

Perry Panther Digital Academy

Audited Financial Statements

June 30, 2006



Mary Taylor, CPA
Auditor of State

Board of Directors
Perry Panther Digital Academy
4201 13th Street
Massillon, Ohio 44646

We have reviewed the *Independent Auditor's Report* of the Perry Panther Digital Academy, Stark County, prepared by Rea & Associates, Inc., for the audit period July 1, 2005 through June 30, 2006. 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 Perry Panther Digital Academy is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 6, 2007

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**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY**

JUNE 30, 2006

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

December 22, 2006

To the Board of Directors
Perry Panther Digital Academy
Massillon, OH 44646

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Perry Panther Digital Academy (the "Academy"), Stark County, Ohio a component unit of the Perry Local School District as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Perry Panther Digital Academy, Stark County, Ohio as of June 30, 2006, and the respective changes in financial position and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated December 22, 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. 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 the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 2-5 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Rea & Associates, Inc.

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)

The discussion and analysis of the Perry Panther Digital Academy's (the "Digital Academy") financial performance provides an overall review of the Digital Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Digital Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Digital Academy's financial performance.

Financial Highlights

The Digital Academy ended educational operations as of June 30, 2006. The Digital Academy began operations on September 24, 2003. The assets of the Digital Academy reverted to its Sponsor (Perry Local School District) upon the dissolution of the Digital Academy. The Perry Local School District will use these assets to continue addressing the needs of students who benefited from the Digital Academy's curriculum.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Digital Academy's financial activities. The *Statement of Revenues, Expenses and Changes in Net Assets* provides information about the activities of the Digital Academy, including all short-term and long-term financial resources and obligations.

Reporting the Digital Academy's Financial Activities

Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and ask the question, "How did we do financially during 2006?" The Statement of Revenues, Expenses and Changes in Net Assets answers this question. This statement includes *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

This statement reports the Digital Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Digital Academy as a whole, the *financial position* of the Digital Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. This statement can be found on page 6 of this report.

The statement of cash flows provides information about how the Digital Academy finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 7 of this report.

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)

The table below provides a summary of the Digital Academy's net assets at June 30, 2006 and June 30, 2005.

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Current assets	\$ -	\$ 164,232
Capital assets, net	<u>-</u>	<u>88,706</u>
Total assets	<u>-</u>	<u>252,938</u>
<u>Liabilities</u>		
Accounts payable	<u>-</u>	<u>76,832</u>
Total liabilities	<u>-</u>	<u>76,832</u>
<u>Net Assets</u>		
Invested in capital assets	-	88,706
Restricted	-	98,169
Unrestricted	<u>-</u>	<u>(10,769)</u>
Total net assets	<u>\$ -</u>	<u>\$ 176,106</u>

The decrease in assets, liabilities and net assets is attributed to the Digital Academy's payment of remaining liabilities and transfer of all remaining assets to the Sponsor due to the dissolution of the Digital Academy. The Digital Academy transferred net capital assets of \$91,423 to its sponsor, Perry Local School District, on June 30, 2006.

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

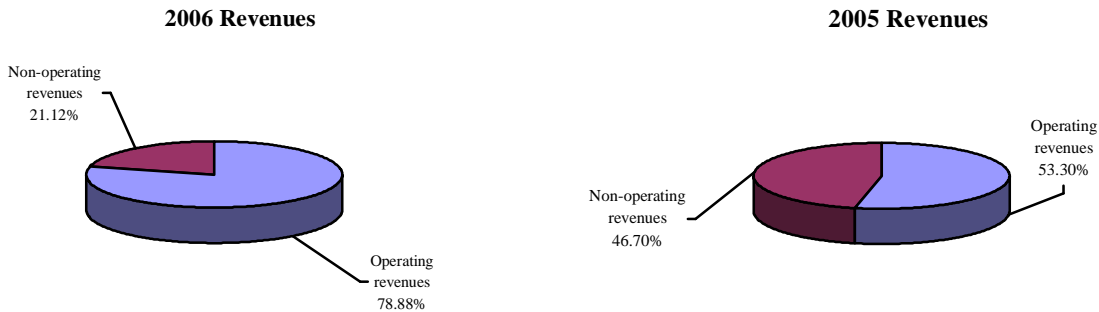
The table below shows the changes in net assets for fiscal years 2006 and 2005.

