



**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Perrysburg Digital Academy
Wood County
140 East Indiana Avenue
Perrysburg, Ohio 43551-2294

To the Board of Directors:

We have audited the accompanying basic financial statements of the Perrysburg Digital Academy, Wood County, (the Academy), a component unit of the Perrysburg Exempted Village School District, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perrysburg Digital Academy, as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 4, 2006

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of the Perrysburg Digital Academy's (the Academy) financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2005 for the Academy, are as follows:

- The assets of the Academy exceeded its liabilities at year-end by \$95,722. Of this amount, \$62,702 may be used to meet the Academy's ongoing obligations to citizens and creditors.
- In total, net assets decreased by \$63,731.

Using this Financial Report

This report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. As 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.

Reporting the Academy as a Whole

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the Statement of Net Assets – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

The Statement of Net Assets and the Statement of Activities report the activities for the Academy, which encompass all of the Academy's services, including instruction, support services, and community services. Unrestricted state aid and state and federal grants finance most of these activities.

Table 1 provides a summary of the Academy's net assets for fiscal year 2005 and fiscal year 2004:

(Table 1)
Net Assets

	2005	2004
Assets		
Current Assets	\$ 79,557	\$ 152,887
Capital Assets, Net	30,020	10,238
<i>Total Assets</i>	<u>109,577</u>	<u>163,125</u>
Liabilities		
Current Liabilities	13,855	3,672
<i>Total Liabilities</i>	<u>13,855</u>	<u>3,672</u>
Net Assets		
Invested in Capital Assets	30,020	10,238
Restricted	3,000	-
Unrestricted	62,702	149,215
<i>Total Net Assets</i>	<u>\$ 95,722</u>	<u>\$ 159,453</u>

At June 30, 2005, the Academy had outstanding intergovernmental receivables of \$1,051 compared to \$129,611 at June 30, 2004, which is the primary reason for the decrease in current assets. Cash increased approximately \$55,000 which partially offset the decrease in receivables.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2005 and fiscal year 2004, as well as a listing of revenues and expenses.

(Table 2)
Change in Net Assets

	2005	2004
Operating Revenues:		
Foundation Payments	\$ 302,616	\$ 260,918
Special Education	9,185	
Non-Operating Revenues:		
Federal Grants	11,507	342,924
State Grants	4,168	3,000
<i>Total Revenues</i>	<u>327,476</u>	<u>606,842</u>
Operating Expenses		
Purchased Services:		
Professional and Technical Services	268,616	404,072
Property Services	9,761	10,566
Meeting Expenses	6,062	2,657
Other	7,276	17,348
Materials and Supplies	91,225	10,066
Depreciation	8,145	2,560
Other Expenses	122	120
<i>Total Expenses</i>	<u>391,207</u>	<u>447,389</u>
<i>Increase/(Decrease) in Net Assets</i>	<u>\$ (63,731)</u>	<u>\$ 159,453</u>

The Perrysburg Digital Academy continued to grow in fiscal year 2005. Two additional classes were added resulting in an increase in our state funding. The Academy's administration continued to seek funding sources in 2005 as they did in 2004 with the acquisition of the Continuation Grant that was initially funded in 2004. This was a three year renewable grant that began in fiscal year 2003-04. Revenues from this grant are actually recognized in the fiscal year of the grant award as opposed to when funds are requested, resulting in a significant reduction in federal funds from fiscal year 2004 to 2005. These funds allowed the Academy to acquire system hardware and software from Plato Learning resulting in an enhanced learning environment and reducing the need for contracting services from outside sources, (ie, TRECA). The result of those two factors negatively affected the Academy's net assets. The Academy operates as one business-type enterprise fund and therefore, no analysis of individual funds is included.

