



Dave Yost • Auditor of State



**FAIRBORN DIGITAL ACADEMY  
GREENE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Fairborn Digital Academy Community School, Greene County, Ohio (the School), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of Fairborn Digital Academy Community School, Greene County, Ohio, as of June 30, 2013 and 2012, and the respective changes in cash financial position, thereof for the years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code Section 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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Matters**

*Supplemental and Other Information*

We audited to opine on the School's financial statements that collectively comprise its basic financial statements.

*Management's Discussion & Analysis* includes tables of net position (net assets for fiscal year 2012), changes in net position (net assets for fiscal year 2012), and purchased services detail. This information provides additional analysis and is not a required part of the basic financial statements.

These tables are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2013

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED**

The discussion and analysis of Fairborn Digital Academy Community School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2013, within the limitations of the 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 2013 are as follows:

In total, net position decreased by \$33,095 from last year. The increase in expenditures over receipts was due to having more students come for one-on-one tutoring and doing Special Education in house instead of contracting out to TRECA. The School's operating receipts, those being primarily state foundation payments were \$894,474 or 87% 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 Position – Cash Basis provides information about the cash activities of the whole School. The Statement of Revenues, Disbursements, and Changes in Net Position – 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 the 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, 2013  
UNAUDITED  
(Continued)**

**The School as a Whole**

Table 1 provides a summary of the School's net position for fiscal year 2013 compared to fiscal year 2012.

<b>Table 1 Net Position – Cash Basis</b>		
	<b>2013</b>	<b>2012</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$528,000	\$561,095
Total Assets	528,000	561,095
<b>Net Position:</b>		
Unrestricted	528,000	561,095
Total Net Position	\$528,000	\$561,095

As mentioned previously, total net assets decreased by \$33,095. The decrease was due to having more students come for one-on-one tutoring and doing Special Education in house instead of contracting out to TRECA.

Table 2 reflects the changes in net position for fiscal year 2013 compared to fiscal year 2012.

<b>Table 2 Change in Net Position – Cash Basis</b>		
	<b>2013</b>	<b>2012</b>
<b>Operating Revenues:</b>		
State Foundation Payments	\$894,474	\$823,088
Other	6,545	6,522
Total Operating Revenues	901,019	829,610
<b>Operating Disbursements:</b>		
Tuition Reimbursement	8,821	8,658
Purchased Services	1,009,067	881,648
Materials and Supplies	9,476	15,736
Capital Outlay	19,918	5,764
Other	10,915	14,002
Total Operating Disbursements	1,058,197	925,808
Operating Loss	(157,178)	(96,198)
<b>Non-operating Revenues:</b>		
Federal & State Grants	124,029	144,061
Interest Earnings	54	66
Total Non-operating Revenues	124,083	144,127
Change in Net Position	(\$ 33,095)	\$ 47,929

State Foundation payments represent 87% of total revenues. These are unrestricted intergovernmental revenues, while non-operating revenues represent the majority of the remainder.



**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
UNAUDITED  
(Continued)**

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

**Table 3 Purchased Service Detail**

Instructional Services	\$ 630,617
Administrative Services	200,443
Instructional Improvement Services	28,992
Data Processing	4,752
Utility Expense	105,025
Meeting/Travel Expense	15,602
Sponsorship Management	23,636
Total	<u>\$1,009,067</u>

**Current Issues**

The challenge for all schools 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 School is able to provide individualized attention when needed. Only 3 full time certified staff and one full time support staff are needed for 120 students. A traditional school would require double that staff. In FY2011, we changed from a K-12 school to a 9-12 school so that will help us use our resources in only a few age groups, instead of many.