Change in Net Assets

	<u>2006</u>	<u>2005</u>
<u>Operating Revenues:</u>		
State foundation	\$ 118,496	\$ 174,597
Total operating revenue	<u>118,496</u>	<u>174,597</u>
<u>Operating Expenses:</u>		
Purchased services	255,492	240,945
Materials and supplies	37,969	676
Depreciation	24,594	13,140
Other	<u>8,267</u>	<u>6,933</u>
Total operating expenses	<u>326,322</u>	<u>261,694</u>
<u>Non-operating Revenues (Expenses):</u>		
Federal and state grants	153,000	153,000
Capital Assets to Sponsor upon dissolution	(91,423)	-
Cash to Sponsor upon dissolution	<u>(29,857)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>31,720</u>	<u>153,000</u>
Change in net assets	(176,106)	65,903
Net assets at beginning of year	<u>176,106</u>	<u>110,203</u>
Net assets at end of year	<u>\$ -</u>	<u>\$ 176,106</u>

As stated in Note 9 to the financial statements, the Digital Academy ceases operation on June 30, 2006. All assets remaining at that time were transferred to the Digital Academy's Sponsor.

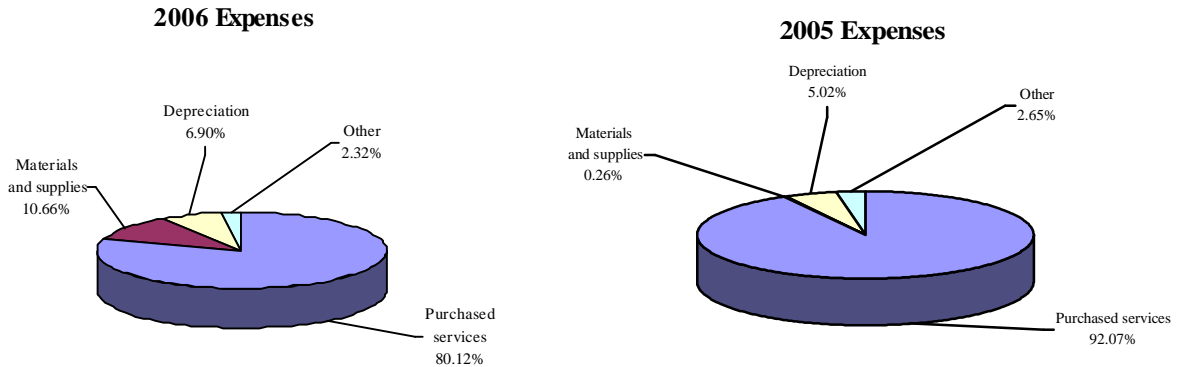
The charts below illustrate the revenues for the Digital Academy for fiscal years 2006 and 2005.



**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(UNAUDITED)**

The charts below illustrate the expenses for the Digital Academy for fiscal years 2006 and 2005.



Capital Assets

At June 30, 2006, the Digital Academy ceased operations and all remaining capital assets, net of accumulated depreciation, of \$91,423 became property of the Sponsor, Perry Local School District. See Note 4 to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The Digital Academy was sponsored by Perry Local School District. The Digital Academy relied upon State Foundation monies and Federal Sub-Grants to offer quality, online learning to students.

The Digital Academy committed itself to providing online educational opportunities to students. However, the Digital Academy closed as of June 30, 2006, and will no longer provide educational services. All assets reverted to the Sponsor at June 30, 2006.

Contacting the Digital Academy's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the Digital Academy's finances and to show the Digital Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Bethany Vallos, Treasurer, Perry Panther Digital Academy, 2100 38th Street NW, Canton, Ohio 44709.

