



**Auditor of State  
Betty Montgomery**



**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

**TABLE OF CONTENTS**

| <b>TITLE</b>  | <b>PAGE</b> |
|---|-------------|
| Independent Accountants' Report.....  | 1           |
| Management's Discussion and Analysis.....   | 3           |
| Basic Financial Statements:   |             |
| Statement of Net Assets .....   | 5           |
| Statement of Revenues, Expenses, and Change in Net Assets .....   | 6           |
| Statement of Cash Flows .....   | 7           |
| Notes to the Basic Financial Statements .....   | 9           |
| Independent Accountants' Report on Internal Control Over<br>Financial Reporting and on Compliance and Other Matters<br>Required by <i>Government Auditing Standards</i> ..... | 15          |

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Pleasant Digital Academy  
Marion County  
1107 Owens Road West  
Marion, Ohio 43302

To the Board of Directors:

We have audited the accompanying basic financial statements of the Pleasant Digital Academy, Marion County, Ohio (the Academy), a component unit of the Pleasant Local 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 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 the Pleasant Digital Academy, Marion County, Ohio, 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 February 9, 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 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

February 9, 2006

**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

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The discussion and analysis of Pleasant Digital Academy's (PDA) financial performance provides an overall review of PDA's financial activities for the fiscal year ended June 30, 2005. Readers should also review the basic financial statements and notes to enhance their understanding of PDA's financial performance.

**Highlights**

PDA, an Online Internet School, as well as a regular school for Pleasant native kindergarten students, began its first year of operation in fiscal year 2005. During fiscal year 2005, sixty-three students participated in the program; fifty-seven kindergarten students and the remainder were full-time middle school or high school students or students taking additional classes. PDA had received start-up resources in the fiscal year 2004, but actually began operating as a school in fiscal year 2005.

**Using the Basic Financial Statements**

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 change in net assets reflect how PDA did financially during fiscal year 2005. 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 current fiscal years' revenues and expenses regardless of when cash is received or paid.

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

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

Table 1  
Net Assets

|                            | <u>2005</u>      | <u>2004</u>      |
|----------------------------|------------------|------------------|
| <u>Assets:</u>             |                  |                  |
| Current Assets             | \$157,598        | \$112,995        |
| Capital Assets, Net        | 74,265           | 0                |
| Total Assets               | <u>231,863</u>   | <u>112,995</u>   |
| <u>Liabilities:</u>        |                  |                  |
| Current Liabilities        | <u>78,393</u>    | <u>0</u>         |
| <u>Net Assets:</u>         |                  |                  |
| Invested in Capital Assets | 74,265           | 0                |
| Unrestricted               | 79,205           | 112,995          |
| Total Net Assets           | <u>\$153,470</u> | <u>\$112,995</u> |

In the prior fiscal year, PDA's net assets consisted of start-up resources received from the Ohio Department of Education. During fiscal year 2005, computers were purchased for the kindergarten students. Current liabilities at fiscal year end consisted of amounts owed to Tri-Rivers Educational Computer Association for services provided.

**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

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Table 2 reflects the change in net assets for fiscal year 2005. Since this is the first year PDA has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to fiscal year 2004 are not available. In future years, when prior fiscal year information is available, a comparative analysis of government-wide data will be presented.

Table 2  
Change in Net Assets

|                               |                 |
|-------------------------------|-----------------|
| <u>Operating Revenues</u>     |                 |
| Foundation                    | \$180,156       |
| <u>Non-Operating Revenues</u> |                 |
| Operating Grants              | 173,266         |
| Interest Revenue              | 1,192           |
| Total Revenues                | <u>354,614</u>  |
| <br>                          |                 |
| <u>Operating Expenses</u>     |                 |
| Purchased Services            | 235,688         |
| Materials and Supplies        | 61,346          |
| Depreciation                  | 17,105          |
| Total Expenses                | <u>314,139</u>  |
| Increase in Nets Assets       | <u>\$40,475</u> |

For fiscal year 2005, revenues exceeded expenses resulting in the 36 percent increase in net assets.

**Budgeting**

PDA is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

**Capital Assets**

At the end of fiscal year 2005, PDA had \$74,265 invested in capital assets (net of accumulated depreciation). For further information regarding PDA's capital assets, refer to Note 5 to the basic financial statements.

