



Dave Yost • Auditor of State



**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
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, 2015 and 2014, 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 opinion.

**Opinion**

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, Ohio, as of June 30, 2015 and 2014, and the respective changes in cash financial position and the years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Other Matters**

*Other Information*

We applied no procedures to Management's Discussion & Analysis listed in the table of contents. Accordingly, 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 December 9, 2015, 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

December 9, 2015

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015  
UNAUDITED**

The discussion and analysis of Fairborn Digital Academy's (the School) financial performance provides an overall review of the School's financial activities for the year ended June 30, 2015, 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 2015 are as follows:

In total, Net Position increased by \$304,141 from last year. Last year, this amount was a decrease of \$16,653. We had such an increase in Net Position due to more student population and contracting our staff as full time employees, instead of as needed employees. We also didn't have to buy a big investment of equipment this year. The schools general receipts, those being primarily state foundation payments were \$1,127,516 or 88% 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 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 YEAR ENDED JUNE 30, 2015  
UNAUDITED  
(Continued)**

**The School as a Whole**

Table 1 provides a summary of the School's Net Position for fiscal year 2015 compared to fiscal year 2014:

**Table 1  
Net Position**

	<u>2015</u>	<u>2014</u>
<b>Assets:</b>		
Cash	\$815,488	\$511,347
Total Assets	<u>815,488</u>	<u>511,347</u>
<b>Net Position:</b>		
Unrestricted	815,488	511,347
Total Net Position	<u>\$815,488</u>	<u>\$511,347</u>

As mentioned previously, total Net Position increased by \$304,141. 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 Position for fiscal year 2015 compared to fiscal year 2014.

**Table 2  
Change in Net Position – Cash Basis**

	<u>2015</u>	<u>2014</u>
<b>Operating Revenues:</b>		
State Foundation payments	\$1,127,516	\$944,349
Other Operating Revenue	4,111	9,364
Total Operating Revenues	<u>1,131,627</u>	<u>953,713</u>
<b>Operating Disbursements:</b>		
Purchased Services	944,064	957,416
Materials and supplies	9,107	24,236
Capital outlay	8,983	57,242
Other	7,996	18,876
Total Operating Disbursements	<u>970,150</u>	<u>1,057,770</u>
Operating Income	<u>161,477</u>	<u>(104,057)</u>
<b>Non-Operating Revenues::</b>		
Federal & State Grants	129,718	87,357
Interest earnings	65	47
Other Non-operating Revenue	12,881	
Total Non-Operating Revenues	<u>142,664</u>	<u>87,404</u>
Change in Net Position	<u>\$304,141</u>	<u>(\$16,653)</u>

State Foundation payments represent 88% of total revenues. These are unrestricted intergovernmental revenues, while non-operating revenues represent the remainder.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015  
UNAUDITED  
(Continued)**

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

**Table 3  
Purchased Service Detail**

Board of Directors	\$37,235
Instructional Contracted	407,499
Special Ed Contracted	106,493
Counseling Contractor Services	32,577
ADM Services	117,212
Principal Services	78,041
Treasurer Services	27,634
Building	63,738
Busing	36,472
Tech Services	37,163
Total	<u><u>\$944,064</u></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, 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 POSITION - CASH BASIS  
AS OF JUNE 30, 2015**

**Assets:**

**Current assets:**

Cash	<u>\$815,488</u>
Total assets	<u><u>815,488</u></u>

**Net Position:**

Unrestricted	<u>815,488</u>
Total Net Position	<u><u>\$815,488</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  
NET POSITION - CASH BASIS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>Operating revenues:</b>	
State Foundation payments	\$1,127,516
Other Operating Revenue	4,111
Total operating revenues	<u>1,131,627</u>
<b>Operating disbursements:</b>	
Purchased services	944,064
Materials and supplies	9,107
Capital outlay	8,983
Other	7,996
Total operating disbursements	<u>970,150</u>
Operating income	<u>161,477</u>
<b>Non-operating revenues:</b>	
Federal & State Grants	129,718
Interest earnings	65
Other Nonoperating Revenue	12,881
Total nonoperating revenues	<u>142,664</u>
Change in Net Position	304,141
Total Net Position-beginning	<u>511,347</u>
Total Net Position-ending	<u><u>\$815,488</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, 2015**

