



OHIO AUDITOR OF STATE
KEITH FABER



**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY
JUNE 30, 2019 AND 2018**

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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 cash basis financial statements of the Fairborn Digital Academy Community School, Greene County, Ohio (the School), as of and for the years ended June 30, 2019 and 2018, 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 such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Efficient • Effective • Transparent

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash financial position of the Fairborn Digital Academy Community School, Greene County as of June 30, 2019 and 2018, and the changes in its cash financial position for 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, during 2020, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to management's discussion & analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2020, 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.



Keith Faber
Auditor of State
Columbus, Ohio

May 8, 2020

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
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 fiscal year ended June 30, 2019 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 2019 are as follows:

In total, net position decreased by \$136,397 from last year. Enrollment and state foundation payments decreased, and have been decreasing since 2017. The School's general receipts, those being primarily state foundation payments were \$1,204,450 or 89% 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 Receipts, 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, 2019
UNAUDITED
(Continued)**

The School as a Whole

Table 1 provides a summary of the School's net position for fiscal year 2019 compared to fiscal year 2018:

**Table 1
Net Position**

	<u>2019</u>	<u>2018</u>
Assets:		
Cash	\$1,244,894	\$1,381,291
Total Assets	<u>\$1,244,894</u>	<u>\$1,381,291</u>
Net Position		
Unrestricted	1,244,894	1,381,291
Total Net Position	<u>\$1,244,894</u>	<u>\$1,381,291</u>

As mentioned previously, total net position decreased by \$136,397. The primary reason contributing to the decrease in cash balance is the School's decrease of state foundation and increase in operating expenses.

Table 2 reflects the changes in net position for fiscal year 2019 compared to fiscal year 2018.

**Table 2
Change in Net Position**

	<u>2019</u>	<u>2018</u>
Operating receipts:		
State Foundation payments	\$1,204,450	\$1,365,441
Fees	351	407
Miscellaneous	13,955	31,846
Total operating revenues	<u>1,218,756</u>	<u>1,397,694</u>
Operating disbursements:		
Purchased services	1,438,841	1,253,281
Materials and supplies	13,913	7,910
Capital Outlay	24,887	37,911
Other Expenses	13,878	14,430
Total operating disbursements	<u>1,491,519</u>	<u>1,313,532</u>
Operating income (loss)	<u>(272,763)</u>	<u>84,162</u>
Nonoperating receipts:		
Federal & State Grants	135,204	89,593
Interest earnings	147	147
Other - Donations	1,015	2,112
Total nonoperating revenues	<u>136,366</u>	<u>91,852</u>
Change in Net Position	<u><u>(\$136,397)</u></u>	<u><u>\$176,014</u></u>

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
UNAUDITED
(Continued)**

State Foundation payments represent 89% of total revenues. These are unrestricted intergovernmental revenues, while non-operating revenues represents 10% of total revenues.

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	\$69,310
Instructional Contracted	522,957
Special Ed Contracted	181,814
Counseling Contracted	81,400
Support Staff Services	34,977
Principals Services	294,194
Treasurer Services	77,369
Building	55,362
Technology Services	121,030
Food Service	428
Total	\$1,438,841

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. The funding for online schools changed in 2017 which has significantly affected our revenue stream. Rather than being funded per student we are now funded for the time they spend online. 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 Tammy Emrick, 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
JUNE 30, 2019

Assets:

Current Assets:

Cash	<u>\$1,244,894</u>
Total Assets	<u><u>1,244,894</u></u>

Net Position:

Unrestricted	<u>1,244,894</u>
Total Net Position	<u><u>\$1,244,894</u></u>

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

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN NET POSITION - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Operating Revenues:	
Fees	\$351
State Foundation	1,204,450
Miscellaneous	<u>13,955</u>
<i>Total Operating Revenues</i>	<u>1,218,756</u>
 Operating Expenses:	
Purchased Services	1,438,841
Materials and Supplies	13,913
Capital Outlay	24,887
Other Expenses	<u>13,878</u>
<i>Total Operating Expenses</i>	<u>1,491,519</u>
 <i>Operating Loss</i>	 <u>(272,763)</u>
 Non-Operating Revenues:	
Federal and State Grants	135,204
Gifts and Donations	1,015
Interest	<u>147</u>
 <i>Total Non-Operating Revenues</i>	 <u>136,366</u>
 <i>Change in Net Position</i>	 (136,397)
 <i>Total Net Position-beginning</i>	 <u>1,381,291</u>
 <i>Total Net Position-ending</i>	 <u><u>\$1,244,894</u></u>

The accompanying notes to the financial statements are an integral part of this st

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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.

