



Mary Taylor, CPA
Auditor of State

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the Fairborn Digital Academy Community School, Greene County, Ohio (the School) as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express 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 our audit provides a reasonable basis for our opinion.

Ohio Administrative Code § 117-2-03 (B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Fairborn Digital Academy Community School, Greene County, Ohio, as of June 30, 2010 and the respective changes in cash financial position thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2010, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

September 3, 2010

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

The discussion and analysis of Fairborn Digital Academy's (the School) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010, 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 2010 are as follows:

In total, net assets increased by \$100,999 which was much better than last year. This was due to the school cutting costs because of not knowing what the funding formula would be for fiscal year 2010 and beyond. The school's general operating receipts, those being primarily state foundation payments were \$699,570 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 assets provides information about the cash activities of the whole School. The Statement of Revenues, Disbursements, and Change in Net Assets – Cash Basis provides a greater level of detail.

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

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

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

The School as a Whole

Table 1 provides a summary of the School's net assets for fiscal year 2010 compared to fiscal year 2009:

**Table 1
Net Assets**

	<u>2009</u>	<u>2010</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$400,350	\$501,349
Total Assets	<u>400,350</u>	<u>501,349</u>
Net Assets:		
Unrestricted	400,350	501,349
Total Net Assets	<u>\$400,350</u>	<u>\$501,349</u>

As mentioned previously, total net assets increased by \$100,999. The primary reason contributing to the increase in cash balance was the School cutting back on operating expenses and keeping up on ADM.

Table 2 reflects the changes in net assets for fiscal year 2010 compared to fiscal year 2009.

**Table 2
Change in Net Assets**

	<u>2009</u>	<u>2010</u>
Operating Revenues:		
State Foundation payments	\$734,515	\$699,570
Total Operating Revenues	<u>734,515</u>	<u>699,570</u>
Operating Disbursements:		
Tuition reimbursement	7,533	
Purchased services	686,128	668,205
Materials and supplies	8,907	9,568
Capital outlay	53,715	16,845
Other	15,564	10,429
Total Operating Disbursements	<u>771,847</u>	<u>705,047</u>
Operating Income	<u>(37,332)</u>	<u>(5,477)</u>
Non-Operating Revenues:		
Federal & State Grants	60,059	97,497
Interest earnings	1,427	
Other	9,174	8,979
Total Non-operating Revenues	<u>70,660</u>	<u>106,476</u>
Change in Net Assets	<u>\$ 33,327</u>	<u>\$100,999</u>

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

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

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

Table 3 Purchased Service Detail

Instructional Services	\$432,605
Administrative Services	169,835
Building Rent/Maintenance	10,953
Insurance/Legal Expense	203
Data Processing	8,234
Utilities	3,339
Meeting/Travel Expense	43,036
Total	<u><u>\$668,205</u></u>

Current Issues

The challenge for all school districts is to provide quality education with fewer monies available to spend. Online schools are able to capitalize upon this since fewer full time personnel are needed to educate students. Also, the School is able to provide individualized attention when needed. Only 2 full time certified staff and one full time support staff are needed for 120 students. A traditional school would require double that staff. In fiscal year 2010, the School changed from a K-12 school to a 9-12 school in order to help the school use 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 ASSETS - CASH BASIS
AS OF JUNE 30, 2010

Assets:

Current assets:

Cash	<u>\$501,349</u>
Total assets	<u>501,349</u>

Net Assets:

Unrestricted	<u>501,349</u>
Total net assets	<u><u>\$501,349</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 CHANGE IN
NET ASSETS - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Operating revenues:	
State foundation payments	<u>\$699,570</u>
Total operating revenues	<u>699,570</u>
Operating disbursements:	
Purchased services	668,205
Materials and supplies	9,568
Capital outlay	16,845
Other	<u>10,429</u>
Total operating disbursements	<u>705,047</u>
Operating income	<u>(5,477)</u>
Non-operating revenues:	
Federal & state grants	97,497
Other	<u>8,979</u>
Total nonoperating revenues	<u>106,476</u>
Change in net assets	100,999
Total net assets-beginning	<u>400,350</u>
Total net assets-ending	<u>\$501,349</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, 2010**

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 5)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the School chooses to prepare its financial statements on the cash basis of accounting. 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, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Budgetary Process

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

C. Cash

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

D. Intergovernmental Revenues

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

3. DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$364,877 of the School's bank balance of \$614,877 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 2010, the School was insured for commercial inland marine, general liability, and property.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

5. CONTRACT WITH TRECA

The School entered into a one year contract for fiscal year 2010, 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 \$3,875 per full-time 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 2010, \$329,284 was paid to TRECA by the School.

To obtain TRECA's audited June 30, 2010 financial statements please contact Scott Armstrong, Treasurer, at scott@treca.org.

6. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2010.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and fulltime equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. However, in the opinion of the School, any such adjustments will not have a material adverse effect on the financial position of the School.

7. FISCAL AGENT

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

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
(Continued)**

8. PURCHASED SERVICES

For the period ended June 30, 2010, purchased service expenses were payments for services rendered by various vendors, as follows:

Building Rent/Maintenance	\$ 10,953
Utilities	3,339
Administrative Services	169,835
Instructional Services	432,605
Data Processing	8,234
Insurance/Legal Expense	203
Meeting/Travel Expense	43,036
Total	<u><u>\$668,205</u></u>

9. RELATED PARTY TRANSACTIONS

Fairborn City Schools (Sponsor) provides planning, instructional, administrative, and technical services required for the operation of the Academy.

Total payments made to the Fairborn City School District equaled \$127,809 which was for the use of facilities and personnel. See Note 10 for details.

10. CONTRACT WITH FAIRBORN CITY SCHOOLS

- Fairborn City Schools (the Sponsor) shall support the School's establishment and operation by converting to the School's use 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 2010 and 2009, the School paid Fairborn City Schools \$127,809 and \$283,901 respectively.

To obtain Fairborn City School's audited June 30, 2010 financial statements please contact Julie Turner, Interim Treasurer, at (937) 878-3961.

11. JOINTLY GOVERNED ORGANIZATION

Metropolitan Dayton Educational Cooperative Association - The Academy 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 \$9,994 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of the Fairborn Digital Academy Community School, Greene County, (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 3, 2010, wherein we noted the School uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

A *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 a combination of deficiencies, resulting in more than a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-01.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 3, 2010

FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2010

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

Finding Number	2010-001
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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 prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03 (B) requires the School to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School prepared 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.

GAAP financial statements provide a more detailed overview of the Schools financial condition. The School should consider presenting GAAP financial statements.

Official's Response: We did not receive a response from officials to this finding.

FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	OAC Section 117-2-03(B) – Failure to file GAAP financial statements.	No	Repeated as Finding 2010-001



Mary Taylor, CPA
Auditor of State

FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL

GREENE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 14, 2010**