**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 seven-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.

**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.

**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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. Inventory and Prepaid Items**

The School reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**F. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**G. Net Position**

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The School's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

**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, \$567,768 of the School's bank balance of \$817,768 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 2015, the School was insured for commercial inland marine, general liability, and property.

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

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015  
UNAUDITED  
(Continued)**

**5. CONTRACT WITH MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

The School entered into a one year contract for fiscal year 2015, with Montgomery County Educational Service Center (MCESC). Under the contract, the following terms were agreed upon:

- All personnel providing services to the School on behalf of MCESC under the agreement shall be employees of MCESC and MCESC 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 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.

For fiscal year 2015, \$634,835 was paid to MCESC by the School.

To obtain MCESC's audited June 30, 2015 financial statements please contact Christopher Fox, Treasurer, at [Christopher.fox@mcesc.org](mailto:Christopher.fox@mcesc.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, 2015.

**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 the fiscal year 2015 review resulted in the School owing \$30,775 to the Ohio Department of Education.

**7. FISCAL AGENT**

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

**8. 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015  
UNAUDITED  
(Continued)**

**9. PURCHASED SERVICES**

For the period ended June 30, 2015, purchased service expenses were payments for services rendered by various vendors, as follows:

<u><b>Purchased Service Detail</b></u>	
Instructional Services	\$459,035
Administrative Services	202,096
Instruct. Improvement Services	66,047
Data Processing	38,106
Utilities/Insurance	121,594
Meeting/Travel	28,856
Sponsorship Management	28,330
Total	<u><u>\$944,064</u></u>

**10. RELATED PARTY TRANSACTIONS**

Fairborn City School District (the Sponsor) provides facilities, transportation and EMIS Services required for the School.

Total payments made to Fairborn City School District equaled \$125,705, which was for the use of facilities and personnel. See Note 11 for details.

**11. 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, 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 2014 and 2015, the School paid Fairborn City School District \$191,648 and \$125,705, respectively.

To obtain Fairborn City School District's audited June 30, 2013 financial statements, please contact Nicole Marshall, Treasurer, at (937) 879-3961.

**12. 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 Fairborn City School District in Greene County. 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015  
UNAUDITED  
(Continued)**

**12. JOINTLY GOVERNED ORGANIZATION (Continued)**

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 \$1,033 for services provided during fiscal year 2014, and \$7,004 in fiscal year 2015. Financial information can be obtained from Dean Reineke, Director, at 225 Linwood Street, Dayton, Ohio 45405.

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**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014  
UNAUDITED**

The discussion and analysis of Fairborn Digital Academy's (the School) financial performance provides an overall review of the School's financial activities for the year ended June 30, 2014, 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 2014 are as follows:

In total, net position decreased by \$16,653 from last year. Last year, this amount was \$33,095. The schools general receipts, those being primarily state foundation payments were \$944,349 or 91% 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 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, 2014  
UNAUDITED  
(Continued)**

**The School as a Whole**

Table 1 provides a summary of the School's Net Position for fiscal year 2014 compared to fiscal year 2013:

<b>Table 1 Net Position</b>		
	<b>2014</b>	<b>2013</b>
<b>Assets:</b>		
Cash	\$511,347	\$528,000
Total Assets	511,347	528,000
 <b>Net Position:</b>		
Unrestricted	511,347	528,000
Total Net Position	\$511,347	\$528,000

As mentioned previously, total net position decreased by \$16,653. The primary reason contributing to the decrease in cash balance is the reduction of federal grant funding.

