



Mary Taylor, CPA
Auditor of State

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Fairborn Digital Academy Community School
Greene County
700 Black Lane
Fairborn, Ohio 45324

To the Board of Directors:

We have audited the accompanying financial statements of the Fairborn Digital Academy Community School, Greene County, (the School), as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

Ohio Administrative Code § 117-2-03 (B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit 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 respective cash financial position of the Fairborn Digital Academy Community School, Greene County, as of June 30, 2007, and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2008, on our consideration of the School'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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

April 23, 2008

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of Fairborn Digital Academy's (the School) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School's financial performance.

Financial Highlights

Key highlights for fiscal year 2007 are as follows:

In total, net assets increased by \$144,001 or 40.42%, a significant change from last year. This was due to a decrease in operating disbursements. The school districts general receipts, those being primarily state foundation payments were \$708,872 or 92.13% of the total cash received during the fiscal year. Dependence on this revenue source is significant.

Using this Annual Report

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School's cash basis of accounting.

The School has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the School's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

The statement of net assets provides information about the cash activities of the whole School. The Statement of Revenues, Disbursements, and Changes in Fund Net Assets – Cash Basis provides a greater level of detail.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as Accounts Receivables) and certain liabilities and their related disbursements (such as Accounts Payable) are not reported in these basic financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of cash basis accounting.

The notes to the financial statements are an integral part of the financial statements and provide expanded explanations and details regarding the information reported in the statements.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

The School as a Whole

Table 1 provides a summary of the School's net assets for fiscal year 2007 compared to fiscal year 2006:

Table 1 Net Assets

	2007	2006
Assets		
Equity in Pooled Cash and Cash Equivalents	\$500,293	\$356,292
Total Assets	\$500,293	\$356,292
Net Assets		
Restricted for:		
Other Purposes	528	513
Unrestricted	499,765	355,779
Total Net Assets	\$500,293	\$356,292

As mentioned previously, total net assets increased \$144,001 or 40.42 percent. The primary reason contributing to the increase in cash balance is the School's decreased operating disbursements.

Table 2 reflects the changes in net assets for fiscal year 2007 compared to fiscal year 2006.

Table 2 Change in Net Assets

	2007	2006
Operating revenues:		
State Foundation payments	\$708,872	\$728,103
Total operating revenues	708,872	728,103
Operating disbursements:		
Purchased services	582,280	605,823
Materials and supplies	5,166	2,215
Capital outlay	30,997	23,679
Other	6,963	7,092
Total operating disbursements	625,406	638,809
Operating income	83,466	89,294
Non-operating revenues:		
Federal & State Grants	57,905	40,256
Interest earnings	2,051	1,486
Other	579	1,479
Total non-operating revenues	60,535	43,221
Change in net assets	\$144,001	\$132,515

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

State Foundation payments represent 92.13% of total revenues. These are unrestricted intergovernmental revenues, while non-operating revenues represent the remainder.

The major operating disbursement is purchased services. Purchased services are shown in greater detail in Table 3.

Table 3 Purchased Service Detail

Instruction Services	\$564,350
Administrative Services	3,096
Data Processing	8,165
Insurance Expense	1,217
Utility Expense	1,781
Meeting / Travel Expense	3,671
Total Purchased Services	<u>\$582,280</u>

Current Issues

The challenge for all school districts is to provide quality education with fewer monies available to spend. Online schools are able to capitalize upon this since fewer full time personnel are needed to educate students. Also, the District is able to provide individualized attention when needed. Only 2 full time certified staff and one full time support staff are needed for 120 students. A traditional school would require double that staff.

Contacting the School's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School's finances and to reflect the School's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Linda Hoch, Treasurer, Fairborn Digital Academy, 700 Black Lane, Fairborn, Ohio 45324.

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FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

		Assets	
Current assets			
Cash			<u>\$500,293</u>
	Total assets		<u><u>500,293</u></u>
		Net Assets	
Restricted for:			
Other Purposes			528
Unrestricted			<u>499,765</u>
	Total net assets		<u><u>\$500,293</u></u>

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

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**STATEMENT OF REVENUES, DISBURSEMENTS AND CHANGES IN
FUND NET ASSETS - CASH BASIS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2007**

Operating revenues	
State Foundation payments	\$708,872
Total operating revenues	<u>708,872</u>
Operating disbursements	
Purchased services	582,280
Materials and supplies	5,166
Capital outlay	30,997
Other	6,963
Total operating disbursements	<u>625,406</u>
Operating income	<u>83,466</u>
Non-operating revenues	
Federal & State Grants	57,905
Interest earnings	2,051
Other	579
Total non-operating revenues	<u>60,535</u>
Change in net assets	144,001
Total net assets-beginning	<u>356,292</u>
Total net assets-ending	<u><u>\$500,293</u></u>

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

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF THE ENTITY

Fairborn Digital Academy Community School (the School) 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 School 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 School accepted students beginning September 3, 2002. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School 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.