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 school districts 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(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. Receipts from this program are recognized as operating receipts 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 is 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, \$1,006,758 of the School's bank balance of \$1,256,758 was exposed to custodial credit risk because it was uninsured and collateralized with securities.

The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the School and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

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 2019, the School was insured for commercial inland marine, general liability, and property.

5. CONTRACT WITH GREENE COUNTY ESC

The School entered into a one year contract for fiscal year 2019, with Greene County Educational Service Center (ESC). Under the contract, the following terms were agreed upon:

- All personnel providing services to the School on behalf of Greene County ESC under the agreement shall be employees of Greene County ESC and Greene County ESC 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 Greene County ESC 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 2019, \$1,042,490 was paid to Greene County ESC by the School.

To obtain Greene County ESC's audited June 30, 2019 financial statements please contact Robert Arledge, Treasurer at CArledge@greeneesc.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, 2019.

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 resulted in the School owing \$338,231 to Ohio Department of Education. The amount is being paid over a 22 month period.

7. FISCAL AGENT

The School utilizes the services of Greene County ESC for employment of their Treasurer, Tammy Emrick.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

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.

9. PURCHASED SERVICES

For the period ended June 30, 2019, purchased service expenses were payments for services rendered by various vendors, as follows:

<u>Purchased Service Detail</u>	
Board of Directors	\$69,310
Instructional Contracted	522,957
Special Ed Contracted	181,814
Counseling Contracted	81,400
Support Staff Services	34,977
Principals Services	294,194
Treasurer Services	77,369
Building	55,362
Technology Services	121,030
Food Service	428
Total	<u>\$1,438,841</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 \$89,960, 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 2018 and 2019, the School paid Fairborn City School District \$102,487 and \$89,960, respectively. To obtain Fairborn City School District's audited June 30, 2019 financial statements, please contact Kevin Philo, Treasurer, CFO at (937) 879-3961.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019
(Continued)**

12. JOINTLY GOVERNED ORGANIZATION

Miami Valley Educational Computer Association (MVECA) - The School District is a participant in MVECA, which is a computer consortium. MVECA is an association of public school districts within the geographic area determined by the Ohio Department of Education. 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 MVECA consists of two representatives from each of the participating members. The School District paid MVECA \$6,996 for services provided during the year. Financial information can be obtained from MVECA located at 330 Enon Road, Yellow Springs, Ohio 45387

13. SUBSEQUENT EVENTS

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School. The impact on the School's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

As required by Ohio Rev. Code § 3314.016(B), ODE developed and implemented an evaluation system that annually rates and assigns an overall rating to each sponsor. This section further requires sponsors that receive an overall rating of "poor" to have all sponsorship authority revoked; and sponsors that receive an overall rating of "ineffective" on their 3 most recent ratings to have all sponsorship revoked. Fairborn City School has received an ineffective rating for fiscal year 2019 and 2018. The School could lose its sponsor and may be forced to shut down if Fairborn City Schools receives an ineffective rating for fiscal year 2020.

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**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
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 fiscal year ended June 30, 2018 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 2018 are as follows:

In total, net position decreased by \$176,014 from last year. Enrollment and state foundation payments decreased, however, we were still able to maintain a positive cash flow. The School's general receipts, those being primarily state foundation payments were \$1,365,441 or 92% 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 Receipts, 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, 2018
UNAUDITED
(Continued)**

The School as a Whole

Table 1 provides a summary of the School's net position for fiscal year 2018 compared to fiscal year 2017:

**Table 1
Net Position**

	<u>2018</u>	<u>2017</u>
Assets:		
Cash	\$1,381,291	\$1,205,277
Total Assets	<u>\$1,381,291</u>	<u>\$1,205,277</u>
Net Position		
Unrestricted	1,381,291	1,205,277
Total Net Position	<u>\$1,381,291</u>	<u>\$1,205,277</u>

As mentioned previously, total net position increased by \$176,014. The primary reason contributing to the increase in cash balance is the School adjusting expenses according to revenue trends.