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating revenues:	
State foundation	\$ 118,496
Total operating revenue	<u>118,496</u>
Operating expenses:	
Purchased services	255,492
Materials and supplies	37,969
Depreciation	24,594
Other	8,267
Total operating expenses	<u>326,322</u>
Operating loss	<u>(207,826)</u>
Non-operating revenues (expenses):	
Federal and state grants	153,000
Capital Assets to Sponsor upon dissolution	(91,423)
Cash to Sponsor upon dissolution	(29,857)
Total non-operating revenues (expenses)	<u>31,720</u>
Change in net assets	(176,106)
Net assets at beginning of year	<u>176,106</u>
Net assets at end of year	<u><u>\$ -</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Cash flows from operating activities:	
Cash received from State foundation	\$ 118,496
Cash payments to suppliers for goods and services	(284,972)
Cash payments for materials and supplies	(37,969)
Cash payments for other expenses	<u>(7,993)</u>
 Net cash used in operating activities	 <u>(212,438)</u>
Cash flows from noncapital financing activities:	
Federal and state grants	233,153
Cash transferred to sponsor upon dissolution	<u>(29,857)</u>
 Net cash provided by noncapital financing activities	 <u>203,296</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(74,663)</u>
 Net cash used in capital and related financing activities	 <u>(74,663)</u>
 Net increase in cash and cash equivalents	 (83,805)
 Cash and cash equivalents at beginning of year	 <u>83,805</u>
Cash and cash equivalents at end of year	<u><u>\$ 0</u></u>
 Reconciliation of operating loss to net cash used in operating activities: operating activities:	
Operating loss	\$ (207,826)
Adjustments:	
Depreciation	24,594
Changes in assets and liabilities:	
Decrease in prepayments	274
Decrease in accounts payable	<u>(29,480)</u>
 Net cash used in operating activities	 <u><u>\$ (212,438)</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - DESCRIPTION OF THE DIGITAL ACADEMY

The Perry Panther Digital Academy (the “Digital Academy”) was established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in Perry Local School District (the “Sponsor”) addressing the needs of students in fourth through eighth grade. The Digital Academy, which was part of the State’s education program, was independent of any school district and was nonsectarian in its programs, admission policies, employment practices and all other operations. The Digital Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Digital Academy. Management was not aware of any course of action or series of events that had occurred that might adversely affect the Digital Academy’s tax-exempt status. The Digital Academy was considered a component unit of the Perry Local School District for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Digital Academy provided opportunities for students with career interests in music technology, communications technology and multimedia productions. The Digital Academy used the latest technology to reach a diverse student population. This population included students within the Sponsor’s district that had specific career interests in a technology field. The students may have been children who need an alternative to the traditional classroom. Enrollment was limited to students within the attendance area of the Sponsor. The Digital Academy used the services of the Sponsor and the Stark-Portage Area Computer Consortium (SPARCC) to assist with overall programming and operations.

The Digital Academy was approved under contract with the Sponsor (hereafter “Sponsorship Contract”) for a period of five years commencing July 1, 2002. The Digital Academy began operations on September 24, 2003 and ceased operations effective June 30, 2006. All assets of the Academy reverted to the Sponsor on June 30, 2006 in accordance with the Sponsorship Contract (see Note 9). The Sponsor was responsible for evaluating the performance of the Digital Academy.

The Digital Academy operated under the direction of a five-member Board of Directors (the “Board”). The Board was composed of the Sponsor’s Superintendent together with two other licensed administrators who were employed by the Sponsor. The Board also included two other persons who were neither officers nor staff members of the Digital Academy or Sponsor to serve as voting members. One of these members was a public educator and the other was the Director of SPARCC. The Board was responsible for carrying out the provisions of the contract, which included, but was not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers.

The Sponsor, under a purchased services basis with the Digital Academy, provided planning, instructional, administrative and technical services. Personnel providing services to the Digital Academy on behalf of the Sponsor under the purchased services basis were considered employees of the Sponsor, and the Sponsor was solely responsible for all payroll functions. The Digital Academy provided services to approximately twenty-five students.

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the Digital Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Digital Academy also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Digital Academy had the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Digital Academy elected not to apply these FASB Interpretations. The Digital Academy's significant accounting policies are described below.