**Current Issues**

PDA continues to gain new students. Some of the students are taking only one class online to supplement the classes they are taking in regular classroom settings. Some of the students are full-time online. There is a niche for students with learning difficulties, or students that need one-on-one help, which they can receive online. The majority of students are kindergarten students, attending regular classrooms at Pleasant Local School District. With the additional monies generated through federal grants, PDA has been able to purchase new curriculum items for the kindergarten class.

**Contacting PDA's Financial Management**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of PDA's finances and to reflect PDA's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Carol Owings, Treasurer, Pleasant Digital Academy, 1107 Owens Road West, Marion, Ohio 43302.



**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2005**

Assets:

Current Assets:

|                              |              |
|------------------------------|--------------|
| Cash and Cash Equivalents    | \$149,134    |
| Intergovernmental Receivable | 2,084        |
| Prepaid Items                | <u>6,380</u> |
| Total Current Assets         | 157,598      |

Non-Current Assets:

|                                 |               |
|---------------------------------|---------------|
| Depreciable Capital Assets, Net | <u>74,265</u> |
| Total Assets                    | 231,863       |

Current Liabilities:

|                  |               |
|------------------|---------------|
| Accounts Payable | <u>78,393</u> |
|------------------|---------------|

Net Assets:

|                            |                         |
|----------------------------|-------------------------|
| Invested in Capital Assets | \$74,265                |
| Unrestricted               | <u>79,205</u>           |
| Total Net Assets           | <u><u>\$153,470</u></u> |

See Accompanying Notes to Basic Financial Statements

**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

|  |                         |
|--|-------------------------|
| <u>Operating Revenues:</u>                   |                         |
| Foundation                                   | <u>\$180,156</u>        |
| <u>Operating Expenses:</u>                   |                         |
| Purchased Services                           | 235,688                 |
| Materials and Supplies                       | 61,346                  |
| Depreciation                                 | <u>17,105</u>           |
| Total Operating Expenses                     | <u>314,139</u>          |
| Operating Loss                               | <u>(133,983)</u>        |
| <u>Non-Operating Revenues:</u>               |                         |
| Operating Grants                             | 173,266                 |
| Interest Revenue                             | <u>1,192</u>            |
| Total Non-Operating Revenues                 | <u>174,458</u>          |
| Change in Net Assets                         | 40,475                  |
| Net Assets at Beginning of Year - See Note 3 | <u>112,995</u>          |
| Net Assets at End of Year                    | <u><u>\$153,470</u></u> |

See Accompanying Notes to the Basic Financial Statements

**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

|  |                 |
|--|-----------------|
| Cash Received from Foundation          | \$178,072       |
| Cash Payments for Goods and Services   | (225,021)       |
| Net Cash Used for Operating Activities | <u>(46,949)</u> |

Cash Flows from Noncapital Financing Activities:

|                                     |         |
|-------------------------------------|---------|
| Cash Received from Operating Grants | 173,266 |
|-------------------------------------|---------|

Cash Flows from Capital and Related Financing Activities

|                               |          |
|-------------------------------|----------|
| Acquisition of Capital Assets | (91,370) |
|-------------------------------|----------|

Cash Flows from Investing Activities:

|                             |              |
|-----------------------------|--------------|
| Cash Received from Interest | <u>1,192</u> |
|-----------------------------|--------------|

|  |                         |
|--|-------------------------|
| Net Increase in Cash and Cash Equivalents      | 36,139                  |
| Cash and Cash Equivalents at Beginning of Year | 112,995                 |
| Cash and Cash Equivalents at End of Year       | <u><u>\$149,134</u></u> |

Reconciliation of Operating Loss

to Net Cash Used for Operating Activities:

|                |             |
|----------------|-------------|
| Operating Loss | (\$133,983) |
|----------------|-------------|

Adjustments to Reconcile Operating Loss

to Net Cash Used for Operating Activities:

|  |                          |
|--|--------------------------|
| Depreciation                             | 17,105                   |
| Changes in Assets and Liabilities:       |                          |
| Increase in Intergovernmental Receivable | (2,084)                  |
| Increase in Prepaid Items                | (6,380)                  |
| Increase in Accounts Payable             | 78,393                   |
| Net Cash Used for Operating Activities   | <u><u>(\$46,949)</u></u> |