Table 2 reflects the changes in net position for fiscal year 2018 compared to fiscal year 2017

Table 2 Change in Net Position

	<u>2018</u>	<u>2017</u>
Operating revenues:		
State Foundation payments	\$1,365,441	\$1,419,141
Fees	407	-
Miscellaneous	31,846	-
Total operating revenues	<u>1,397,694</u>	<u>1,419,141</u>
Operating disbursements:		
Purchased services	1,253,281	1,175,946
Materials and supplies	7,910	17,615
Capital outlay	37,911	72,741
Other	14,430	10,475
Total operating disbursements	<u>1,313,532</u>	<u>1,276,777</u>
Operating income	<u>84,162</u>	<u>142,364</u>
Nonoperating revenues:		
Federal & State Grants	89,593	114,293
Interest earnings	147	114
Other - Gifts and Donations	2,112	17,465
Total nonoperating revenues	<u>91,852</u>	<u>131,872</u>
Change in Net Position	<u>\$176,014</u>	<u>\$274,236</u>

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED
(Continued)**

State Foundation payments represent 92% of total revenues. These are unrestricted intergovernmental revenues, while non-operating revenues represents 6% of the total revenues.

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

Table 3
Purchased Service Detail

Sponsorship and Board of Directors	\$59,092
Instructional Contracted	562,767
Special Ed Contracted	137,171
Counseling Contracted	57,704
Support Staff Services	36,272
Principals services	213,819
Treasurer Services	39,598
Building	65,691
Busing	797
Technology Services	80,045
Food Service	325
	<hr/>
Total	\$1,253,281

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 Tammy Emrick, 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
JUNE 30, 2018

Assets:

Current Assets:

Cash	\$1,381,291
Total Assets	<u>1,381,291</u>

Net Position:

Unrestricted	1,381,291
Total Net Position	<u>\$1,381,291</u>

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

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
STATEMENT OF REVENUES, DISBURSEMENTS AND
CHANGES IN NET POSITION - CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Operating Revenues:	
Fees	\$407
State Foundation	1,365,441
Miscellaneous	<u>31,846</u>
<i>Total Operating Revenues</i>	<u>1,397,694</u>
 Operating Expenses:	
Purchased Services	1,253,281
Materials and Supplies	7,910
Capital Outlay	37,911
Other Expenses	<u>14,430</u>
<i>Total Operating Expenses</i>	<u>1,313,532</u>
<i>Operating Income</i>	<u>84,162</u>
 Non-Operating Revenues:	
Federal and State Grants	89,593
Gifts and Donations	2,112
Interest	<u>147</u>
<i>Total Non-Operating Revenues</i>	<u>91,852</u>
<i>Change in Net Position</i>	176,014
<i>Total Net Position-beginning</i>	<u>1,205,277</u>
<i>Total Net Position-ending</i>	<u><u>\$1,381,291</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, 2018**

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.

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 school districts 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Cash

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

I. Intergovernmental Revenues

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

J. 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.

K. 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.

L. 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 is 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, \$1,158,312 of the School's bank balance of \$1,408,312 was exposed to custodial credit risk because it was uninsured and collateralized with securities.

The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the School and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

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 2018, the School was insured for commercial inland marine, general liability, and property.

5. CONTRACT WITH GREENE COUNTY ESC

The School entered into a one year contract for fiscal year 2018, with Greene County Educational Service Center (ESC). Under the contract, the following terms were agreed upon:

- All personnel providing services to the School on behalf of Greene County ESC under the agreement shall be employees of Greene County ESC and Greene County ESC 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 Greene County ESC 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 2018, \$871,803 was paid to Greene County ESC by the School.

To obtain Greene County ESC's audited June 30, 2019 financial statements please contact Robert Arledge, Treasurer at CArledge@greeneesc.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, 2018.

