



**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the Fairborn Digital Academy, Greene County, (the Academy), a component unit of Fairborn City School District, as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the accompanying financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of the Fairborn Digital Academy, Greene County, as of and for the year ended June 30, 2005, in accordance with accounting principles generally accepted in the United States of America.

The Academy has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2006, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Betty Montgomery
Auditor of State

March 17, 2006

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**STATEMENT OF CASH RECEIPTS
CASH DISBURSEMENTS AND CHANGE IN FUND CASH BALANCE
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2005**

| | <u>Enterprise</u> |
|---------------------------------------|-------------------------|
| Operating Receipts: | |
| Foundation Payments | \$611,436 |
| Operating Disbursements: | |
| Purchased Services | 696,050 |
| Capital Outlay | 86,972 |
| Materials and Supplies | 9,858 |
| Other Operating Expenses | <u>6,425</u> |
| Total Operating Disbursements | <u>799,305</u> |
| Operating Loss | (187,869) |
| Non-Operating Receipts: | |
| Federal and State Grants | 191,812 |
| Other Non-Operating Revenue | <u>2,295</u> |
| Total Non-Operating Receipts | <u>194,107</u> |
| Net Receipts Over Disbursements | 6,238 |
| Beginning Fund Balance - July 1, 2004 | <u>217,539</u> |
| Ending Fund Balance - June 30, 2005 | <u><u>\$223,777</u></u> |
| Reserve for Encumbrances | \$14,245 |

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

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**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

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

1. DESCRIPTION OF THE ENTITY

Fairborn Digital Academy Community School (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the growing need for a comprehensive educational program delivered to students in the K – 12 population primarily through distance learning technologies. The comprehensive educational program will address special problems of disabled students, students removed from school for disciplinary reasons, students needing advanced or specialized courses which are not available locally, and others, including some home-schooled students, who are not currently enrolled in any public school and who are not receiving a meaningful, comprehensive, and standards-based educational program.

The Academy was approved for operation under contract with the Fairborn City School District (the Sponsor) for a period of five years commencing July 1, 2002. The Academy accepted students beginning September 3, 2002. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a five-member Board of Directors. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. Fairborn City School District appoints the voting majority of the Board of Directors and is able to significantly influence the programs or services performed or provided, therefore, the Academy is a component unit of the Fairborn City School District.

The Board of Directors has entered into a 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 Academy. (See note 5)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise Accounting

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor or otherwise adopted by the Board of Directors. The contract between the Academy and its Sponsor prescribes a budget requirement of preparing five-year forecast annually. The contract also states the Academy will follow the operating procedures recommended by the Auditor of State, including those related to regular presentation, review, discussion, and approval or rejection of the budget and reports of current and encumbered expenses. The Academy currently prepares an annual five-year forecast budget and the Board of Directors receives financial statements on a bi-monthly basis.

On June 28, 2004, The Board of Directors approved amending the policy manual to eliminate the requirements to budget in accordance with public schools and beginning in fiscal year 2005 will follow budget guidelines for Ohio's Community Schools.

C. Cash

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

D. Intergovernmental Revenues

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

The Academy participates in the Federal Community School Grant Program through the Ohio Department of Education. Under this program, the School was awarded and received \$150,000 to offset start-up costs of the Academy. Revenues received from these programs are recognized as non-operating revenue on the accompanying financial statements.

3. DEPOSITS

At June 30, 2005, the carrying amount of the Academy's deposits was \$223,776 and the bank balance was \$289,210. Of the bank balance, \$100,000 was insured by federal depository insurance and the remaining \$189,210 was covered by pooled collateral.

4. RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. For fiscal year 2005, the Academy was insured for commercial inland marine, general liability, and property.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

5. CONTRACT WITH TRECA

The Academy entered into a one year contract on July 1, 2004, for fiscal year 2005, with TRECA. Under the contract, the following terms were agreed upon:

- TRECA shall provide the Academy with instructional, supervisory/administrative, and technical services sufficient to effectively implement the Academy's educational plan and the Academy's assessment and accountability plan.
- All personnel providing services to the Academy 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 Academy 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 Academy 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 Academy.
- 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 Academy shall pay to TRECA a fee of \$150 per student for the 2004-2005 school year.
- The Academy shall pay TRECA \$3,600 per full-time high school student and \$2,500 per full-time K-8 student enrollment in the Academy per school year. Part-time students may be enrolled on such terms as are agreed to by the parties.

