



**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 Community School, Greene County (the "Academy") as of June 30, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, and combined fund cash balances of the Academy, as of June 30, 2003, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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.

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

**Betty Montgomery**  
Auditor of State

December 4, 2003

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS,  
DISBURSEMENTS AND CHANGES IN FUND BALANCES  
ALL PROPRIETARY FUND TYPES  
FOR THE PERIOD ENDED JUNE 30, 2003**

	<u>Enterprise</u>
<b>Operating Revenues:</b>	
Foundation Payments	\$74,976
<b>Operating Expenditures:</b>	
Purchased Services	94,402
Other Operating Expenditures	<u>104</u>
Total Operating Expenditures	<u>94,506</u>
Operating Income	(19,530)
<b>Non-Operating Revenues:</b>	
Federal and State Grants	81,300
<b>Non-Operating Expenditures:</b>	
Other Non-Operating Expenditures	<u>14,564</u>
Net Income	47,206
Beginning Fund Balance - July 1, 2002	<u>                    </u>
Ending Fund Balance - June 30, 2003	<u><u>\$47,206</u></u>

*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, 2003**

**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 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 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 two-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, 2003**

**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. The contract between the Academy and its Sponsor prescribes a budget requirement of preparing five-year forecast annually. The contract also requires 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; however the Board of Directors does not regularly review the budget or reports.

**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 State of Ohio Community School Grant and the Federal Community School Grant Program through the Ohio Department of Education. Under these programs, the School was awarded and received \$81,300 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, 2003, the carrying amount of the Academy's deposits was \$47,206 and the bank balance was \$47,206. The bank balance was covered by federal depository insurance.

**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 2003, the Academy was uninsured. This is contrary to Ohio Rev. Code 3314.03 (A)(11)(b) and the Community School Contract (6/17/02) Article III Responsibilities of the School.

**5. SERVICE AGREEMENT**

The Academy entered into a two-year agreement on July 1, 2002 with Tri-Rivers Educational Computer Association ("TRECA") for planning, instructional, administrative and technical services required for the operation of the Academy. Under the contract, TRECA is required to provide instructional, technical, curricular, and payroll services.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**5. SERVICE AGREEMENT (Continued)**

For these services, the Academy is required to pay the following fees to TRECA:

1. Annual Fee – The Academy shall pay \$60,000 for fiscal year 2003., reduced by \$25,000 due and payable to Sponsor for services acquired by TRECA. The remaining fee shall be due in two equal payments. The Academy paid the Sponsor, Fairborn City School District, \$25,000 and paid TRECA \$35,000 during FY03.
2. Enrollment - \$3,500 per full-time high school student and \$2,500 per full-time K-8 student enrolled per year. Students being provided special education services by another provider than TRECA will not be charged at this rate, rather the actual costs incurred by TRECA. If the special education for a student is provided by TRECA, then any additional amount received from Department of Education for special education and related services is due to TRECA for that student.

The Academy paid TRECA \$34,359 during FY03 for enrollment fees.

Note: Reduction in payments to the Academy from the Department of Education, if any, will result in a corresponding reduction in payments from the Academy to TRECA. Also, under this agreement, all obligations of the Academy are subject to the Academy's receipt of the first installment paid to the Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program.

**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, 2003.

**B. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging Ohio's Community (i.e., Charter) Schools 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 for oral argument on November 18, 2003. The effect of this suit, if any, on the school is not presently determinable.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the school. 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**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. STATE TEACHER RETIREMENT SYSTEM EXPENSES**

The Academy received state foundation funding from the Ohio Department of Education. The funding included deductions for the State Teacher Retirement System (STRS). The Academy does not have any employees and therefore should not have deductions for retirement. During fiscal year 2003, the Academy posted \$14,564 in STRS expenses, which were reported on the financial statements as other non-operating expenditures. The Academy has applied for a refund of this deduction.

**9. FISCAL AGENT**

The Academy utilizes the services of the Fairborn City School District Treasurer as their fiscal officer. The Treasurer is not paid by the Academy. All instructional services are provided through TRECA.

**10. TAX EXEMPT STATUS**

The Academy has not filed for tax exempt status under § 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 § 501(c)(3) tax exempt status.



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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, 2003, and have issued our report thereon dated December 4, 2003, wherein we noted that the Academy has reported on the cash basis of accounting previously prescribed by the Auditor of State for financial reporting rather than generally accepted accounting principles which is now required. 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.

#### Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2003-001 to 2003-006. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Academy, in a separate letter dated December 4, 2003.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted additional matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Academy in a separate letter dated December 4, 2003.

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.

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

**Betty Montgomery**  
Auditor of State

December 4, 2003

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL  
GREENE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2003**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003-001**

**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 Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, 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 2003-002**

**Auditor of State Audit Bulletin 2000-05** requires all financial activity of a community school be reported within an Enterprise Fund in accordance with governmental accounting principles.

The Academy reported a General Fund and two Special Revenue Funds rather than one Enterprise Fund. The accompanying financial statements have been adjusted to report financial activity as an Enterprise fund.

At year end, the Academy should prepare a financial statement which combines and reports all activity in one Enterprise Fund.

**FINDING NUMBER 2003-003**

**Ohio Rev. Code 3314.03 (A)(11)(b) and the Community School Contract (6/17/02) Article III Responsibilities of the School** state the governing authority is required to purchase liability insurance, or otherwise provide for the potential liability of the school.

The Academy is unable to provide evidence of the purchase or provision of liability insurance for fiscal year 2003.

The Academy should obtain liability insurance to comply with the above requirement. Failure to obtain insurance could subject the Academy to an uninsured risk loss and possibly the inability to continue operations.

#### **FINDING NUMBER 2003-004**

**Ohio Admin. Code Section 117-6-07** requires a community school fiscal officer to 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 was not bonded during fiscal year 2003.

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

#### **FINDING NUMBER 2003-005**

**The Community School Contract (6/17/02) Exhibit 2 Financial Plan** requires the school to prepare a five-year annual budget detailing sources of revenue and expenditures. It also requires regular presentation, review, discussion, and approval or rejection of the line item budget and regular reports of current and encumbered expenses.

The Treasurer and Executive Director prepared the required five-year budget. The Board of Directors approved the five-year budget; however regular presentation, review, discussion, and approval or rejection of the budget and reports of current and encumbered expenses did not occur during the fiscal year.

The Board of Directors should follow the financial plan requirements and regularly review the five-year budget and reports of current and encumbered expenses.

#### **FINDING NUMBER 2003-006**

##### **State Teachers Retirement System Expenditures**

The Academy received state foundation settlement money during fiscal year 2003; however the settlements deducted amounts for State Teachers Retirement System (STRS). Since the Academy does not have employees, these amounts should not have been deducted.

The Treasurer posted these deductions to the Academy's expenditure ledger as regular instruction expenditures. The expenditures were reclassified for purposes of reporting and are shown on the financial statements as other non-operating expenses in the amount of \$14,564.

The Treasurer should contact the State Teachers Retirement System and request a \$14,564 refund for the overpayment to STRS.





**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  
MARCH 25, 2004**