

Mary Taylor, CPA
Auditor of State

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fairless Digital Academy
Stark County
11885 Navarre Road S.W.
Navarre, Ohio 44662

To the Board of Directors:

We have audited the accompanying basic financial statements of the Fairless Digital Academy, Stark County, Ohio, (the Digital Academy) a component unit of the Fairless Local School District, as of and for the year ended June 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Digital 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 the Fairless Digital Academy, as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2007, on our consideration of the Digital 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, these reports describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. These reports are 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 applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

May 31, 2007

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

The discussion and analysis of the Fairless 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, 2005. 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 basic financial statements to enhance their understanding of the Digital Academy's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets were \$124,618 at June 30 2005.
- The Digital Academy had operating revenues of \$116,044, operating expenses of \$201,554 and non-operating revenues of \$150,000 for fiscal year 2005. Total change in net assets for the fiscal year was an increase of \$64,490.

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

These documents look at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets answer this question. These statements include *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 will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report 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. These statements can be found on pages 7 and 8 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 9 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. These notes to the basic financial statements can be found on pages 10-15 of this report.

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

The table below provides a summary of the Digital Academy's net assets for fiscal year 2005. Since this is the first year that the Digital Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

	<u>2005</u>
<u>Assets</u>	
Current assets	\$ 60,996
Capital assets, net	<u>63,622</u>
Total assets	<u>124,618</u>
<u>Net Assets</u>	
Invested in capital assets	63,622
Restricted	47,876
Unrestricted	<u>13,120</u>
Total net assets	<u>\$ 124,618</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Digital Academy's net assets totaled \$124,618.

At year-end, capital assets represented 51.05% of total assets. Capital assets consisted of furniture and computer equipment. There is no debt related to these capital assets. Capital assets are used to provide services to the students and are not available for future spending.

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

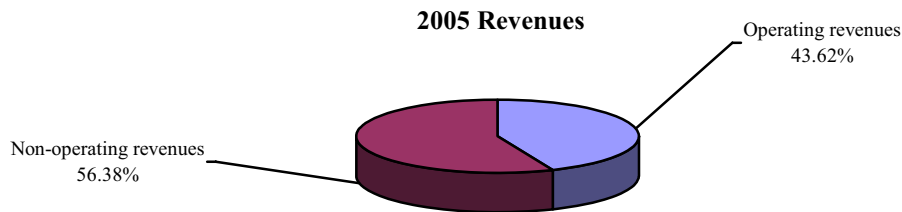
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The table below shows the changes in net assets for fiscal year 2005. Since this is the first year that the Digital Academy has prepared financial statements, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets

	<u>2005</u>
<u>Operating Revenues:</u>	
State foundation	\$ 116,044
Total operating revenue	116,044
<u>Operating Expenses:</u>	
Purchased services	175,492
Materials and supplies	21,618
Depreciation	4,105
Other	339
Total operating expenses	201,554
<u>Non-operating Revenues:</u>	
Federal and state grants	150,000
Total non-operating revenues	150,000
Change in net assets	64,490
Net assets at beginning of year	60,128
Net assets at end of year	\$ 124,618

The chart below illustrates the revenues for the Digital Academy during fiscal 2005.



**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

The chart below illustrates the expenses for the Digital Academy during fiscal 2005.



Capital Assets

At June 30, 2005, the Digital Academy had \$63,622 invested in computers and equipment. See Note 4 to the basic financial statements for more detail on capital assets.

Current Financial Related Activities

The Digital Academy is sponsored by the Fairless Local School District. The Digital Academy is reliant upon State Foundation Funds and Federal Sub-Grants to provide the monies necessary to begin the start-up of an online educational program. The Digital Academy has applied for a third round of Federal Sub-Grants. These funds will help expand the current program.

The future of the Digital Academy is dependent upon continued funding from the State Foundation Funds as no local revenue can be generated through tuition or property taxes. At this point in time, the Digital Academy is eligible to receive one more round of Federal monies to be awarded up to an amount of \$150,000. It is the intention of the management of the Digital Academy to pursue other State and Federal Sub-Grants as they become available.

