



**Auditor of State
Betty Montgomery**

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Statement of Cash Receipts, Cash Disbursements, and Change in Fund Cash Balance – Proprietary Fund Type – For the Year Ended June 30, 2004.....	3
Notes to the Financial Statements	5
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	9
Schedule of Findings.....	11
Schedule of Prior Audit Findings.....	13

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Fairborn Digital Academy Community School
Greene County
306 East Whittier Avenue
Fairborn, Ohio 45324

To the Board of Directors:

We have audited the accompanying financial statements of the Fairborn Digital Academy, Greene County, (the Academy), a component unit of Fairborn City School District, as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to 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.

Ohio Administrative Code Section 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting not in accordance with these generally accepted accounting principles. The accompanying financial statements and notes omit entity wide statements, and assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash, investments, and fund cash balances of the Fairborn Digital Academy, Greene County, as of June 30, 2004, and its cash receipts and disbursements, for the year ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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 22, 2005

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**STATEMENT OF CASH RECEIPTS
CASH DISBURSEMENTS AND CHANGE IN FUND CASH BALANCE
PROPRIETARY FUND TYPE
FOR THE PERIOD ENDED JUNE 30, 2004**

	Enterprise
Operating Receipts:	
Foundation Payments	\$297,040
Operating Disbursements:	
Purchased Services	213,567
Capital Outlay	182,425
Materials and Supplies	1,036
Other Operating Expenses	3,109
Total Operating Disbursements	400,137
Operating Income	(103,097)
Non-Operating Receipts:	
Federal and State Grants	260,925
Other Non-Operating Revenue	12,505
Total Non-Operating Receipts	273,430
Net Receipts Over Disbursements	170,333
Beginning Fund Balance - July 1, 2003	47,206
Ending Fund Balance - June 30, 2004	\$217,539
Reserve for Encumbrances	\$21,934

The accompanying notes are an integral part of the financial statement.

This page intentionally left blank.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE ENTITY

Fairborn Digital Academy Community School (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the growing need for a comprehensive educational program delivered to students in the K – 12 population primarily through distance learning technologies. The comprehensive educational program will address 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 some 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 was approved for operation under contract with the Fairborn City School District (the Sponsor) for a period of five years commencing July 1, 2002. The Academy accepted students beginning September 3, 2002. 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 five-member Board of Directors. The Board 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. Fairborn City School District appoints the voting majority of the Board of Directors and is able to significantly influence the programs or services performed or provided, therefore, the Academy is a component unit of the Fairborn City School District.

The Board of Directors has entered into a two-year service contract with Tri-Rivers Educational Computer Association ("TRECA") to provide planning, instructional, administrative, and technical services required for the operation of the Academy. (See note 5)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Academy chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

A. Basis of Presentation

Enterprise Accounting

The Academy uses enterprise accounting to track and report on its financial activities. 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 of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. 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 Academy's contract with its Sponsor or otherwise adopted by the Board of Directors. The contract between the Academy and its Sponsor prescribes a budget requirement of preparing five-year forecast annually. The contract also states the Academy will follow the operating procedures recommended by the Auditor of State, including those related to regular presentation, review, discussion, and approval or rejection of the budget and reports of current and encumbered expenses. The Academy currently prepares an annual five-year forecast budget and the Board of Directors receives financial statements on a monthly basis.

The Board adopted Policy DJF, Purchasing Procedures, regarding other budgeting processes. The policy states that no contract or purchase order for the expenditure of money will be made unless there is attached to it a certificate of the Treasurer certifying that the amount required to meet the contract or purchase order has been appropriated and is in the treasurer, or is in the process of collection, and is free from previous encumbrance. Contrary to this policy requirement, the Academy did not adopt appropriations and did not utilize purchase orders certifying the availability of funds on the majority of purchases during fiscal year 2004. On June 28, 2004, the Board of Directors approved amending the policy manual to eliminate the requirements to budget in accordance with public schools and would follow budgeting guidelines for Ohio's Charter Schools.

C. Cash

All monies received by the Academy are maintained in a demand deposit account.

D. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues from this program are recognized as operating revenues in the accompanying financial statements.

The Academy participates in the Federal Community School Grant Program through the Ohio Department of Education. Under this program, the School was awarded and received \$255,000 to offset start-up costs of the Academy. Revenues received from these programs are recognized as non-operating revenue on the accompanying financial statements.

3. DEPOSITS

At June 30, 2004, the carrying amount of the Academy's deposits was \$217,539 and the bank balance was \$217,689. Of the bank balance, \$100,000 was insured by federal depository insurance and the remaining \$117,689 was covered by pooled collateral.