For fiscal year 2005, \$301,080 was paid to TRECA by the Academy.

To obtain TRECA's audited June 30, 2005, financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

6. CONTINGENCIES

A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

6. CONTINGENCIES (Continued)

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any on the Academy is not presently determinable.

C. 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.

7. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

8. FISCAL AGENT

The Academy utilizes the services of TRECA as their fiscal officer. The Academy contracts with TRECA who in turn contracts with the Fairborn City School District Treasurer.

9. TAX EXEMPT STATUS

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

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

10. PURCHASED SERVICES

For the period ended June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

| | |
|-------------------------|------------------|
| Instruction Services | \$602,258 |
| Administrative Services | 78,005 |
| Data Processing | 5,500 |
| Board Services | 1,073 |
| Insurance Expense | 949 |
| Utility Expense | 873 |
| Meeting/Travel Expense | 7,392 |
| TOTAL | \$696,050 |

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**Auditor of State
Betty Montgomery**

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

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

To the Board of Directors:

We have audited the financial statements of the Fairborn Digital Academy Community School, Greene County, (the Academy), as of and for the year ended June 30, 2005, and have issued our report thereon dated March 17, 2006, wherein we noted the financial statements did not present fairly the financial position, results of operations and cash flows as of June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Academy's management dated March 17, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 thru 2005-003.

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

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Betty Montgomery
Auditor of State

March 17, 2006

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2005**

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

FINDING NUMBER 2005-001

NONCOMPLIANCE CITATION

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

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

FINDING NUMBER 2005-002

NONCOMPLIANCE CITATION

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

The Treasurer, appointed January 12, 2005, did not execute a bond nor was a bond subsequently executed for the remaining of the fiscal year.

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

FINDING NUMBER 2005-003

NONCOMPLIANCE CITATION

Board Policy BCC, Qualifications and Duties of the Treasurer, requires in part that the Treasurer shall serve as the Academy's chief financial officer; assume responsibility for receipt, safekeeping and disbursement of all Academy funds and direct and manage all financial accounting programs and systems.

Additional functions, duties, and responsibilities of the Treasurer include but are not limited to:

- record proceedings of Board meetings
- prepare annual budget and appropriations resolution with assistance of the Executive Director
- render monthly statements to the Board and, as needed, to the Executive Director
- sign all checks in accordance with law
- complete and file at proper times all forms, reports, papers and other requirements as prescribed by the Auditor, Department of Education, or other state or local agencies
- render a full annual report at the end of each fiscal year
- prepare long-range financial projections with the Executive Director for Board.

On January 12, 2005, the Board of Directors approved a letter of agreement with Tri-Rivers Educational Computer Association (TRECA) to provide fiscal services for the Academy. Subsequently, the sponsor contract with Fairborn City Schools was modified to provide that TRECA be the fiscal agent and that the Director of Fiscal Services for TRECA be the Academy's Treasurer. Prior to January 12, 2005, the sponsor contract provided that the Treasurer of the Fairborn City School District be the Academy's Treasurer and the District serve as fiscal agent.

Since the approval of the agreement and the modification to the sponsor contract, the Fairborn City School District has continued to function as fiscal agent. Furthermore, all functions, duties, and responsibilities of the Treasurer continue to be performed by the Fairborn City School District Treasurer. The Fairborn City School District Treasurer operates without a contract or formal agreement with TRECA.

To provide for better monitoring, accountability, and compliance with Board Policy BCC and the sponsor contract, the Academy should assign responsibility for all treasury functions to the individual that performs the duties of Treasurer. The sponsor contract should be modified accordingly.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2005**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|----------------------------------------------------------------------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| 2004-001 | ORC 117.38 and OAC 117-2-03(B)—Failure to report on a GAAP basis | No | Not Corrected – Repeated as finding 2005-001. |
| 2004-002 | AOS Bulletin 2000-05—Failure to present one Enterprise Fund | Yes | |
| 2004-003 | ORC 3314.03 (A)(11)(b) and Community School Contract—Failure to purchase liability insurance | Yes | |
| 2004-004 | OAC 117-6-07(B)—Failure to purchase Treasurer’s bond | No | Not Corrected – Repeated as finding 2005-002. |
| 2004-005 | Community School Contract—Failure to follow budgeting guidelines | Yes | |



**Auditor of State
Betty Montgomery**

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**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 4, 2006**