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 resulted in the School owing \$392,004 to Ohio Department of Education. The amount is being paid over a 22 month period.

7. FISCAL AGENT

The School utilizes the services of Greene County ESC for employment of their Treasurer, Tammy Emrick.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

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.

9. PURCHASED SERVICES

For the period ended June 30, 2018, purchased service expenses were payments for services rendered by various vendors, as follows:

<u>Purchased Service Detail</u>	
Instructional Services	\$562,767
Special Education Services	137,171
Instructional Improvement Services	93,976
Board of Directors	22,934
Administrative Services	253,417
Building Services	65,691
Busing Services	797
Technology Services	80,045
Food Service	325
Sponsorship Management	36,158
Total	<u>\$1,253,281</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 \$102,487, 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.

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)**

11. CONTRACT WITH FAIRBORN CITY SCHOOL DISTRICT (Continued)

In fiscal years 2017 and 2018, the School paid Fairborn City School District \$153,471 and \$102,487, respectively. To obtain Fairborn City School District's audited June 30, 2018 financial statements, please contact Kevin Philo, Treasurer, CFO at (937) 879-3961.

12. JOINTLY GOVERNED ORGANIZATION

Miami Valley Educational Computer Association (MVECA) - The School District is a participant in MVECA, which is a computer consortium. MVECA is an association of public school districts within the geographic area determined by the Ohio Department of Education. 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 MVECA consists of two representatives from each of the participating members. The School District paid MVECA \$6,926 for services provided during the year. Financial information can be obtained from MVECA located at 330 Enon Road, Yellow Springs, Ohio 45387

13. SUBSEQUENT EVENTS

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School. The impact on the School's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

As required by Ohio Rev. Code § 3314.016(B), ODE developed and implemented an evaluation system that annually rates and assigns an overall rating to each sponsor. This section further requires sponsors that receive an overall rating of "poor" to have all sponsorship authority revoked; and sponsors that receive an overall rating of "ineffective" on their 3 most recent ratings to have all sponsorship revoked. Fairborn City School has received an ineffective rating for fiscal year 2019 and 2018. The School could lose its sponsor and may be forced to shut down if Fairborn City Schools receives an ineffective rating for fiscal year 2020.

The Ohio Department of Education's review of 2019 enrollment data and fulltime equivalency (FTE) calculations resulted in the School owing Ohio Department of Education \$392,004. The amount is being deducted over 22 month period.

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WestRegion@ohioauditor.gov

**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 cash basis financial statements of the Fairborn Digital Academy Community School, Greene County, (the School) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 8, 2020, wherein we noted the School uses a special purpose framework other than generally accepted accounting principles. We also noted that the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the School.

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 opinions 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2019-002 to be a significant deficiency.

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 2019-001 and 2019-002.

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 report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

May 8, 2020

**FAIRBORN DIGITAL ACADEMY COMMUNITY SCHOOL
GREENE COUNTY**

SCHEDULE OF FINDINGS

JUNE 30, 2019 AND 2018

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2019-001

NONCOMPLIANCE – FINANCIAL STATEMENT PRESENTATION

Ohio Rev. Code §117.38(A) 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 Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the School to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The School prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the School may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the School’s ability to evaluate and monitor the overall financial condition of the School. To help provide the users with more meaningful financial statements, the School should prepare its annual financial statements according to generally accepted accounting principles.

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

FINDING NUMBER 2019-002

NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY - QUALITY AND RELIABILITY OF LEARNING
OPPORTUNITY DOCUMENTATION

Ohio Rev. Code § 3314.08(C) provides the formula upon which community schools are funded on a full-time equivalency basis. In addition, **§ 3314.08(H)** requires the department of education to adjust the amounts subtracted and paid under division (C) of this section to reflect any enrollment of students in community schools for less than the equivalent of a full school year. The processes for calculating full-time equivalency and any enrollment for less than the equivalent of a full school year used by the Ohio Department of Education (ODE) under Ohio Rev. Code § 3314.08(H) are reflected in its 2019 Community School Full Time Equivalent (FTE) Review Manual available on its website. In order for the school to receive accurate funding under Ohio Rev. Code § 3314.08(C), the school should follow the procedures outlined in this 2019 FTE Review Manual.