4. 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; and natural disasters. For fiscal year 2004, the Academy was uninsured. This is contrary to Ohio Revised Code 3314.03 (A)(11)(b) and the Community School Contract (8/26/02) Article III Responsibilities of the School.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

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

5. SERVICE AGREEMENT

The Academy entered into a two-year agreement on July 1, 2002 with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative and technical services required for the operation of the Academy. Under the contract, TRECA is required to provide instructional, technical, curricular, and payroll services.

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

1. Annual Fee – The Academy shall pay \$25,000 for fiscal year 2004. The Academy paid the required fee in November 2003.
2. Enrollment - \$3,500 per full-time high school student and \$2,500 per full-time K-8 student enrolled per year. Students being provided special education services by a provider other than TRECA will not be charged at this rate, rather the actual costs incurred by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from Department of Education for special education and related services is due to TRECA for that student.

The Academy paid TRECA \$133,352 during fiscal year 2004 for enrollment fees.

6. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability 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. 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 was heard for oral argument 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 effect of this suit, if any, on the school is not presently determinable.

C. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the school. 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

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

7. 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 plan 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.

8. FISCAL AGENT

The Academy utilizes the services of the Fairborn City School District Treasurer as their fiscal officer. The Treasurer is not paid by the Academy. All instructional services are provided through TRECA.

9. TAX EXEMPT STATUS

The Academy has not filed for tax exempt status under Section 501(c)(3) of the Internal Revenue Code. The Academy has made no provision for any potential future tax liability which could result from not obtaining the Section 501(c)(3) tax exempt status.

10. PURCHASED SERVICES

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

Directors' Expense	\$26,000
Contractual Services	173,096
Equipment Expense	200
Board Services	5,290
Technical Expense	4,331
Advertising Expense	478
Meeting/Travel Expense	4,172
TOTAL	\$213,567



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Fairborn Digital Academy Community School
Greene County
306 East Whittier Avenue
Fairborn, Ohio 45324

To the Board of Directors:

We have audited the financial statements of the Fairborn Digital Academy Community School, Greene County, (the Academy), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 22, 2005, wherein we noted that the Academy has reported on the basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required. 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.

Compliance

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 grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2004-001 to 2004-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Academy, in a separate letter dated February 22, 2005.

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 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. However, we noted an additional matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated February 22, 2005.

This report is intended solely for the information and use of management, the Board of Directors, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by 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 22, 2005

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2004-001

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03 (B) requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Academy prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Academy should report in accordance with generally accepted accounting principles in order to more accurately reflect the financial activity and condition of the Academy.

FINDING NUMBER 2004-002

Ohio Rev. Code 3314.03 (A)(11)(b) and the Community School Contract (8/26/02) Article III Responsibilities of the School state the governing authority is required to purchase liability insurance, or otherwise provide for the potential liability of the school.

Although the Academy purchased liability insurance in June 2004, the Academy was uninsured for eleven months of the fiscal year thus increasing its liability chances and risk to unforeseen circumstances.

The Academy should continue to purchase the required liability insurance. Failure to maintain insurance could subject the Academy to an uninsured risk loss and possibly the inability to continue operations.

FINDING NUMBER 2004-003

Ohio Admin. Code § 117-6-07 (B) requires a community school fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in Ohio Rev. Code Section 3314.011. The bond amount and surety is to be established by a resolution of the governing authority.

The Treasurer was not bonded during fiscal year 2004.

The Board of Directors should establish by a resolution the terms of the Treasurer's bond and the Academy should purchase the bond to ensure proper protection of public monies.

FINDING NUMBER 2004-004

Board Policy DJF, Purchasing Procedures, states monies under the jurisdiction of the Board may not be expended upon a warrant drawn against a specific appropriation and against a specific fund; therefore, no contract or purchase for the expenditure of money will be made unless there is attached to it a certificate of the Treasurer certifying that the amount required to meet the contract or purchase order has been appropriated and is in the treasury, or is in the process of collection, and is free from previous encumbrance.

The Academy did not consistently utilize purchase orders for 75 disbursements out of a total of 77 for the audit period as required by the Board policy.

The Board should implement procedures in order to ensure the Treasurer and other responsible officials are following the adopted Board policy. By following Board policy, the Academy can improve accountability and decrease the probability of overspending.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	ORC 117.38 and OAC 117-2-03(B)—Failure to report on a GAAP basis	No	Not Corrected – Repeated as finding 2004-001.
2003-002	AoS Bulletin 2000-05—Failure to present one Enterprise Fund	Yes	
2003-003	ORC 3314.03 (A)(11)(b) and Community School Contract—Failure to purchase liability insurance	No	Partially Corrected – Repeated as finding 2004-002; Academy purchased liability insurance in the last month of the fiscal year.
2003-004	OAC 117-6-07—Failure to purchase Treasurer’s bond	No	Not Corrected – Repeated as finding 2004-003.
2003-005	Community School Contract—Failure to follow budgeting guidelines	Yes	
2003-006	Apply for refund for non-applicable retirement expenses	Yes	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2005**