In conclusion, the Digital Academy has committed itself to providing online educational opportunities to students. The management will aggressively pursue adequate funding to secure the financial stability of the Digital Academy

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 Bethany Vallos, Treasurer, Fairless Digital Academy, 2100 38th Street NW, Canton, Ohio 44709.

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

Assets:	
Current assets:	
Equity in pooled cash and cash equivalents.	\$ 12,746
Receivables:	
Intergovernmental.	47,864
Prepayments.	386
Total current assets	<u>60,996</u>
Non-current assets:	
Capital assets, net.	<u>63,622</u>
Total assets	<u>124,618</u>
Net Assets:	
Invested in capital assets, net	
of related debt	63,622
Restricted for:	
Federally funded programs	47,876
Unrestricted.	<u>13,120</u>
Total net assets	<u>\$ 124,618</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

Operating revenues:	
State foundation	\$ 116,044
Total operating revenue	<u>116,044</u>
Operating expenses:	
Purchased services	175,492
Materials and supplies	21,618
Other operating expenses	339
Depreciation	4,105
Total operating expenses	<u>201,554</u>
Operating loss	<u>(85,510)</u>
Non-operating revenues:	
Federal and state grants	<u>150,000</u>
Total non-operating revenues	<u>150,000</u>
Change in net assets	64,490
Net assets at beginning of year	<u>60,128</u>
Net assets at end of year	<u><u>\$ 124,618</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

Cash flows from operating activities:	
Cash received from State foundation	\$ 116,044
Cash payments to suppliers for goods and services.	(175,492)
Cash payments for materials and supplies	(21,618)
Cash payments for other expenses	<u>(725)</u>
Net cash used in operating activities	<u>(81,791)</u>
Cash flows from noncapital financing activities:	
Federal and state grants.	<u>102,136</u>
Net cash provided by noncapital financing activities	<u>102,136</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(40,203)</u>
Net cash used in capital and related financing activities	<u>(40,203)</u>
Net decrease in cash and cash equivalents	(19,858)
Cash and cash equivalents at beginning of year	<u>32,604</u>
Cash and cash equivalents at end of year.	<u><u>\$ 12,746</u></u>
Reconciliation of operating loss to net cash used in operating activities: operating activities:	
Operating loss	\$ (85,510)
Adjustments:	
Depreciation.	4,105
Changes in assets and liabilities:	
Increase in prepayments	<u>(386)</u>
Net cash used in operating activities	<u><u>\$ (81,791)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE DIGITAL ACADEMY

The Fairless Digital Academy (the “Digital Academy”) was established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in the Fairless Local School District (the “Sponsor”) addressing the needs of students. The Digital 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 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 is not aware of any course of action or series of events that have occurred that might adversely affect the Digital Academy’s tax-exempt status.

The Digital Academy provides opportunities for students who desire a program of online instruction in an independent environment that does not include the most ancillary components of a more traditional education. The Digital Academy uses the latest technology to reach a diverse student population. This population includes students within the Sponsor’s district that have specific career interests in a technology field. The students may be children who need an alternative to the traditional classroom. Enrollment is limited to students within the attendance area of the Sponsor. The Digital Academy uses 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 for a period of five years commencing July 1, 2002. The Digital Academy began operations on August 22, 2002. The Sponsor is responsible for evaluating the performance of the Digital Academy and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of the Digital Academy.

The Digital Academy operates under the direction of a five-member Board of Directors. The Board is composed of the Sponsor’s Superintendent together with two other licensed administrators who are employed by the Sponsor. The Board also includes two other persons who are neither officers nor staff members of the Digital Academy or Sponsor to serve as voting members. One of these members is a public educator and the other is the Director of SPARCC. Due to the amount of influence the Fairless Local School District has over the Digital Academy’s Board of Directors, the Digital Academy is a component unit of the Fairless Local School District. 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 qualification of teachers.

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

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

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 applies 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 has the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Digital Academy has 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 are those revenues that are generated directly from the primary activity of the Digital Academy. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Digital Academy. All revenues and expenses not meeting this definition are 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, unless specifically provided in the Digital Academy's contract with its Sponsor. The contract between the Digital Academy and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705.