Capital Assets

At June 30, 2005, the Academy had \$30,020 invested in furniture and equipment, net of accumulated depreciation. This was an increase of \$19,782 from fiscal year 2004, consisting of the purchase of computers. See Note 5 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Contacting the Academy's Financial Management

This financial report is designed to provide 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 information contact Matt Feasel, Treasurer, at Perrysburg Digital Academy, 140 East Indiana Avenue, Perrysburg, Ohio 43551-2294 or call at (419) 874-9131.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets

Current Assets

Cash	\$ 72,752
Intergovernmental Receivables	1,051
Prepaid Items	5,754
<i>Total Current Assets</i>	<u>79,557</u>

Non-Current Assets

Capital Assets, Net of Accumulated Depreciation	<u>30,020</u>
<i>Total Non-Current Assets</i>	<u>30,020</u>

<i>Total Assets</i>	<u>109,577</u>
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Liabilities

Current Liabilities

Accounts Payable	<u>13,855</u>
<i>Total Current Liabilities</i>	<u>13,855</u>

Net Assets

Invested in Capital Assets	30,020
Restricted for Other Purposes	3,000
Unrestricted	<u>62,702</u>
<i>Total Net Assets</i>	<u>\$ 95,722</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Enterprise</u>
Operating Revenues	
Foundation Payments	\$ 302,616
Special Education	9,185
	<hr/>
<i>Total Operating Revenues</i>	311,801
	<hr/>
Operating Expenses	
Purchased Services	291,715
Materials and Supplies	91,225
Depreciation	8,145
Other	122
	<hr/>
<i>Total Operating Expenses</i>	391,207
	<hr/>
<i>Operating Loss</i>	(79,406)
	<hr/>
Non-Operating Revenues	
Federal Grants	11,507
State Grants	4,168
	<hr/>
<i>Total Non-Operating Revenues</i>	15,675
	<hr/>
<i>Change in Net Assets</i>	(63,731)
	<hr/>
Net Assets Beginning of Year	159,453
	<hr/>
<i>Net Assets End of Year</i>	\$ 95,722
	<hr/> <hr/>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Increase (Decrease) in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities</u>	
Cash Received from State of Ohio	\$ 316,412
Cash Payments for Purchased Services	(266,762)
Cash Payments to Suppliers for Goods and Services	(94,897)
Cash Payments to Others	<u>(10,904)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(56,151)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Federal and State Grants Received	<u>139,624</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>139,624</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	<u>(27,927)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(27,927)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	55,546
Cash and Cash Equivalents at Beginning of Year	<u>17,206</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 72,752</u></u>

(Continued)

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

**Reconciliation of Operating Loss to Net
Cash Used for Operating Activities**

Operating Loss	\$ (79,406)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	8,145
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable	4,611
Decrease in Prepaid Items	316
Increase in Accounts Payable	<u>10,183</u>
<i>Total Adjustments</i>	<u>23,255</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (56,151)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 – DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Perrysburg Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy's objective is to deliver a comprehensive educational program of high quality, tied to state and national standards, which can be delivered to students in the K-12 population entirely through distance learning technologies. It is to be operated in cooperation with the public schools to provide an innovative and cost-effective solution to the special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including home-schooled students who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program. 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 a contract with the Perrysburg Exempted Village School District (the Sponsor) for a period of five years commencing on the first day of the 2002 academic year, as set forth in the educational plan. The Academy initiated operations on August 26, 2003. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Academy operates under the direction of a seven-member Board of Directors. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors is composed of:

- a) The Superintendent, High School Principal, and Curriculum Director of Perrysburg Exempted Village School District, which have been appointed by the Perrysburg Exempted Village School District Board of Education. Each of these administrators serves on the Board of Directors as a representative of the Board of Education and its interests.
- b) One person who is neither an officer nor employee of the Perrysburg Exempted Village School District whom shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of the Academy. Such person has been appointed by the Board of Directors.
- c) One person who is neither an officer nor employee of the Perrysburg Exempted Village School District who is initially appointed by the Tri-Rivers Educational Computer Consortium (TRECA) and who serves on the Board in his official capacity as a representative of TRECA's interests. However, the TRECA representative shall, within one year following the incorporation of the Academy, be replaced by a person who represents the interests of parents and students served by the Academy. Such person shall be appointed by the Board of Directors.
- d) A representative from the Business Advisory Council and a representative from the community at-large.

The Academy is a component unit of Perrysburg Exempted Village School District.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Perrysburg Digital Academy have been prepared in conformity with generally accepted accounting principles (GAAP) 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, provided they 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 more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. 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 statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the accrual basis of accounting.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

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 Chapter 5705, unless specifically provided in the contract between the Academy and its sponsor. The contract between the Academy and its Sponsor does not prescribe a budgetary process for the Academy; therefore no budgetary information is presented in the financial statements.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the Academy's fiscal agent, the Perrysburg Exempted Village School District. All cash received by the fiscal agent is maintained in a separate account in the Academy's name. For purposes of the Statement of Cash Flows and presentation on the Statement of Net Assets, investments with original maturities of three months or less at the time they are purchased by the Academy, are considered to be cash equivalents. The Academy had no investments during the fiscal year.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

H. Net Assets

Net assets represent the difference between assets and liabilities. Invested in Capital Assets consists 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.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily foundation payments from the state. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the Academy. Revenues and expenses not meeting this definition are reported as non-operating.

J. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

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

Federal and state grants 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 first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy participates in various programs through the Ohio Department of Education. These include the Federal Charter School Grant Program, Title II-A, Title IV-A, Title V, Title VI-B, Disadvantaged Pupils, and EMIS grant.

Expenses are recognized at the time they are incurred.

K. 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 those estimates.

NOTE 3 - DEPOSITS

At fiscal year end June 30, 2005, the carrying amount of the Academy's deposits totaled \$72,752, and its bank balance was \$91,712. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of June 30, 2005, none of the bank balance was exposed to custodial risk as discussed below, while all of the bank balance was covered by the Federal Depository Insurance Corporation.

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

NOTE 4 – INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2005, consisted of a state grant in the amount of \$1,051. All intergovernmental receivables are considered collectible in full due to the stable condition of state programs.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 5 - CAPITAL ASSETS

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

	Balance 07/01/04	Additions	Deletions	Balance 06/30/05
Furniture and Equipment	\$ 12,798	\$ 27,927		\$ 40,725
Less: Accumulated Depreciation	2,560	8,145		10,705
Capital Assets, Net	\$ 10,238	\$ 19,782		\$ 30,020

NOTE 6 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the Academy contracted with a commercial insurance carrier for general liability and property insurance and for school leaders' errors and omissions insurance.

Coverages are as follows:

General Liability:		
Per occurrence		\$ 1,000,000
Aggregate		2,000,000
Fire Damage Liability		100,000
School Leaders Errors and Omissions (\$2,500 deductible)		1,000,000
Umbrella Policy:		
Per occurrence		2,000,000
Aggregate		2,000,000

Settled claims have not exceeded this commercial coverage in the past two years. There has been no significant change in insurance coverage.

NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR

The Perrysburg Exempted Village School District (Sponsor) serves as the sponsor for the Perrysburg Digital Academy. The Academy does not employ any individuals within the Digital Academy itself. All employees are employed by the Sponsor. This includes a coordinator and several part-time teaching positions. The Sponsor also provides educational support through the Sponsor's pupil services department for students with special needs.

The Sponsorship Contract states the Treasurer of the Perrysburg Exempted Village School District shall serve as the Chief Financial Officer of the Academy. The Treasurer performs the following functions for the Academy:

- A. Maintain the financial records of the Academy in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;
- B. Comply with the policies and procedures regarding internal financial control of the Academy; and

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR – (Continued)

C. Comply with the requirements and procedures for financial audits by the Auditor of State.

In addition, the Sponsorship Contract states the Academy shall secure the services of an Executive Director who shall be the Chief Operating Officer of the Academy. This position is filled by the Curriculum Director of the Academy's Sponsor, Perrysburg Exempted Village School District.

The Academy shall annually pay to the Sponsor \$150 per student per year, and such other amounts as are mutually agreed, including fees for any services provided to the Academy by the Sponsor.

During the year ended June 30, 2005, the Academy incurred \$124,274 in expenses payable to its Sponsor, Perrysburg Exempted Village School District, for:

Salaries and benefits	\$ 113,292
Professional and technical services	10,293
Supplies and materials	78
EMIS services	600
Other	11
<i>Total</i>	<u>\$ 124,274</u>

NOTE 8 – CONTRACT WITH TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION

The Academy entered into a contract on June 8, 2004, for fiscal year 2005, with Tri-Rivers Educational Computer Association (TRECA). Under the contract, the following terms were agreed upon:

- TRECA shall provide the Academy with instructional, supervisory/administrative, and technical services sufficient to substantially implement the Academy's educational plan and the Academy's assessment and accountability plan.
- All personnel providing services to the Academy on behalf of 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 such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to the Academy shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- The Academy shall secure the services of a Coordinator, who shall be the chief operating officer of the Academy, with primary responsibility for day-to day operations of the Academy.
- Curricular services provided by TRECA shall be limited to the basic standardized curriculum developed by TRECA. Basic services do not include special education and related services.
- In exchange for the services and support (including equipment) provided by TRECA, the Academy shall pay to TRECA a fee of \$25,000 for the 2004-2005 school year.
- The Academy shall pay TRECA \$3,550 per full-time high school student and \$2,550 per full-time K-8 student enrolled in the Academy per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 8 – CONTRACT WITH TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION – (Continued)

