listing of revenues and expenses.

*Table 2
Changes in Net Assets*

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Foundation payment	\$ 165,913	\$ 161,074
Non operating revenues (expenses):		
State and federal grants	67,186	124,493
Interest earnings	2,261	11,388
Loss on disposal of capital assets	(189)	-
Total nonoperating revenues	69,258	135,881
Total revenues	235,171	296,955
Operating expenses:		
Purchased services	228,257	322,668
Materials and supplies	8,463	6,806
Depreciation	39,251	27,208
Other	5,165	6,799
Total operating expenses	281,136	363,481
Change in net assets	(45,965)	(66,526)
Net assets, beginning of year	234,571	301,097
Net assets, end of year	\$ 188,606	\$ 234,571

Total net assets decreased \$45,965 in the fiscal year 2009, which represents a 19.6 percent decrease from fiscal year 2008, as a result of decreases in revenue for the fiscal year. This decrease was due primarily from a decrease of \$57,307 in state and federal grants. Community schools receive no support from local taxes. The State Foundation Program and the Ohio Charter Schools Federal Sub-grant Program are the primary support for the Academy's existence.

Budgeting

The Academy is not required to follow the budgetary provision set forth in Ohio Revised Code Chapter 5705 but is required to submit a five year budget forecast as required by Ohio Revised Code Section 5705.391.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Unaudited)**

Capital Assets

The Academy had \$105,607 invested in capital assets (net of accumulated depreciation). Capital assets consist of \$232,968 in furniture, fixtures and equipment. These capital assets were off-set by \$127,361 in accumulated depreciation resulted in net capital assets of \$105,607. The following table shows 2009 and 2008 balances:

*Capital Assets, at Year End
(Net of Depreciation)*

	<u>2009</u>	<u>2008</u>
<i>Total capital assets</i>	\$ 105,607	\$ 135,344

See Note 4 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

Debt

The Academy did not incur any debt during the fiscal year ended June 30, 2009.

Current Financial Issues

The Academy's Board of Directors adopted a revised Five Year Budget Plan on May 22, 2008. This Plan projected a positive cash balance through June 30, 2013. Revenue projections were based on an annual enrollment of 26 students. However, actual shortfalls from these revenue assumptions will negatively impact the Academy's future financial position.

Contacting the Academy's Financial Management:

This financial report is designed to provide our citizens, investors 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 any questions about this report or need additional information, contact Deborah A. Krutz, Treasurer, at Kent Digital Academy, 321 North Depeyster St. Kent, Ohio 44240.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2009**

ASSETS

Current assets:

Cash	\$ 86,119
Receivables:	
State and federal grants	12,588
Total current assets	<u>98,707</u>

Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>105,607</u>
Total assets	<u>204,314</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Contracts payable	1,369
Unearned revenue	14,339
Total current liabilities	<u>15,708</u>

Net assets:

Invested in capital assets	105,607
Restricted	24,554
Unrestricted	58,445
Total net assets	<u>\$ 188,606</u>

See accompanying notes to the basic financial statements.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Operating revenues:</u>	
State foundation	\$ 165,913
<u>Operating expenses:</u>	
Purchased services	228,257
Materials and supplies	8,463
Depreciation	39,251
Other	5,165
Total operating expenses	<u>281,136</u>
Operating loss	<u>(115,223)</u>
<u>Non-operating revenues (expenses):</u>	
State and federal grants	67,186
Interest	2,261
Loss on disposal of capital assets	(189)
Total non-operating revenues	<u>69,258</u>
Change in net assets	(45,965)
Net assets at beginning of year	<u>234,571</u>
Net assets at end of year	<u>\$ 188,606</u>

See accompanying notes to the basic financial statements.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009**

Cash flows from operating activities:

Cash from the State of Ohio	\$ 180,252
Cash payments to suppliers for goods and services	(268,351)
Cash payment for other operating expenses	(5,165)
Net cash used by operating activities	<u>(93,264)</u>

Cash flows from noncapital financing activities:

State and Federal grants	<u>54,598</u>
Net cash provided by noncapital financing activities	<u>54,598</u>

Cash flows from capital and related financing activities:

Cash payments from capital acquisitions	<u>(9,703)</u>
Net cash used for capital and related financing activities	<u>(9,703)</u>

Cash flows from investing activities:

Interest on investments	<u>2,261</u>
Net cash provided by investing activities	<u>2,261</u>

Net decrease in cash	(46,108)
Cash at beginning of year	<u>132,227</u>
Cash at end of year	<u><u>\$ 86,119</u></u>

**Reconciliation of operating loss to
net cash used by operating activities:**

Operating loss	<u>\$ (115,223)</u>
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**Adjustments to reconcile operating loss
to net cash used by operating activities:**

Depreciation	39,251
Change in assets and liabilities:	
Accounts payable	(31,631)
Unearned revenue	14,339
Total adjustments	<u>21,959</u>
Net cash used by operating activities	<u><u>\$ (93,264)</u></u>

See accompanying notes to the basic financial statements.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Kent Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Sections 3314 and 1702 to educate students in kindergarten through twelfth grade. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation under contract with the Board of Education of the Kent City School District (the Sponsor) for a period of one year commencing with fiscal year July 1, 2009 through June 2010. The Academy operates under a five-member Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract which includes, but is not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. 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 on or before November 30, 1989, to its basic financial statements provided they do not conflict with or contradict GASB pronouncements. The Academy has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. Following are the more significant of the Academy's accounting policies.

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, including depreciation) 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

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. 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.

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

C. Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

D. 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 the Sponsor. The contract between the Academy and the Sponsor, the Board of Education of the Kent City School District, does not prescribe a budgetary process for the Academy. However, the Academy is required to submit a five year budget forecast as required by Ohio Revised Code Section 5705.391.

