



**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, 2004, 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, 2004, 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 5, 2005, 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 5, 2005

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The discussion and analysis of the Perrysburg Digital Academy's financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2004. 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 new 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 Government issued 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 2004, which was the initial year of operation for the Academy, are as follows:

- The assets of the Academy exceeded its liabilities at year-end by \$159,453. Of this amount, \$149,215 may be used to meet the Academy's ongoing obligations to citizens and creditors.
- In total, net assets increased by \$159,453.

Using this Financial Report

This report consists of three parts, the MD&A, the basic financial statements, and notes to those 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.

Statement of Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2004?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the Academy's overall financial position at June 30, 2004:

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

(Table 1)
Net Assets

	2004
Assets	
Current Assets	\$ 152,887
Capital Assets, Net	10,238
<i>Total Assets</i>	163,125
 Liabilities	
Current Liabilities	3,672
<i>Total Liabilities</i>	3,672
 Net Assets	
Invested in Capital Assets	10,238
Unrestricted	149,215
<i>Total Net Assets</i>	\$ 159,453

As noted above, this is the initial year of operation for the Academy, so fiscal year 2003 financial information is not available for comparison and discussion.

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

(Table 2)
Change in Net Assets

	2004
Operating Revenues	
Foundation Payments	\$ 260,918
Non-Operating Revenues	
Federal Grants	342,924
State Grants	3,000
<i>Total Revenues</i>	606,842

(Continued)

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

(Table 2) (Continued)
Change in Net Assets

	2004
Operating Expenses	
Purchased Services:	
Professional and Technical Services	404,072
Property Services	10,566
Meeting Expenses	2,657
Other	17,348
Materials and Supplies	10,066
Depreciation	2,560
Other Expenses	120
<i>Total Expenses</i>	447,389
<i>Increase in Net Assets</i>	\$ 159,453

As noted above, this is the initial year of operation for the Academy, so fiscal year 2003 financial information is not available for analysis and discussion and no comparison between current and prior year can be analyzed. Additionally, the Academy operates as one business-type enterprise fund and therefore, no analysis of individual funds is included.

Capital Assets

At the end of fiscal year 2004, the Academy had \$10,238 invested in furniture and equipment. For more information on capital assets see Note 5 to the basic financial statements.

Contacting the Academy's Financial Management

This financial report is designed to provide our citizen's with 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 Feasal, Treasurer at Perrysburg Digital Academy, 140 East Indiana Avenue, Perrysburg, Ohio 43551 or call at (419) 874-9131.

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**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2004

Assets

Current Assets

Cash	\$ 17,206
Intergovernmental Receivables	129,611
Prepaid Items	<u>6,070</u>
<i>Total Current Assets</i>	<u>152,887</u>

Non-Current Assets

Capital Assets, Net of Accumulated Depreciation	<u>10,238</u>
<i>Total Non-Current Assets</i>	<u>10,238</u>

<i>Total Assets</i>	<u>163,125</u>
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Liabilities

Current Liabilities

Accounts Payable	<u>3,672</u>
<i>Total Current Liabilities</i>	<u>3,672</u>

Net Assets

Invested in Capital Assets	10,238
Unrestricted	<u>149,215</u>
<i>Total Net Assets</i>	<u>\$ 159,453</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, 2004

	<u>Enterprise</u>
Operating Revenues	
Foundation Payments	<u>\$ 260,918</u>
<i>Total Operating Revenues</i>	<u>260,918</u>
Operating Expenses	
Purchased Services	434,643
Materials and Supplies	10,066
Depreciation	2,560
Other	<u>120</u>
<i>Total Operating Expenses</i>	<u>447,389</u>
<i>Operating Loss</i>	<u>(186,471)</u>
Non-Operating Revenues	
Federal Grants	342,924
State Grants	<u>3,000</u>
<i>Total Non-Operating Revenues</i>	<u>345,924</u>
<i>Change in Net Assets</i>	159,453
Net Assets Beginning of Year	<u>-</u>
<i>Net Assets End of Year</i>	<u><u>\$ 159,453</u></u>

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, 2004

Increase (Decrease) in Cash and Cash Equivalents

<u>Cash Flows from Operating Activities</u>	
Cash Received from Foundation Payments	\$ 256,307
Cash Payments for Purchased Services	(440,713)
Cash Payments to Suppliers for Goods and Services	(6,394)
Cash Payments to Others	<u>(120)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(190,920)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Federal and State Grants Received	<u>220,924</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>220,924</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Payments for Capital Acquisitions	<u>(12,798)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(12,798)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	17,206
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$ 17,206</u></u>