- In the case of students enrolled in the Academy who are Disabled or Suspected Disabled, as defined in the Exhibit entitled “TRECA Enhancement Services and Special Education Obligations of the Academy and TRECA,” the Academy shall additionally pay to TRECA the fees and costs described in Section II of such exhibit.

For fiscal year 2005, \$103,579 was paid to TRECA and \$3,178 was a payable to TRECA at June 30, 2005.

To obtain TRECA’s audited June 30, 2005, financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

NOTE 9 – STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...”

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 10 - 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

B. State Funding

The Ohio Department of Education reviews enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews ensure the schools are reporting accurate student enrollment data of the State, upon which state foundation funding is calculated. For fiscal year 2005, the review was completed in January 2006 and there were no adjustments made to the Academy’s funding.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 10 – CONTINGENCIES – (Continued)

C. Litigation

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

NOTE 11 – PURCHASED SERVICE EXPENSES

For the year ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

Sponsor, Management Fees and Expenses	\$ 124,196
Fees to Tri-Rivers Educational	106,757
Waterford Reading Program	27,000
Liability & Property Insurance	10,951
Compilation & Audit Expenses	10,903
Training & Meeting Expenses	10,246
Advertising	1,016
NOECA Services	600
Other	46
<i>Total</i>	<u>\$ 291,715</u>

NOTE 12 – TAX EXEMPT STATUS

The Academy's legal counsel issued a tax opinion stating the Academy is not required to pay federal income tax or file federal tax returns because it qualifies as an integral part of the Perrysburg Exempted Village School District which is a political subdivision of the State of Ohio. The tax opinion also indicates that as a further protection, they structured the Academy's incorporation documents in such a way that, in the unlikely event the Internal Revenue Service ever reaches a contrary conclusion regarding the Academy's tax status, the Academy should qualify as a tax-exempt organization under either Section 501(c)(3) or 501(c)(4) of the Internal Revenue Code, retroactive to the date of incorporation. Thus, the Academy should avoid liability for any taxes or penalties imposed by the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status.

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

NOTE 13 – RELATED PARTY TRANSACTIONS

The Academy's Board of Directors includes three members that are employees of the Academy's Sponsor, Perrysburg Exempted Village School District. In addition, the Treasurer of the Sponsor also serves as the Treasurer of the Academy, the Curriculum Director of the Sponsor also serves as the Superintendent of the Academy, and other employees of the Sponsor provide additional services to the Academy.

Payments to the following related parties were as follows:

Perrysburg Exempted Village School District (Sponsor)	\$ 124,274
John Crecelius - Superintendent (Curriculum Director of Sponsor)	1,334
Shawn Deitemeyer - Coordinator (Employee of Sponsor)	3,275
Christine Knudson (Employee of Sponsor)	783
Barry Van Hoozen (Board Member of Sponsor)	732
Connie Bortz (Employee of Sponsor)	654
Mary Conner (Employee of Sponsor)	131
Gretchen Olszewski (Employee of Sponsor)	118
Total	<u>\$ 131,301</u>

Additional disclosure of related parties can be found in Note 1, Note 7, and Note 11.

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**Auditor of State
Betty Montgomery**

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

Perrysburg Digital Academy
Wood County
140 East Indiana Avenue
Perrysburg, Ohio 43551-2294

To the Board of Directors:

We have audited the basic financial statements of the Perrysburg Digital Academy, Wood County, (the Academy), a component unit of the Perrysburg Exempted Village School District, as of and for the year ended June 30, 2005, which comprises the Academy's basic financial statements and have issued our report thereon dated May 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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*. In a separate letter to the Academy's management dated May 4, 2006, we reported another matter related to noncompliance we deemed immaterial.

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Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Perrysburg Digital Academy
Wood County
Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, Board of Directors, and the Sponsor. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 4, 2006



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

PERRYSBURG DIGITAL ACADEMY

WOOD 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
MAY 30, 2006**