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. 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.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705 (except for 5705.391), unless specifically provided in the Digital Academy's contract with its Sponsor. The contract between the Digital Academy and its Sponsor required a detailed school budget for each year of the contract; however, the budget did not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash and Cash Equivalents

All monies received by the Digital Academy would have been deposited in a demand deposit account. The Digital Academy had no investments during the fiscal period ended June 30, 2006. As of June 30, 2006 the Digital Academy had no remaining "Cash and Cash Equivalents".

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

E. Capital Assets and Depreciation

All capital assets were capitalized at cost and updated for additions and reductions during the year. Donated capital assets were recorded at their fair market value on the date donated. The Digital Academy maintained a capitalization threshold of \$500. The Digital Academy did not have any infrastructure. Improvements were capitalized. The costs of normal maintenance and repairs that did not add to the value of the asset or materially extend an asset's life were not capitalized.

All capital assets were depreciated. Improvements were depreciated over the remaining useful life of the related capital asset. Depreciation was computed using the straight-line method. Furniture and equipment was depreciated over a period of five to twenty years.

In accordance with the Sponsorship Contract, which states that "upon dissolution of the Digital Academy, any remaining assets shall be conveyed to the Sponsor", and as discussed in Note 9, all capital assets were transferred to the Sponsor on June 30, 2006.

F. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, are 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. At June 30, 2006 the Digital Academy had no restricted net assets. See Note 9.

The District applied restricted resources when an expense was incurred for purposes for which both restricted and unrestricted net assets were available.

G. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. The Digital Academy had no prepaids as of June 30, 2006.

H. Intergovernmental Revenue

The Digital Academy participated in the State Foundation Program through the Ohio Department of Education. Revenue from this program was recognized as operating revenue in the accounting period in which all eligibility requirements had been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes 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 Digital Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Digital Academy on a reimbursement basis. Federal and state grants for the fiscal year 2006 received by the Digital Academy were \$153,000.

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

I. Estimates

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

NOTE 3 - DEPOSITS

At June 30, 2006, the Digital Academy had no deposits and no bank balance.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Transfer of Assets to Sponsor</u>	<u>Balance at June 30, 2006</u>
Furniture and equipment	\$ 112,613	\$ 27,311	\$ (139,924)	\$ -
Less: accumulated depreciation	<u>(23,907)</u>	<u>(24,594)</u>	<u>48,501</u>	<u>-</u>
Capital assets, net	<u>\$ 88,706</u>	<u>\$ 2,717</u>	<u>\$ (91,423)</u>	<u>\$ -</u>

See Note 9 regarding the transfer of capital assets, net to Sponsor upon dissolution.

NOTE 5 - RISK MANAGEMENT

The Digital Academy was exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2006, the Digital Academy was named on the Sponsor's policy with Indiana Insurance Company for property and general liability insurance. The Digital Academy provided employee bond coverage through Ohio Casualty Insurance in the following amounts: Treasurer \$50,000, Executive Director \$20,000 and Board of Directors \$20,000.

NOTE 6 - PURCHASED SERVICES

For fiscal year ended June 30, 2006, purchased services expenses were as follows:

Professional and technical services	\$ 155,385
Tuition	76,232
Travel and meetings	<u>23,875</u>
Total	<u>\$ 255,492</u>

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 - SERVICE AGREEMENT

The Digital Academy entered into a one year agreement for the 2005-2006 school year with the Stark-Portage Area Computer Consortium (SPARCC), in partnership with Tri-Rivers Educational Computer Association (TRECA), for planning, instructional, administrative and technical services required for the operation of the Digital Academy.