Table 2 reflects the changes in Net Position for fiscal year 2014 compared to fiscal year 2013.

<b>Table 2 Change in Net Position – Cash Basis</b>		
	<b>2014</b>	<b>2013</b>
<b>Operating Revenues:</b>		
State Foundation payments	\$944,349	\$894,474
Other Operating Revenue	9,364	6,545
Total Operating Revenues	953,713	901,019
 <b>Operating Disbursements:</b>		
Tuition Reimbursement		8,821
Purchased Services	957,416	1,009,067
Materials and supplies	24,236	9,476
Capital outlay	57,242	19,918
Other	18,876	10,915
Total Operating Disbursements	1,057,770	1,058,197
 Operating Income	 (104,057)	 (157,178)
 <b>Non-Operating Revenues::</b>		
Federal & State Grants	87,357	124,029
Interest earnings	47	54
Total Non-Operating Revenues	87,404	124,083
 Change in Net Position	 (\$16,653)	 (\$33,095)

State Foundation payments represent 91% of total revenues. These are unrestricted intergovernmental revenues, while non-operating revenues represent the remainder.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
UNAUDITED  
(Continued)**

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

**Table 3  
Purchased Service Detail**

Board of Directors	\$36,169
Instructional Contracted	364,179
Special Ed Contracted	88,427
ADM Services	241,777
Principal Services	76,949
Treasurer Services	26,159
Building	51,521
Busing	34,242
Tech Services	37,993
Total	<u>\$957,416</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, 700 Black Lane, Fairborn, Ohio 45324.

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**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS  
AS OF JUNE 30, 2014**

**Assets:**

**Current assets:**

Cash	<u>\$511,347</u>
Total assets	<u><u>511,347</u></u>

**Net Position:**

Unrestricted	<u>511,347</u>
Total Net Position	<u><u>\$511,347</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  
NET POSITION - CASH BASIS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

<b>Operating revenues:</b>	
State Foundation payments	\$944,349
Other Operating Revenue	9,364
Total operating revenues	953,713
 <b>Operating disbursements:</b>	
Purchased services	957,416
Materials and supplies	24,236
Capital outlay	57,242
Other	18,876
Total operating disbursements	1,057,770
Operating income	(104,057)
 <b>Non-operating revenues:</b>	
Federal & State Grants	87,357
Interest earnings	47
Total non-operating revenues	87,404
Change in Net Position	(16,653)
Total Net Position-beginning	528,000
Total Net Position-ending	\$511,347

*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, 2014**

**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 seven-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.

**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.

**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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. Inventory and Prepaid Items**

The School reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**F. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**G. Net Position**

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The School's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

**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, \$279,578 of the School's bank balance of \$529,578 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 2014, 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 have been no significant changes in coverage.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**5. CONTRACT WITH MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

The School entered into a one year contract for fiscal year 2014, with the Montgomery County Educational Service Center (MCESC). Under the contract, the following terms were agreed upon:

- All personnel providing services to the School on behalf of MCESC under the agreement shall be employees of MCESC and MCESC 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 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.

For fiscal year 2014, \$532,238 was paid to MCESC by the School.

To obtain MCESC's audited June 30, 2014 financial statements please contact Christopher Fox, Treasurer, at [Christopher.fox@mcesc.org](mailto:Christopher.fox@mcesc.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, 2014.

**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 fiscal year 14 review resulted in the School owing \$1,436 to the Ohio Department of Educaiton.

**7. FISCAL AGENT**

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

**8. 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**9. PURCHASED SERVICES**

For the period ended June 30, 2014, purchased service expenses were payments for services rendered by various vendors, as follows:

<u>Purchased Service Detail</u>	
Instructional Services	\$436,345
Administrative Services	260,884
Instruct. Improvement Services	104,273
Data Processing	37,993
Utilities/Insurance	97,940
Meeting/Travel	19,981
Total	<u>\$957,416</u>

**10. RELATED PARTY TRANSACTIONS**

Fairborn City School District (the Sponsor) provides facilities, transportation and EMIS services required for the School.

