

**Mary Taylor, CPA**  
Auditor of State



**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Fairless Digital Academy  
Stark County  
11885 Navarre Road S.W.  
Navarre, Ohio 44662

To the Board of Directors:

We have audited the accompanying basic financial statements of the Fairless Digital Academy, Stark County, Ohio, (the Digital Academy) a component unit of the Fairless Local School District, as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Digital Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fairless Digital Academy, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8, the Digital Academy ceased educational operations effective June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2007, on our consideration of the Digital Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, these reports describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. These reports are 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 applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of 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

May 31, 2007

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

The discussion and analysis of the Fairless Digital Academy's (the "Digital Academy") financial performance provides an overall review of the Digital Academy's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Digital Academy's financial performance as a whole; readers should also review the notes to the basic financial statements and basic financial statements to enhance their understanding of the Digital Academy's financial performance.

**Financial Highlights**

The Digital Academy ended educational operations as of June 30, 2006. The Digital Academy began operations on August 22, 2002. The assets of the Digital Academy reverted to its Sponsor (Fairless Local School District) upon the dissolution of the Digital Academy. The Fairless Local School District will use these assets to continue addressing the needs of students who benefited from the Digital Academy's curriculum.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Digital Academy's financial activities. The *Statement of Revenues, Expenses and Changes in Net Assets* provides information about the activities of the Digital Academy, including all short-term and long-term financial resources and obligations. The *Statement of Cash Flows* provides information about how the Digital Academy finances and meets the cash flow needs of its operations.

**Reporting the Digital Academy's Financial Activities**

***Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows***

These documents look at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Revenues, Expenses and Changes in Net Assets answers this question. This statement includes *all revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

This statement reports the Digital Academy's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Digital Academy as a whole, the *financial position* of the Digital Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. This statement can be found on page 7 of this report.

The statement of cash flows can be found on page 8 of this report.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. These notes to the basic financial statements can be found on pages 9-14 of this report.

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

The following table is a comparative analysis of net assets for 2006 compared to 2005:

	<u>2006</u>	<u>2005</u>
<b><u>Assets</u></b>		
Current assets	\$ -	\$ 60,996
Capital assets, net	<u>-</u>	<u>63,622</u>
Total assets	<u>-</u>	<u>124,618</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	-	63,622
Restricted	-	47,876
Unrestricted	<u>-</u>	<u>13,120</u>
Total net assets	<u><u>\$ -</u></u>	<u><u>\$ 124,618</u></u>

The decrease in assets, liabilities and net assets is attributed to the Digital Academy's payment of remaining liabilities and transfer of all remaining assets to the Sponsor due to the dissolution of the Digital Academy. The Digital Academy transferred net capital assets of \$95,027 to its sponsor, Fairless Local School District, on June 30, 2006.

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)

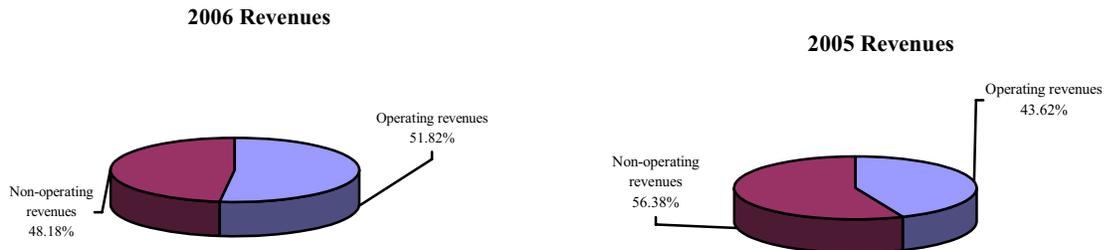
The table below shows the changes in net assets for fiscal years 2006 and 2005.