(Continued)

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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

Operating Loss \$ (186,471)

**Adjustments to Reconcile Operating Loss to
Net Cash Used for Operating Activities**

Depreciation 2,560

Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable (4,611)

Increase in Prepaid Items (6,070)

Increase in Accounts Payable 3,672

Total Adjustments (4,449)

Net Cash Used for Operating Activities \$ (190,920)

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, 2004**

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 2002-2007 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, 2004
(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, to its proprietary activities, 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, 2004
(Continued)

E. Cash and Cash Equivalents

All monies received by the Academy are accounted for by the School's fiscal agent, the Perrysburg Exempted Village School District. All cash received by the fiscal agent is maintained in separate accounts 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, 2004, 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.

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, 2004
(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 State of Ohio Community School Grant Program, Federal Charter School Grant Program, Title VI-B, and EMIS grant.

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, the carrying amount of the Academy's deposits was \$17,206. The bank balance was \$34,789, which was covered by federal depository insurance.

NOTE 4 – INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2004, consisted of a federal grant in the amount of \$125,000 and school foundation of \$4,611 due to Ohio Department of Education final FTE recalculation. All intergovernmental receivables are considered collectible in full due to the stable condition of state programs, and the current year guarantee of federal funds.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004:

	Balance 07/01/03	Additions	Deletions	Balance 06/30/04
Furniture and Equipment	\$ -	\$ 12,798	\$ -	\$ 12,798
Less: Accumulated Depreciation	-	2,560	-	2,560
Capital Assets, Net	<u>\$ -</u>	<u>\$ 10,238</u>	<u>\$ -</u>	<u>\$ 10,238</u>

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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 2004, 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 (\$1,000 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 year. There has been no significant change in insurance coverage.

NOTE 7 – FISCAL AGENT AND PAYMENTS TO SPONSOR

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;
- 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 pay the Sponsor \$25,000 for planning, design, and initial implementation services acquired by Sponsor on behalf of the Academy from Tri-Rivers Educational Computer Consortium (TRECA), 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, 2004, the Academy incurred \$157,617 in expenses payable to its Sponsor, Perrysburg Exempted Village School District, for:

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Salaries and benefits	\$ 131,960
Fiscal and administrative services	10,950
Special education fees	6,624
EMIS services	3,000
Supplies and equipment	2,722
Other	2,361
<i>Total</i>	<u><u>\$ 157,617</u></u>

NOTE 8 – 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 9 - CONTINGENCIES

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2004.

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 2004, the review was completed in January 2005. As a result of said review, the Academy's state foundation funding will be increased by \$4,611, for fiscal year 2005.

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 for oral argument on November 18, 2003. On August 24,

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

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 effect of this suit, if any, on the Academy is not presently determinable.

NOTE 10 – PURCHASED SERVICE EXPENSES

For the year ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Sponsor, Management Fees and Expenses	\$ 154,895
Fees to Tri-Rivers Educational	171,112
Waterford Reading Program	91,290
Advertising	11,429
Liability & Property Insurance	4,496
NOECA Services	550
Meeting Expenses	414
Other	457
<i>Total</i>	<u><u>\$ 434,643</u></u>

NOTE 11 – 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.

NOTE 12 – 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, and one member that is an employee of Tri-Rivers Educational Computer Consortium (TRECA), which provides the Academy's on-line educational program. In addition, other employees of the Sponsor provide additional services to the Academy. Payments to the following related parties were as follows:

**PERRYSBURG DIGITAL ACADEMY
WOOD COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Perrysburg Exempted Village School District (Sponsor)	\$ 157,617
Tri-Rivers Educational Computer Consortium	171,112
John Crecelius (Curriculum Director of Sponsor)	389
Shawn Deitemeyer (Employee of Sponsor)	51
<i>Total</i>	<u><u>\$ 329,169</u></u>

Additional disclosure of related parties can be found in Note 1, Note 7, and Note 10.



**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, 2004, which comprises the Academy's basic financial statements and have issued our report thereon dated May 5, 2005. 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 opinions 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. In a separate letter to the Academy's management dated May 5, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

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 5, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management, the 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 5, 2005



**Auditor of State
Betty Montgomery**

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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
JUNE 2, 2005**