See Accompanying Notes to the Basic Financial Statements

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**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

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**1. DESCRIPTION OF THE SCHOOL**

Pleasant Digital Academy (PDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. PDA is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect PDA's tax exempt status. PDA's objective is to enhance and facilitate student learning by combining state-of-the-art digital curriculum and instruction with access to local school resources that complement that instruction and prepare students to become lifelong learners and productive citizens. 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. PDA, which is part of the State's education program, is nonsectarian in its programs, admissions policies, employment practices, and all other operations. PDA may acquire facilities as needed and contract for any services necessary for the operation of the school.

PDA was approved for operation under a contract with the Pleasant Local School District (the Sponsor) for a five-year period commencing on the first day of the 2002 academic year. Pleasant Local School District is responsible for evaluating the performance of PDA and has the authority to deny renewal of the contract at its expiration. Pleasant Local School District is also the fiscal agent of PDA with the Treasurer of Pleasant Local School District performing the role of Treasurer for PDA.

PDA operates under the direction of a seven-member Board of Directors made up of the Superintendent, the High School Principal, the Elementary School Principal, and the Director of Education of the Pleasant Local School District and three members from the public. The first public member shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of PDA. The second public member shall be a representative appointed by the Tri-Rivers Educational Computer Association (TRECA). After the first year of operation, the member appointed by TRECA will be replaced by a person who represents the interests of parents and students served by PDA. The third public member shall be an at large community member. The Sponsor makes up a majority of the Board; therefore, PDA is a component unit of the Pleasant Local School District. The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget; developing policies to guide the operation of PDA; securing funding; and maintaining a commitment to the vision, mission, and belief statements of PDA. During fiscal year 2005, PDA purchased services from TRECA for providing the instructional, administrative, and technical services for PDA.

The PDA participates in the Ohio School Plan, an insurance pool. This organization is presented in Note 10 to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of PDA have been prepared in conformity with generally accepted accounting principles (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. PDA 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. PDA does not apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989. Following are the more significant of the PDA's accounting policies.

**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation**

PDA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and change in net assets; and a statement of cash flows.

PDA uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, change in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**B. Measurement Focus**

PDA is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of PDA are included on the statement of net assets. The statement of revenues, expenses, and change in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how PDA finances and meets its cash flow needs.

**C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. PDA's financial statements are prepared using the accrual basis of accounting. Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded when the exchange takes place. Revenues resulting from nonexchange transactions, in which PDA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which PDA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to PDA 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 the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by PDA's contract with its Sponsor. The contract between PDA and its Sponsor prescribes a regular review of the budget.

**E. Cash and Cash Equivalents**

Cash held by PDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2005, PDA had no investments.

**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 purchase and an expense is reported in the year in which services are consumed.

**G. Capital Assets**

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. PDA maintains a capitalization threshold of five hundred dollars. PDA does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Capital assets, currently consisting of equipment, are depreciated over three years.

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets 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 either through the enabling legislation adopted by PDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. PDA first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. PDA did not have any restricted net assets at fiscal year end.

**I. Operating Revenues and Expenses**

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

**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 those estimates.

**3. RESTATEMENT OF FUND EQUITY**

For the fiscal year ended June 30, 2005, PDA had presented for the first time basic financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, PDA has changed its basis of accounting from a cash basis to the accrual basis of accounting using an enterprise presentation for its basic financial statements. The restatement of beginning net assets is \$112,995.

**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

**4. DEPOSITS**

Custodial credit risk for deposits is the risk that in the event of bank failure, the PDA will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$50,053 of the PDA's bank balance of \$150,053 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the PDA's name. PDA has no deposit policy for custodial credit risk.

**5. CAPITAL ASSETS**

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

|                               | Balance at<br>6/30/04 | Additions       | Reductions | Balance at<br>6/30/05 |
|-------------------------------|-----------------------|-----------------|------------|-----------------------|
| Depreciable Capital Assets    |                       |                 |            |                       |
| Equipment                     | \$0                   | \$91,370        | \$0        | \$91,370              |
| Less Accumulated Depreciation | 0                     | (17,105)        | 0          | (17,105)              |
| Capital Assets, Net           | <u>\$0</u>            | <u>\$74,265</u> | <u>\$0</u> | <u>\$74,265</u>       |

**6. RISK MANAGEMENT**

PDA 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, PDA contracted for the following insurance coverage:

Coverage provided by the Ohio School Plan:

General Liability

Each Occurrence \$1,000,000

Aggregate 3,000,000

Settled claims have not exceeded this commercial coverage for fiscal year 2005.