**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 Community School, 700 Black Lane, Fairborn, Ohio 45324.

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FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY

STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2013

**Assets:**

**Current Assets:**

Cash	\$528,000
Total Assets	<u>528,000</u>

**Net Position:**

Unrestricted	528,000
Total Net Position	<u>\$528,000</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  
NET POSITION - CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>Operating Revenues:</b>	
State Foundation Payments	\$894,474
Other Revenue	6,545
Total Operating Revenues	<u>901,019</u>
<b>Operating Disbursements:</b>	
Tuition Reimbursement	8,821
Purchased Services	1,009,067
Materials and Supplies	9,476
Capital Outlay	19,918
Other	10,915
Total Operating Disbursements	<u>1,058,197</u>
Operating Loss	<u>(157,178)</u>
<b>Non-operating Revenues:</b>	
Federal & State Grants	124,029
Interest Earnings	54
Total Non-operating Revenues	<u>124,083</u>
Change in Net Position	(33,095)
Total Net Position - Beginning	<u>561,095</u>
Total Net Position - Ending	<u><u>\$528,000</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 FISCAL YEAR ENDED JUNE 30, 2013**

**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 9-12 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 6)

**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 schools 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 FISCAL YEAR ENDED JUNE 30, 2013  
(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 a 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.

**E. Net Position**

Net Position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**3. COMPLIANCE**

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 statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time.

**4. 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, \$280,553 of the School's bank balance of \$530,553 was exposed to custodial credit risk because those deposits were all insured 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 credit 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**5. 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 2013, the School was insured for commercial inland marine, general liability, and property.

Settled claims have not exceeded commercial coverage for the past three years. There has been no significant change in coverage.

**6. CONTRACT WITH TRECA**

The School entered into a one year contract for fiscal year 2013, 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.
- The School shall pay TRECA \$3,900 per full-time high school student or pro-rated per portion thereof. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2013, \$585,468 was paid to TRECA by the School.

To obtain TRECA's audited June 30, 2013 financial statements please contact Scott Armstrong, Treasurer, at [scott@treca.org](mailto:scott@treca.org).

**7. 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, 2013.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**7. CONTINGENCIES (Continued)**

**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 management, any such adjustments will not have a material adverse effect on the financial position of the School at June 30, 2013.

**8. FISCAL AGENT**

The School utilizes the services of TRECA for employment of their Treasurer, Linda Hoch.

**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, 2013, purchased service expenses were payments for services rendered by various vendors, as follows:

<b>Purchased Service Detail</b>	
Instructional Services	\$ 630,617
Administrative Services	200,443
Instructional Improvement Services	28,992
Data Processing	4,752
Utility Expense	105,025
Meeting/Travel Expense	15,602
Sponsorship Management	23,636
Total	<u><u>\$1,009,067</u></u>

**11. RELATED PARTY TRANSACTIONS**

Fairborn City School District (the Sponsor) provides planning, instructional, administrative, and technical services required for the School.

Total payments made to Fairborn City School District equaled \$197,763, which was for the use of facilities and personnel. See Note 12 for details.



**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013  
(Continued)**

**12. CONTRACT WITH FAIRBORN CITY SCHOOL DISTRICT**

Fairborn City School District (the Sponsor) shall support the School's establishment and operation by converting to the School's use of certain resources previously utilized by the Sponsor, including, but not limited to, portions of the Sponsor's facilities, staff, equipment, instructional materials, curriculum, and educational strategy, as determined to be appropriate by the Sponsor in the Sponsor's sole discretion.

If a student is entitled to transportation under any applicable law, such transportation shall be provided by the Sponsor.

In fiscal years 2013 and 2012, the School paid Fairborn City School District \$197,763 and \$250,729, respectively.

To obtain Fairborn City School District's audited June 30, 2013 financial statements, please contact Eric Beavers, Treasurer, at (937) 878-3961.

**13. JOINTLY GOVERNED ORGANIZATION**

Metropolitan Dayton Educational Cooperative Association - The School is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA), which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami, and Darke Counties and the Cities of Dayton, Troy, and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven superintendents of member school districts, with six of the superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh superintendent is from the Montgomery County Educational Service Center. The School paid MDECA \$3,039 for services provided during fiscal year 2013. Financial information can be obtained from Dean Reineke, Director, at 225 Linwood Street, Dayton, Ohio 45405.

**14. CHANGE IN ACCOUNTING PRINCIPLE**

For fiscal year 2013, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". The implementation of this statement had no impact on "Net Assets" as previously reported, but only changed the terminology of "Net Assets" to "Net Position".