The Board of Directors has entered into a one year service contract with Tri-Rivers Educational Computer Association ("TRECA") to provide planning, instructional, administrative, and technical services required for the operation of the School. (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 School chooses to prepare its financial statements on the basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. The School recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

A. Basis of Presentation

Enterprise Accounting

The School 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 BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(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 School's contract with its Sponsor or otherwise adopted by the Board of Directors. The contract between the School and its Sponsor prescribes a budget requirement of preparing five-year forecast annually. The contract also states the School 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 School currently prepares an annual five-year forecast budget and the Board of Directors receives financial statements on a bi-monthly basis.

C. Cash

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

D. Intergovernmental Revenues

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

3. DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$404,388 of the School's bank balance of \$504,388 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust departments or agent, but not in the School's name.

The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

4. RISK MANAGEMENT

The School 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 2007, the School was insured for commercial inland marine, general liability, and property.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

5. CONTRACT WITH TRECA

The School entered into a one year contract for fiscal year 2007, with TRECA. Under the contract, the following terms were agreed upon:

- TRECA shall provide the School with instructional, supervisory/administrative, and technical services sufficient to effectively implement the School's educational plan and the School's assessment and accountability plan.
- All personnel providing services to the School on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to the School shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- The School shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of the School.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- In exchange for the services and support (including equipment) provided by TRECA, the School shall pay to TRECA a fee of \$150 per student for the 2006-2007 school year.
- The School shall pay TRECA \$3,600 per full-time high school student and \$2,500 per full-time K-8 student enrollment in the School per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2007, \$318,140 was paid to TRECA by the School.

To obtain TRECA's audited June 30, 2007 financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

6. CONTINGENCIES

A. Grants

The School 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 School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2007.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and fulltime 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 conclusions of this review could result in state funding being adjusted. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School. (See Note 11)

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

7. STATE SCHOOL FUNDING DECISION

A lawsuit entitled **Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #:3:04CV197** was filed in the U. S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community Schools Act, O.R.C. Section 3314, violate both the Ohio and Federal Constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still pending, and the effect of this suit, if any, on Fairborn Digital Academy Community School cannot presently be determined.

8. FISCAL AGENT

The School utilizes the services of TRECA as their fiscal officer. The School contracts with TRECA who in turn assigned Linda Hoch as the Treasurer.

9. TAX EXEMPT STATUS

The School was established as a nonprofit corporation pursuant to Ohio Rev. Code Chapters 3314 and 1702 on August 22, 2002. The School has not filed for tax exempt status under Section 501(c)(3) of the Internal Revenue Code. The School 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, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Instruction Services	\$564,350
Administrative Services	3,096
Data Processing	8,165
Insurance Expense	1,217
Utility Expense	1,781
Meeting/Travel Expense	<u>3,671</u>
TOTAL	<u>\$582,280</u>

11. REPAYMENT FOR FISCAL YEAR 2007 FUNDING ADJUSTMENT

The Academy receives funding from the State Department of Education based upon student enrollment. During 2007, the Academy received overpayments totaling \$78,393. These overpayments were repaid to the State Department of Education in December 2007.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

12. DEFINED BENEFIT PENSION PLANS

A. School Employee Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal year ended June 30, 2007 was \$8,509, 100% has been contributed.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strs.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations to STRS Ohio for fiscal year ended June 30, 2007 was \$21,115; 100 percent has been contributed for fiscal year 2007.

13. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$4,931.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

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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*

Fairborn Digital Academy Community School
Greene County
700 Black Lane
Fairborn, Ohio 45324

To the Board of Directors:

We have audited the basic financial statements of Fairborn Digital Academy Community School, Greene County, (the School) as of and for the year ended June 30, 2007, and have issued our report thereon dated April 23, 2008, wherein we noted the School utilized a basis of accounting other than prescribed by Ohio Administrative Code Section 117-2-03 (B). 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 School's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted a certain matter that we reported to the School's management in a separate letter dated April 23, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the School'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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated April 23, 2008.

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, Board of Directors, and the School's sponsor. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

April 23, 2008

FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007

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

FINDING NUMBER 2007-001

Non-Compliance

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 School to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial report 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 footnotes 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 School may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the School take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles.

Client Response

Because we do almost all of our purchases including instruction using purchased services, we have continued to use the cash basis of accounting for our school with our Board's approval of this method.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Administrative Code Section 117-2-03 (B) – regarding the preparation of annual financial report in accordance with generally accepted accounting principles.	No	Not corrected.
2006-002	Board Policy BCC – Qualifications and Duties of the Treasurer – Assignment of responsibilities for all treasury functions.	Yes	School has a contract with Tri-Rivers Educational Computer Association and TRECA supplies one of its employees as fiscal agent.



Mary Taylor, CPA
Auditor of State

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 29, 2008**