For fiscal year 2005, the School District participated in the Ohio School Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

**7. FISCAL AGENT**

The sponsorship agreement states the Treasurer of Pleasant Local School District shall serve as the fiscal officer of PDA.

The Treasurer of Pleasant Local School District shall perform the following functions while serving as the Treasurer of PDA:

- A. Maintain the financial records of PDA in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State;



**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

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**7. FISCAL AGENT (Continued)**

- B. Comply with the policies and procedures regarding internal financial control of PDA; and
- C. Comply with the requirements and procedures for financial audits by the Auditor of the State.

**8. CONTRACT WITH TRECA**

PDA entered into a contract on November 10, 2004, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services for the 2004-2005 school year. Under the contract, the following terms were agreed upon:

1. TRECA shall provide instructional, supervisory/administrative, and technical services sufficient to effectively implement PDA's educational plan and PDA's assessment and accountability plan.
2. All personnel providing services to PDA 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.
3. The technical services provided by TRECA to PDA 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.
4. PDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of PDA.
5. Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
6. In exchange for the services and support (including equipment) provided by TRECA, PDA shall pay to TRECA a fee of \$25,000 for fiscal year 2005.
7. PDA shall pay to TRECA \$3,550 per full-time high school student and \$2,550 per full-time K-8 student enrolled in PDA per year. Part-time students may be enrolled on such terms as are agreed to by the parties. For fiscal year 2005, \$19,398 was paid to TRECA.

To obtain TRECA's June 30, 2005 audited, financial statements contact Scott Armstrong, Treasurer, at [scott@treca.org](mailto:scott@treca.org).

**9. RELATED PARTY TRANSACTIONS**

PDA is a component unit of the Sponsor (Pleasant Local School District). PDA and Pleasant Local School District entered into a 5-year sponsorship agreement on December 16, 2002, whereby terms of the sponsorship were established. Pursuant to this agreement, Pleasant Local School District's Treasurer serves as PDA's fiscal officer.

In fiscal year 2005, other payments were made by PDA to Pleasant Local School District totaling \$182,920. These represent payments of \$42,920 for administrative services provided by Pleasant Local School District to PDA, \$130,254 for kindergarten teachers, and \$9,746 for reimbursements for supplies and equipment purchases made by Pleasant Local School District for PDA.

**PLEASANT DIGITAL ACADEMY  
MARION COUNTY**

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

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**9. RELATED PARTY TRANSACTIONS (Continued)**

Payments made by PDA to TRECA in fiscal year 2005 totaled \$54,479. This consists of the \$19,398 in student charges, \$25,000 in contract fees, and \$10,081 in miscellaneous fees.

**10. INSURANCE POOL**

PDA participates in the Ohio School Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of the Hylant Group, Inc. The Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

**11. CONTINGENCIES**

**A. Grants**

PDA received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is 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 PDA at June 30, 2005.

**B. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging 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 for oral arguments 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 argument occurred November 29, 2005. The effect, if any, on PDA is not presently determinable.

**C. Full Time Equivalency**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by community 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 conclusions of this review could result in State funding being adjusted. As a result of this review, the adjustment for fiscal year 2005 for PDA was an underpayment, in the amount of \$2,084. This amount has been recorded as intergovernmental receivable in the accompanying financial statements.



**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**

Pleasant Digital Academy  
Marion County  
1107 Owens Road West  
Marion, Ohio 43302

To the Board of Directors:

We have audited the basic financial statements of the Pleasant Digital Academy, Marion County, Ohio, (the Academy), a component unit of the Pleasant Local School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated February 9, 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*.

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Pleasant Digital Academy  
Marion 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 management and the Board of Directors. 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

February 9, 2006



**Auditor of State  
Betty Montgomery**

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**PLEASANT DIGITAL ACADEMY**

**MARION 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 07, 2006**