**FINDING NUMBER 2019-002
(Continued)**

Ohio Rev. Code § 3314.08(H)(3) states, in part, “no internet- or computer-based community school shall be credited for any time a student spends participating in learning opportunities beyond ten hours within any period of twenty-four consecutive hours.”

In *Electronic Classroom of Tomorrow v. Ohio Dept. of Edn.*, Slip Opinion No. 2018-OHIO-3126, the Supreme Court of Ohio stated, “R.C. 3314.08 is unambiguous and authorizes ODE to require an e-school to provide data of the duration of a student’s participation to substantiate that school’s funding.”

Furthermore, **Ohio Rev. Code § 3314.27** states, “Each internet- or computer-based community school shall keep an accurate record of each individual student’s participation in learning opportunities each day. The record shall be kept in such a manner that the information contained within it easily can be submitted to the department of education, upon request by the department or the auditor of state.”

2019 Community School Full Time Equivalent (FTE) Review Manual states, “eSchools may have systems that track learning opportunity participation within the school’s online system. If an eSchool’s online system has this capability, the school must produce Excel spreadsheets showing the daily, weekly, and monthly accounting of learning opportunities and the final total of all online learning opportunities that the student participated in and the e-School’s system tracked.”

The Manual also provides further guidance regarding the documentation of learning opportunities that are not tracked by the school’s online system. Guidance is provided for what documentation requirements exist as well as an “Alternative Learning Opportunity Documentation Log” which schools may utilize to document such learning opportunities.

Ohio Rev. Code § 149.351(A) states that all records are the property of the public office concerned and “shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code or under the records programs established by the boards of trustees of state-supported institutions of higher education under section 149.33 of the Revised Code. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, destroyed, mutilated, or transferred unlawfully.”

The following issues were noted during testing of students files:

1. No detailed information on times or dates was provided to support the durational data reports.
2. For four out of the ten students tested, the student work records provided did not match the attendance sheet used to track student time.
3. Students’ reported physical education times were based off of Fitbit steps. Steps were converted into miles and for every three miles a student was given an hour.
4. The School did not have a formal policy detailing the procedures for tracking attendance across the learning systems.

Based on the above listed items, the School did not have sufficient procedures in place to capture durational time and could not provide sufficient, quality detail in which the amount of educational learning opportunities participated in by any one student could be relied upon.

Failure to accurately capture durational time and provide detailed supporting documentation could result in overpayments of foundation revenue to the School. This could ultimately lead to the School being required to pay back these funds to the Ohio Department of Education.

**FINDING NUMBER 2019-002
(Continued)**

The School should develop and implement procedures to capture, document and report duration of time for participation in learning opportunities in a manner which could be relied upon in determining how much time a student spent participating in educational activities. In addition, the Sponsor should review the monthly FTE support and EMIS data that is to be submitted to ODE to allow the Sponsor to monitor compliance more effectively. The School should review the statutory requirements to determine what documentation is needed to support the FTE data reported for each student. The School should consider using ODE's most recent FTE manual as further guidance to determine what information ODE considers to be needed to support FTE reporting.

ODE receives a copy of this audit report. As a result of this issue, they may subsequently perform a FTE review over future years potentially impacting school funding.

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

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Executive Director: Erik Tritsch

Principal: Jessica Biggers

Board of Directors: Elizabeth Snyder Paul Newman, Sr. Sherry Cates

Officers: Nancy Sturtz, President Thomas Baugh, Vice-president

Treasurer: Tammy Emrick

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
 JUNE 30, 2019 AND 2018**

Finding Number	Finding Summary	Status	Additional Information
2017-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) – The School did not prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP).	Not Corrected	Repeated as Finding Number 2019-001
2017-002	Ohio Rev. Code § 3314.03(C) and Ohio Rev. Code § 3314.03(H)(3) – Quality and reliability of student attendance documentation	Not corrected	Repeated as Finding Number 2019-002

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OHIO AUDITOR OF STATE KEITH FABER



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
JUNE 2, 2020**