For these services, the Digital Academy is required to pay the following fees to SPARCC:

1. Annual Fee - The Digital Academy shall pay to SPARCC a fee of \$25,000 for the 2005-2006 school year for services acquired from SPARCC. The fee shall be due in two equal payments. The first payment shall be due upon receipt by the Digital Academy of the second installment paid to the Digital Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program (or any similar funding program, regardless of name) or by June 1, 2005, whichever is later. The second payment shall be due by December 1, 2005, or upon receipt of the aforementioned second installment of such grant, whichever is later.
2. Enrollment - \$3,500 per full time Grade 9-12 student and \$2,500 per full-time K-8 student enrolled per year. Part-time students may be enrolled on such terms as are agreed to by the parties. In case of a student enrolled with an IEP, the Digital Academy will determine if special education will be provided by SPARCC or otherwise. If substantially all of the special education and services are provided to such a student by other than SPARCC, the Digital Academy does not have to pay SPARCC the enrollment fee per the agreement, instead, actual costs for that student provided by SPARCC. If the special education for a student is provided by SPARCC, then any additional amount received from Department of Education for special education and related services is due to SPARCC for that student.

Note: In the event that payments to the Digital Academy from the Department of Education are reduced, the payments due from the Digital Academy to SPARCC shall be reduced accordingly.

NOTE 8 - CONTINGENCIES

A. Grants

The Digital Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally required 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 the Digital Academy at June 30, 2006.

B. 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's 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 for oral argument on November 18th, 2003. The effect of this suit, if any, on the Digital Academy is not presently determinable.

**PERRY PANTHER DIGITAL ACADEMY
STARK COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 8 – CONTINGENCIES - (Continued)

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The Digital Academy was reviewed two times during the initial year of operation and zero errors were found in enrollment, withdrawals and attendance.

NOTE 9 - CONTINUED EXISTENCE

Due to the expectations of the operation of the Digital Academy that would have resulted in the ineffective spending and an overuse of personnel, the Digital Academy ceased educational operations effective June 30, 2006. The Sponsorship Contract requires that, upon dissolution, any remaining assets of the Digital Academy be conveyed to the Sponsor (Perry Local School District). On June 30, 2006 the Digital Academy transferred its remaining capital assets of \$91,423, net of accumulated depreciation, to the Sponsor in accordance with the Sponsorship Contract. This transfer of assets to the Sponsor is reflected on the financial statements as “Assets to Sponsor upon Dissolution.” As a result the Digital Academy did not have any assets, liabilities or net assets at June 30, 2006. Therefore, a statement of net assets is not being presented.

NOTE 10- LEGAL COMPLIANCE

Ohio Revised Code Section 3314.01 provides guidelines for the closing of community schools, which stated the should make disposition of property by having a sale of all assets and returning all federally purchased assets to the Ohio Department of Education, Office of Federal Programs. Capital assets with a net book value of \$91,423 were conveyed to the Sponsor District, Perry Local Schools, on June 30, 2006. We noted that \$75,553 of these capital assets (net book value) were originally purchased with federal grant monies.

December 22, 2006

To the Board of Directors
Perry Panther Digital Academy
Massillon, OH 44646

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 financial statements of the Perry Panther Digital Academy (the "Academy") as of and for the year ended June 30, 2006, and have issued our report thereon dated December 22, 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 *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 the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described below as item 2006-001.

FINDING NUMBER	2006-001
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Ohio Rev. Code Section 3314.01, effective June 30, 2005, establishes guidelines for closing community schools. The Ohio Department of Education (ODE) issued this guidance and an advisory to all schools in May, 2006. These guidelines include actions required to be taken by community school's Governing Authority (GA), Sponsors, and the ODE.

In pertinent part, ORC sections 3314.01 and 3314.074 and the Ohio Department of Education's Community School Closing Procedures Guidance, require a charter school to do the following:

ACTIONS FOR THE GOVERNING AUTHORITY

Step 8 – Account for all school property throughout the closing process.

Step 9 - After the school has closed, to make disposition of school property (they shall):

- a. Notify all other community schools and traditional public schools of the date of the sale;
- b. Price items at fair market value
- c. Federally purchased items (CCIP and grant purchased) need to be separately submitted to ODE, Office of Federal Programs and a request made regarding their dissemination(request to sell items to other schools towards debt satisfaction);
- d. ETech (formerly known as Ohio SchoolNet) hardware and software must be returned to ETech to be redistributed per statutory requirements.