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**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED**

The discussion and analysis of Fairborn Digital Academy Community School's (the School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2013, within the limitations of the 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 2012 are as follows:

In total, net assets increased by \$47,929 from last year. The increase in expenditures was due to increased grants that had to be spent. The School's operating receipts, those being primarily state foundation payments were \$823,088 or 85% 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 – Cash Basis provides information about the cash activities of the whole School. The Statement of Revenues, Disbursements, and Changes in Net Assets – Cash Basis provide 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, 2012  
UNAUDITED  
(Continued)**

**The School as a Whole**

Table 1 provides a summary of the School's net assets for fiscal year 2012 compared to fiscal year 2011.

<b>Table 1 Net Assets – Cash Basis</b>		
	<b>2012</b>	<b>2011</b>
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$561,095	\$513,166
Total Assets	561,095	513,166
<b>Net Assets</b>		
Unrestricted	561,095	513,166
Total Net Assets	\$561,095	\$513,166

As mentioned previously, total net assets increased by \$47,929. The primary reason contributing to the increase in cash balance is the School's cutting back on operating expenses and keeping up on ADM.

Table 2 reflects the changes in net assets for fiscal year 2012 compared to fiscal year 2011.

<b>Table 2 Change in Net Assets – Cash Basis</b>		
	<b>2012</b>	<b>2011</b>
State Foundation Payments	\$823,088	\$ 642,308
Other	6,522	4,850
Total Operating Revenues	829,610	647,158
<b>Operating Disbursements:</b>		
Tuition Reimbursement	8,658	
Purchased Services	881,648	782,321
Materials and Supplies	15,736	27,803
Capital Outlay	5,764	15,797
Other	14,002	11,638
Total Operating Disbursements	925,808	837,559
Operating Loss	(96,198)	(190,401)
<b>Non-operating Revenues:</b>		
Federal & State Grants	144,061	201,578
Interest Earnings	66	639
Total Non-operating Revenues	144,127	202,217
Change in Net Assets	\$ 47,929	\$ 11,816

State Foundation payments represent 85% of total revenues. These are unrestricted intergovernmental revenues, while non-operating revenues represent the majority of the remainder.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
UNAUDITED  
(Continued)**

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

**Table 3 Purchased Service Detail**

Instructional Services	\$502,206
Administrative Services	132,520
Instructional Improvement Services	117,339
Data Processing	4,557
Utility Expense	89,038
Meeting/Travel Expense	16,719
Sponsorship Management	19,269
Total	<u>\$881,648</u>

**Current Issues**

The challenge for all schools 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 School is able to provide individualized attention when needed. Only 3 full time certified staff and one full time support staff are needed for 120 students. A traditional school would require double that staff. In FY2011, we changed from a K-12 school to a 9-12 school so that will help us use our resources in only a few age groups, instead of many.

**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 Community School, 700 Black Lane, Fairborn, Ohio 45324.

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FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY

STATEMENT OF NET ASSETS - CASH BASIS  
JUNE 30, 2012

**Assets:**

**Current Assets:**

Cash	\$561,095
Total Assets	<u>561,095</u>

**Net Assets:**

Unrestricted	561,095
Total Net Assets	<u>\$561,095</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  
NET ASSETS - CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>Operating Revenues:</b>	
State Foundation Payments	\$823,088
Other Revenue	6,522
Total Operating Revenues	<u>829,610</u>
<b>Operating Disbursements:</b>	
Tuition Reimbursement	8,658
Purchased Services	881,648
Materials and Supplies	15,736
Capital Outlay	5,764
Other	14,002
Total Operating Disbursements	<u>925,808</u>
Operating Loss	<u>(96,198)</u>
<b>Non-operating Revenues:</b>	
Federal & State Grants	144,061
Interest Earnings	66
Total Non-operating Revenues	<u>144,127</u>
Change in Net Assets	47,929
Total Net Assets - Beginning	<u>513,166</u>
Total Net Assets - Ending	<u><u>\$561,095</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 FISCAL YEAR ENDED JUNE 30, 2012**

**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 9-12 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 6)

**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 schools 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 FISCAL YEAR ENDED JUNE 30, 2012  
(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 a 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.

**E. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**3. COMPLIANCE**

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 statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time.