Total payments made to Fairborn City School District equaled \$191,648, which was for the use of facilities and personnel. See Note 11 for details.

**11. 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, 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 2014 and 2013, the School paid Fairborn City School District \$191,648 and \$197,763, respectively.

To obtain Fairborn City School District's audited June 30, 2013 financial statements, please contact Nicole Marshall, Treasurer, at (937) 879-3961.

**12. 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 Fairborn City School District in Greene County. 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014  
(Continued)**

**12. JOINTLY GOVERNED ORGANIZATION (Continued)**

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 \$1,033 for services provided during fiscal year 2014, and \$3,039 in fiscal year 2013. 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 9, 2015, 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2015-001 and 2015-002.

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***School's Response to Findings***

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School's responses and, accordingly, we express no opinion on them.

***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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

December 9, 2015

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2015 AND 2014**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2015-001**

**NONCOMPLIANCE**

**Ohio Rev. Code § 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 § 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 2015 and fiscal year 2014 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, deferred outflow of resources, liabilities, deferred inflow of resources, 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.

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.

**Official's Response:**

Fairborn Digital Academy has chosen not to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

**FINDING NUMBER 2015-002**

**NONCOMPLIANCE**

**Ohio Rev. Code § 3314.03(A)(11)(e)** requires community schools to comply with **Rev. Code Chapter 102** regarding public officer ethics and **Rev. Code § 2921.42** regarding unlawful interest in public contacts. Additionally, in Advisory Opinion 2010-01 the Ohio Ethics Commission indicated that:

1. All members of the governing board of a community school are subject, without limitation, to the provisions of the Ohio Ethics Law as set forth in Chapter 102., which include post-employment, confidentiality, conflict of interest, gifts, and representation restrictions;
2. All members of the governing board of a community school are also subject, without limitation, to Sections 2921.42 and 2921.43 of the Revised Code, which include public contract, nepotism, and supplemental compensation restrictions;
3. These conclusions also apply to all officers and employees of a community school, although teachers and other educators who do not perform, and have no authority to perform, supervisory or administrative functions are not subject to the post-employment and conflict of interest restrictions in R.C. 102.03;

**FINDING NUMBER 2015-002  
(Continued)**

**Ohio Admin. Code § 3301-102-02(K)(3)** states in part, that no present or former member, or immediate relative of a present or former member of the governing authority of any community school established under Chapter 3314 of the Rev. Code shall be an owner, employee or consultant of any nonprofit or for-profit operator of a community schools, as defined in § 3314.014 of the Rev. Code, unless at least one year has elapsed since the conclusion of the person's membership.

**Ohio Rev. Code § 3314.02(A)(8)** defines operator as (a) an individual or organization that manages the daily operations of a community school pursuant to a contract between the operator and the school's governing authority.

Additionally Board Member Conflict of Interest policy states in part that a Board Member will not have any direct or indirect pecuniary interest in a contract with the District; will not furnish for remuneration any labor, equipment or supplies to the District; nor be employed by the Board in any capacity for compensation.

On June 9, 2015 the Board approved the resignation of fellow Board Member Dottie Meade to become Executive Director of the Fairborn Digital Academy. In doing so, Dottie Meade violated provisions of Ohio Ethics Law by entering into an employment agreement with Board within one year of being a board member.

Policies and procedures should be established and implemented to verify that potential conflict of interest are appropriately disclosed and resolved. Failure to do so could result in objectives of an individual taking precedence over Board's objectives.

The matter has been referred to Ohio Ethics Commission.

**Official's Response:**

Fairborn Digital Academy was unaware of the law that prohibited a board member to become the Executive Director. We have now been made aware of this restriction and it will not happen again.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2015 AND 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) – Failure to file GAAP basis financial statements	No	Repeated as Finding 2015-001

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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  
JANUARY 26, 2016**