Step 12 - The school must submit financials to the Auditor of State including the results of the property sale.

Capital assets with a net book value of \$91,423 were conveyed to the Sponsor District, Perry Local School District, on June 30, 2006. We noted that \$75,553 of these capital assets (net book value) were originally purchased with federal grant monies. We noted that none of these assets were purchased with E-Tech monies.

The actions taken by the Perry Panther Digital Academy were not in accordance with the guidelines issued by ODE for closing a community school. We recommend the Academy and/or Sponsor contact the ODE to rectify any outstanding items associated with the closing of the school and the noncompliance items listed above.

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

Hea & Associates, Inc.



PERRY LOCAL SCHOOLS

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Director of Curriculum
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Director of Pupil Services
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Director of Technology
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Frank Gamble
Director of Athletics
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May 15, 2007

PERRY PANTHER DIGITAL ACADEMY RESPONSE TO THE 2006 AUDIT FINDINGS

Finding Number 2006-001

Ohio Revised Code Section 3314.01, effective June 30, 2005, establishes guidelines for closing community schools. The Ohio Department of Education (ODE) issued this guidance and an advisory to all schools in May, 2006. These guidelines include actions required to be taken by community school's Governing Authority (GA), Sponsors, and the ODE.

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Step 12 – The school must submit financials to the Auditor of State including the results of the property sale.

It is important to note that the above procedures were communicated on a website sometime in May, 2006. The original Sponsorship Agreement was signed and approved by the Ohio Department of Education on October 5, 2002.

That approved agreement states that any assets remaining upon the dissolution of the school, Perry Panther Digital Academy, shall be conveyed to the Sponsor, Perry Local Schools.

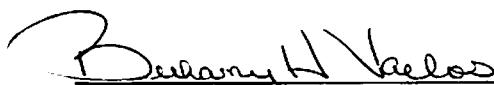
Prior to the Perry Panther Digital Academy making a final decision regarding closing their doors, the Treasurer of the Digital Academy had several telephone conversations with Wendy Jaroz and Gail Davenport at the Office of Community Schools. At the time of these inquiries, ODE had no guidance on closing procedures.

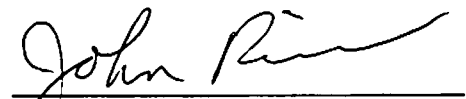
Based on the original sponsorship agreement, on May 16, 2006 the Perry Panther Digital Academy Board voted to close their doors on June 30, 2006.

John Richard, Superintendent of the sponsoring district Perry Local Schools, sent a letter dated July 1, 2006 to the Office of Community Schools notifying them of the dissolution of the Perry Panther Digital Academy. Attached to this letter was an outline of a closure plan which included a section specifically stating that assets would be conveyed to the Sponsor. No communication or response from ODE was ever received by the Superintendent of the Sponsoring School or the Treasurer of the Digital Academy. Therefore, it was understood that the closure was completed in compliance with the approved Sponsorship Agreement.

In early February 2007, the Treasurer of the Digital Academy received notification from Courtney Margo of Rea & Associates of a possible citation based on the change in law regarding the Community School Closing Procedures Guidance. The Perry Local Schools, in an effort to be proactive in complying with the new law, obtained "fair market value" quotes for all materials, supplies, and equipment purchased with federal funds. This figure, \$9,595.00, less the absorbed expenses of \$7,819.98, for a total balance of \$1,775.02 will be submitted to the ODE Office of Federal Programs along with a request for guidance regarding the dissemination of assets per Step 9 c. above. The Perry Panther Digital Academy did not purchase assets with ETech monies.

The Perry Panther Digital Academy has endeavored to operate in a fiscally responsible manner and in line with all information available to it at the time. The Perry Local Schools and the Perry Panther Digital Academy will comply with all procedures set forth by the Ohio Department of Education and by the Auditor of State.


Bethany H. Vallos, Treasurer
Perry Panther Digital Academy


John Richard, Superintendent
Perry Local School District



Mary Taylor, CPA
Auditor of State

PERRY PANTHER DIGITAL ACADEMY

STARK COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 19, 2007**