**Change in Net Assets**

	<u>2006</u>	<u>2005</u>
<b><u>Operating Revenues:</u></b>		
State foundation	\$ 164,573	\$ 116,044
Total operating revenue	<u>164,573</u>	<u>116,044</u>
<b><u>Operating Expenses:</u></b>		
Purchased services	250,840	175,492
Materials and supplies	71,410	21,618
Depreciation	18,540	4,105
Other	<u>6,374</u>	<u>339</u>
Total operating expenses	<u>347,164</u>	<u>201,554</u>
<b><u>Non-operating Revenues (Expenses):</u></b>		
Federal and state grants	153,000	150,000
Assets to Sponsor upon dissolution	<u>(95,027)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>57,973</u>	<u>150,000</u>
Change in net assets	(124,618)	64,490
Net assets at beginning of year	<u>124,618</u>	<u>60,128</u>
Net assets at end of year	<u>\$ -</u>	<u>\$ 124,618</u>

As stated in Note 8 to the financial statements, the Digital Academy ceased operation on June 30, 2006. All assets remaining at that time were transferred to the Digital Academy's Sponsor.

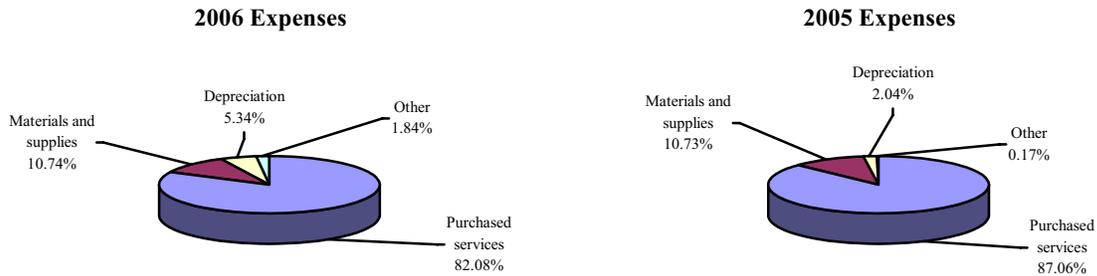
The charts below illustrate the revenues for the Digital Academy for fiscal years 2006 and 2005.



**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)**

The charts below illustrate the expenses for the Digital Academy for fiscal years 2006 and 2005.



**Capital Assets**

At June 30, 2006, the Digital Academy ceased operations and all remaining capital assets, net of accumulated depreciation, of \$95,027 became property of the Sponsor, Fairless Local School District. See Note 4 to the basic financial statements for more detail on capital assets.

**Current Conditions**

Due to changes in community school requirements and expectation of the operations of the Digital Academy that would have resulted in deficit spending, and lack of personnel to handle such requirements, the Digital Academy ceased educational operations effective June 30, 2006. All remaining assets of the Digital Academy reverted to the Fairless Local School District, as Sponsor, on June 30, 2006.

**Contacting the Digital Academy's Financial Management**

This financial report is designed to provide our clients and creditors with a general overview of the Digital Academy's finances and to show the Digital Academy's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bethany Vallos, Treasurer, Fairless Digital Academy, 2100 38<sup>th</sup> Street NW, Canton, Ohio 44709.

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<b>Operating revenues:</b>	
State foundation . . . . .	\$ 164,573
Total operating revenue . . . . .	<u>164,573</u>
<b>Operating expenses:</b>	
Purchased services . . . . .	250,840
Materials and supplies . . . . .	71,410
Other operating expenses . . . . .	6,374
Depreciation . . . . .	18,540
Total operating expenses . . . . .	<u>347,164</u>
Operating loss . . . . .	<u>(182,591)</u>
<b>Non-operating revenues (expenses) :</b>	
Federal and state grants . . . . .	153,000
Assets to Sponsor upon dissolution . . . . .	<u>(95,027)</u>
Total non-operating revenues (expenses) . . . . .	<u>57,973</u>
Change in net assets . . . . .	(124,618)
<b>Net assets at beginning of year . . . . .</b>	<u>124,618</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ -</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<b>Cash flows from operating activities:</b>	
Cash received from State foundation . . . . .	\$ 164,573
Cash payments to suppliers for goods and services. . . . .	(250,840)
Cash payments for materials and supplies . . . . .	(71,410)
Cash payments for other expenses . . . . .	<u>(5,988)</u>
Net cash used in operating activities . . . . .	<u>(163,665)</u>
 <b>Cash flows from noncapital financing activities:</b>	
Federal and state grants. . . . .	<u>200,864</u>
Net cash provided by noncapital financing activities . . . . .	<u>200,864</u>
 <b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets . . . . .	<u>(49,945)</u>
Net cash used in capital and related financing activities . . . . .	<u>(49,945)</u>
Net decrease in cash and cash equivalents . . . . .	(12,746)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>12,746</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u><u>\$ -</u></u>
 <b>Reconciliation of operating loss to net cash used in operating activities: operating activities:</b>	
Operating loss . . . . .	\$ (182,591)
Adjustments:	
Depreciation. . . . .	18,540
Changes in assets and liabilities:	
Decrease in prepayments. . . . .	<u>386</u>
Net cash used in operating activities . . . . .	<u><u>\$ (163,665)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 1 - DESCRIPTION OF THE DIGITAL ACADEMY**