**4. 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, \$348,164 of the School's bank balance of \$598,164 was exposed to custodial credit risk because those deposits were all insured 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 credit 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**5. 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 2012, the School was insured for commercial inland marine, general liability, and property.

Settled claims have not exceeded commercial coverage for the past three years. There has been no significant change in coverage.

**6. CONTRACT WITH TRECA**

The School entered into a one year contract for fiscal year 2012, 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.
- The School shall pay TRECA \$3,900 per full-time high school student or pro-rated per portion thereof. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2012, \$452,922 was paid to TRECA by the School.

To obtain TRECA's audited June 30, 2012 financial statements please contact Scott Armstrong, Treasurer, at [scott@treca.org](mailto:scott@treca.org).

**7. 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, 2012.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**7. CONTINGENCIES (Continued)**

**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 conclusion of the fiscal year 2012 review resulted in the School owing \$1,977 to the Ohio Department of Education.

**8. FISCAL AGENT**

The School utilizes the services of TRECA for employment of their Treasurer, Linda Hoch.

**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, 2012, purchased service expenses were payments for services rendered by various vendors, as follows:

<b>Purchased Service Detail</b>	
Instructional Services	\$502,206
Administrative Services	132,520
Instructional Improvement Services	117,339
Data Processing	4,557
Utility Expense	89,038
Meeting/Travel Expense	16,719
Sponsorship Management	19,269
Total	<u>\$881,648</u>

**11. RELATED PARTY TRANSACTIONS**

Fairborn City School District (the Sponsor) provides planning, instructional, administrative, and technical services required for the School.

Total payments made to Fairborn City School District equaled \$250,729, which was for the use of facilities and personnel. See Note 12 for details.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)**

**12. CONTRACT WITH FAIRBORN CITY SCHOOL DISTRICT**

Fairborn City School District (the Sponsor) shall support the School's establishment and operation by converting to the School's use of certain resources previously utilized by the Sponsor, including, but not limited to, portions of the Sponsor's facilities, staff, equipment, instructional materials, curriculum, and educational strategy, as determined to be appropriate by the Sponsor in the Sponsor's sole discretion.

If a student is entitled to transportation under any applicable law, such transportation shall be provided by the Sponsor.

In fiscal years 2012 and 2011, the School paid Fairborn City School District \$250,729 and \$179,064, respectively.

To obtain Fairborn City School District's audited June 30, 2012 financial statements, please contact Eric Beavers, Treasurer, at (937) 878-3961.

**13. JOINTLY GOVERNED ORGANIZATION**

Metropolitan Dayton Educational Cooperative Association - The School is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA), which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami, and Darke Counties and the Cities of Dayton, Troy, and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven superintendents of member school districts, with six of the superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh superintendent is from the Montgomery County Educational Service Center. The School paid MDECA \$6,331 for services provided during fiscal year 2012. Financial information can be obtained from Dean Reineke, Director, at 225 Linwood Street, Dayton, Ohio 45405.

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Fairborn Digital Academy Community School, Greene County, (the School) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 25, 2013, wherein we noted the School uses a special purpose framework other than generally accepted accounting principles.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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, opining 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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2013



FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2013 AND 2012

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

FINDING NUMBER 2013-001

**Noncompliance**

**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 described a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. The report shall be certified by the proper officer or board and filed with the auditor of state within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. 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 (GAAP). However, the School prepared its fiscal year 2012 and fiscal year 2013 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 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. Additionally, the School did not file its fiscal year 2012 annual report with the Auditor of State until September 8, 2013.

The School should prepare its financial statements in accordance with generally accepted accounting principles to provide the users with more meaningful and useful financial statements.

**Officials' Response:**

We did not receive a response from School Officials to this finding.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(B) – Failure to file GAAP basis financial statements	No	Repeated as Finding 2013-001



# Dave Yost • Auditor of State

## Independent Auditors' Report on Applying Agreed-Upon Procedure

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

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The Auditor of State shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Fairborn Digital Academy Community School (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the School amended its anti-harassment policy at its meeting on December 13, 2012 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Dave Yost".

**Dave Yost**  
Auditor of State

September 25, 2013

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# Dave Yost • 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  
NOVEMBER 12, 2013**