D. Cash and Cash Equivalents

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

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

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

E. Capital Assets and Depreciation

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

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

F. Net Assets

Net assets represent the difference between assets and liabilities. 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 District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Intergovernmental Revenue

The Digital Academy currently participates in the State Foundation Program through the Ohio Department of Education. Revenue from this program is recognized as operating revenue in the accounting period in which all eligibility requirements have 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 2005 received by the Digital Academy was \$150,000.

H. 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 expense is reported in the year in which services are consumed.

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.

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

NOTE 3 - DEPOSITS

At June 30, 2005, the carrying amount of the Digital Academy's deposits was \$12,746 and the bank balance was \$62,145. The bank balance was covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

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

	Balance at <u>June 30, 2004</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>June 30, 2005</u>
Furniture and equipment	\$ 27,524	\$ 40,203	\$ -	\$ 67,727
Less: accumulated depreciation	<u>-</u>	<u>(4,105)</u>	<u>-</u>	<u>(4,105)</u>
Capital assets, net	<u>\$ 27,524</u>	<u>\$ 36,098</u>	<u>\$ -</u>	<u>\$ 63,622</u>

NOTE 5 - RECEIVABLES

The Digital Academy participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the Digital Academy was awarded \$150,000 for fiscal year 2005 to offset start-up costs of the Digital Academy. Of this total, \$102,136 was received by June 30, 2005 with the remainder of \$47,864 being recorded as an intergovernmental receivable at June 30, 2005. Revenue received from this program is recognized as federal and state grants in the financial statements.

NOTE 6 - RISK MANAGEMENT

The Digital Academy is 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 2005, the Digital Academy was named on the Sponsor's policy with Indiana Insurance Company for property and general liability insurance. The Digital Academy provides employee bond coverage through a private insurance carrier in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

NOTE 7 - SERVICE AGREEMENT

Stark-Portage Area Computer Consortium

The Digital Academy entered into a five-year agreement on December 16, 2002, for the 2002 through 2007 school years 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. Under this contract, SPARCC is required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Digital Academy's educational plan, assessment and accountability plan, and the sponsorship contract.

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

NOTE 7 - SERVICE AGREEMENT - (Continued)

2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing to services to the Digital Academy on behalf of SPARCC. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Digital Academy is responsible for recovering and returning any and all equipment to SPARCC.
4. Curricular services limited to standardized curriculum developed by SPARCC.

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

1. Annual Fee - The Digital Academy shall pay \$25,000 for the 2004-05 school year for services acquired from SPARCC. The fee shall be due in two equal payments. The first and second installments are due upon receipt by the Digital Academy of the first installment paid to the Digital Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program (or any similar funding programs, regardless of name).

The Digital Academy shall pay to SPARCC a fee of \$25,000 for the 2005-06 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 - 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.

**FAIRLESS DIGITAL ACADEMY
STARK COUNTY, OHIO**

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

NOTE 8 - SCHOOL FUNDING DECISION - (Continued)

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

NOTE 9 - 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 requires compliance with terms and conditions, specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Digital Academy at June 30, 2005.

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. 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 Digital Academy 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 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 this initial year of operations and zero errors were found in enrollment, withdrawals and attendance. The Digital Academy does not anticipate any significant adjustments to state funding for fiscal year 2005, as a result of the reviews which have yet to be completed.

NOTE 10 - START-UP PERIOD

The Digital Academy began its operations August 26, 2002. At June 30, 2004, the Digital Academy recorded \$32,604 in cash and \$27,524 in capital assets, which resulted in beginning net assets of \$60,128.



Mary Taylor, CPA

Auditor of State

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

Fairless Digital Academy
Stark County
11885 Navarre Road S.W.
Navarre, Ohio 44662

To the Board of Directors:

We have audited the financial statements of the Fairless Digital Academy, Stark County, Ohio, (the Digital Academy) a component unit of the Fairless Local School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated May 31, 2007. 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 Digital Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

In a separate letter to the Digital Academy's management dated May 31, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Digital 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*.

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

We intend this report solely for the information and use of management, the Board of Directors and the Digital Academy's sponsor. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

May 31, 2007



Mary Taylor, CPA
Auditor of State

FAIRLESS 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
JULY 12, 2007**