The Fairless Digital Academy (the “Digital Academy”) was established pursuant to Ohio Revised Code Chapters 3314 and 3314.03 to establish a new conversion school in the Fairless Local School District (the “Sponsor”) addressing the needs of students. The Digital Academy, which was part of the State’s education program, was independent of any school district and was nonsectarian in its programs, admission policies, employment practices and all other operations. The Digital Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Digital Academy. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Digital Academy’s tax-exempt status.

The Digital Academy provided opportunities for students who desired a program of online instruction in an independent environment that did not include the most ancillary components of a more traditional education. The Digital Academy used the latest technology to reach a diverse student population. This population included students within the Sponsor’s district that had specific career interests in a technology field. The students may have been children who needed an alternative to the traditional classroom. Enrollment was limited to students within the attendance area of the Sponsor. The Digital Academy used the services of the Sponsor and the Stark-Portage Area Computer Consortium (SPARCC) to assist with overall programming and operations.

The Digital Academy was approved under contract with the Sponsor (hereafter “Sponsorship Contract”) for a period of five years commencing July 1, 2002. The Digital Academy began operations on August 22, 2002 and ceased operations effective June 30, 2006. All assets of the Academy reverted to the Sponsor on June 30, 2006 in accordance with the Sponsorship Contract (see Note 8). The Sponsor was responsible for evaluating the performance of the Digital Academy.

The Digital Academy operated under the direction of a five-member Board of Directors (the “Governing Board”). The Governing Board was responsible for the operation of the Digital Academy and was composed of the Sponsor’s Superintendent together with two other licensed administrators who were employed by the Sponsor. The Governing Board also included two other persons who were neither officers nor staff members of the Digital Academy or Sponsor to serve as voting members. One of these members was a public educator and the other was the Director of SPARCC. Due to the amount of influence the Fairless Local School District had over the Digital Academy’s Board of Directors, the Digital Academy was a component unit of the Fairless Local School District. The Governing Board was responsible for carrying out the provisions of the Sponsorship Contract, which included, but was not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers.

The Sponsor, under a purchased services basis with the Digital Academy, provided planning, instructional, administrative and technical services. Personnel providing services to the Digital Academy on behalf of the Sponsor under the purchased services basis were considered employees of the Sponsor, and the Sponsor was solely responsible for all payroll functions. The Digital Academy provided services to approximately twenty-five students during fiscal 2006.

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the Digital Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Digital Academy also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. The Digital Academy had the option to also apply FASB Statements and Interpretations issued after November 30, 1989, subject to this same limitation. The Digital Academy elected not to apply these FASB Interpretations. The Digital Academy's significant accounting policies are described below.

**A. Basis of Presentation**

The Digital Academy used a single enterprise presentation for its financial records. 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 (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Operating revenues were those revenues that were generated directly from the primary activity of the Digital Academy. Operating expenses were necessary costs incurred to provide the service that was the primary activity of the Digital Academy. All revenues and expenses not meeting this definition were reported as non-operating.

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows reflects how the Digital Academy's finances meet its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. 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 Section 5705, unless specifically provided in the Digital Academy's contract with its Sponsor. The Sponsorship Contract between the Digital Academy and its Sponsor required a detailed school budget for each year of the contract; however, the budget did not have to follow the provisions of Ohio Revised Code Section 5705.