E. Tax Exemption Status

The Academy is a non-profit organization that, in the opinion of legal counsel, is exempt from federal income taxes due to the Academy's status as an integral part of its sponsoring political subdivision, the Kent City School District.

F. Cash

Cash received by the Academy is maintained in a demand deposit account. During the fiscal year, investments were limited to an interest in STAROhio, the State Treasurer's Investment Pool.

G. Capital Assets and Depreciation

Capital assets are capitalized at cost and updated for additions and retirements during the year. The Academy capitalized all assets that were capital in nature. The Academy does not possess any infrastructure and does not capitalize interest costs.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of furniture, fixtures, and equipment is computed using the straight-line method over estimated useful lives of five to ten years.

Depreciation expense for 2009 and 2008 was \$39,251 and \$27,208, respectively.

H. Net Asset

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

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

I. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program and the State Special Education Program. Revenues received from the State Foundation Program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Revenues received from the State Special Education Program and other grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the Academy. The review resulted in an overpayment to the Academy of \$14,339 being identified. See Note 9 for more information.

The Academy also participates in the Federal Charter School Grant Program through the Ohio Department of Education. The Academy did not receive any revenue under this program for the year ended June 30, 2009.

J. Estimates

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

NOTE 3 –DEPOSITS AND INVESTMENT

A. Deposits

Custodial credit risk is the risk that, in the event of bank failure, the Academy's deposits may not be returned. The Academy does not have a deposit policy for custodial credit risk. At June 30, 2009, the carrying amount of the Academy's deposits totaled \$46,597. All of the bank balance of \$54,422 was covered by federal depository insurance.

B. Investments

As of June 30, 2009 the Academy had the following investment and maturity:

<i><u>Investment type</u></i>	<i><u>Fair Value</u></i>	<i><u>Percentage of Investments</u></i>	<i><u>Maturity</u></i>	<i><u>Rating</u></i>
STAROhio	\$ 39,522	100%	N/A	AAAm ⁽¹⁾

⁽¹⁾ Standard and Poor's rating

STAROhio is an investment pool managed by the State Treasurer's Office which allows

**KENT DIGITAL ACADEMY
PORTAGE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2009.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. Standard and Poor's has assigned STAROhio an AAAM rating Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard service rating.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

A summary of the Academy's fixed assets at June 30, 2009, follows:

	<u>Balance</u> <u>6/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2009</u>
<i>Furniture, fixtures and equipment</i>	\$ 223,588	\$ 9,703	\$ (323)	\$ 232,968
<i>Less: Accumulated depreciation</i>	<u>(88,244)</u>	<u>(39,251)</u>	<u>134</u>	<u>(127,361)</u>
<i>Net capital assets</i>	<u>\$ 135,344</u>	<u>\$ (29,548)</u>	<u>\$ (189)</u>	<u>\$ 105,607</u>

NOTE 5 - PURCHASED SERVICES

For the year July 1, 2008 through June 30, 2009, purchased service expenses were payments for services rendered by various vendors as follows:

	<u>2009</u>
<i>Property services</i>	\$ 23,745
<i>Professional services</i>	<u>204,512</u>
<i>Total</i>	<u>\$ 228,257</u>

NOTE 6 – CONTRACT WITH TRECA

On June 19, 2008, the Academy entered into a contract, for the 2008-09 school year, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract TRECA shall provide the Academy with instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational, assessment and accountability plans. All personnel providing services provided by TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to its employees. All personnel providing such services shall possess any certification or licensure which may be required by law.

**KENT DIGITAL ACADEMY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 7 – CONTRACT WITH KENT CITY SCHOOL DISTRICT

The Community School Sponsorship Contract between Kent Digital Academy and Kent City School District (CSD) provides for payments that the Academy had to make to the Kent CSD during fiscal year 2009. These payments totaled \$23,745 for the fiscal year and were for supplies, facility use, and reimbursement of personnel costs for the services of Kent CSD employees who work directly with Kent Digital Academy.

NOTE 8 - RISK MANAGEMENT

Property and Liability

The Academy is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the Academy contracted with a commercial insurance carrier for general liability insurance. There is a \$1,000 deductible and a \$1 million limit per occurrence and a general aggregate limit of \$2 million.

NOTE 9 - CONTINGENCIES

A, Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2009.

B. Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the Academy. These reviews are conducted to ensure the Academy is reporting accurate student enrollment data to the State, upon which foundation funding is calculated. The fiscal year 2009 review resulted in the discovery of an overpayment to the Academy in the amount of \$14,339. This amount has been reflected as unearned revenue and will be deducted from foundation funding in fiscal year 2010



December 8, 2009

The Board of Directors
Kent Digital Academy
321 North Depeyster Road
Kent, Ohio 44240

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the accompanying financial statements of the Kent Digital Academy as of and for the year ended June 30, 2009, and have issued our report thereon dated December 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kent Digital Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kent Digital Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kent 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 the normal course of 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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent Digital Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and the Sponsor and is not intended to be and should not be used by anyone other than these specified parties.

Hea & Associates, Inc.



**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

December 8, 2009

Kent Digital Academy
321 North Depeyster Street
Kent, Ohio 44240

To the Board of Directors:

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Kent Digital Academy has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. As of June 30, 2009 the Academy did not have an anti-harassment policy in accordance with Ohio Rev. Code , however, the policy was adopted on September 17, 2009.
2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - (2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;

(3) A procedure for reporting prohibited incidents;
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- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



Mary Taylor, CPA
Auditor of State

KENT DIGITAL ACADEMY

PORTAGE 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
FEBRUARY 16, 2010**