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**D. Cash and Cash Equivalents**

All monies received by the Digital Academy were deposited in a demand deposit account. The Digital Academy had no investments during the fiscal period ended June 30, 2006. As of June 30, 2006, the Digital Academy had no remaining "Cash and Cash Equivalents".

**E. Capital Assets and Depreciation**

All capital assets were capitalized at cost and updated for additions and reductions during the year. Donated capital assets were recorded at their fair market value on the date donated. The Digital Academy maintained a capitalization threshold of \$500. The Digital Academy did not have any infrastructure. Improvements were capitalized. The costs of normal maintenance and repairs that did not add to the value of the asset or materially extend an asset's life were not capitalized.

All capital assets were depreciated. Improvements were depreciated over the remaining useful life of the related capital asset. Depreciation was computed using the straight-line method. Furniture and equipment was depreciated over a period of five to twenty years.

In accordance with the Sponsorship Contract, which states that "upon dissolution of the Digital Academy, any remaining assets shall be conveyed to the Sponsor", and as discussed in Note 8, all capital assets were transferred to the Sponsor on June 30, 2006.

**F. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are 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 Digital Academy applied restricted resources first when an expense was incurred for purposes for which both restricted and unrestricted net assets were available. The Digital Academy had no restricted assets as of June 30, 2006.

**G. Intergovernmental Revenue**

The Digital Academy participated in the State Foundation Program through the Ohio Department of Education. Revenue from this program was recognized as operating revenue in the accounting period in which all eligibility requirements had been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility includes timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Digital Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Digital Academy on a reimbursement basis. Federal and State grants for the fiscal year 2006 received by the Digital Academy were \$153,000.

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**H. Prepayments**

Certain payments to vendors reflected the costs applicable to future accounting periods and were recorded as prepaid items in the financial statements. These items were reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts was recorded at the time of the purchase and the expense was reported in the year in which services were consumed. The Digital Academy had no prepaids as of June 30, 2006.

**I. Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE 3 - DEPOSITS**

At June 30, 2006, the Digital Academy had no deposits and no bank balance.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance at <u>June 30, 2005</u>	<u>Additions</u>	Transfer of Assets to <u>Sponsor</u>	Balance at <u>June 30, 2006</u>
Furniture and equipment	\$ 67,727	\$ 49,945	\$ (117,672)	\$ -
Less: accumulated depreciation	<u>(4,105)</u>	<u>(18,540)</u>	<u>22,645</u>	<u>-</u>
Capital assets, net	<u>\$ 63,622</u>	<u>\$ 31,405</u>	<u>\$ (95,027)</u>	<u>\$ -</u>

See Note 8 regarding the transfer of capital assets, net to Sponsor upon dissolution.

**NOTE 5 - RISK MANAGEMENT**

The Digital Academy was exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted personnel; and natural disasters. For fiscal year 2006, the Digital Academy was named on the Sponsor's policy with Indiana Insurance Company for property and general liability insurance. The Digital Academy provided employee bond coverage through a private insurance carrier in the following amounts: Treasurer \$50,000 and Board of Directors \$20,000.

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 6 - SERVICE AGREEMENT**

**Stark-Portage Area Computer Consortium**

The Digital Academy entered into a five-year agreement on December 16, 2002, for the 2002 through 2007 school years with the Stark-Portage Area Computer Consortium (SPARCC), in partnership with Tri-Rivers Educational Computer Association (TRECA), for planning, instructional, administrative and technical services required for the operation of the Digital Academy. Under this contract, SPARCC was required to provide the following services:

1. Instructional, supervisory/administrative, and technical services sufficient to effectively implement the Digital Academy's educational plan, assessment and accountability plan, and the sponsorship contract.
2. Responsibility for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes with respect to all personnel providing to services to the Digital Academy on behalf of SPARCC. Also, all personnel shall possess any certification or licensure which may be required by law.
3. Provide technical services that include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Digital Academy is responsible for recovering and returning any and all equipment to SPARCC.
4. Curricular services limited to standardized curriculum developed by SPARCC.

For these services, the Digital Academy was required to pay the following fees to SPARCC:

1. Annual Fee - The Digital Academy shall pay to SPARCC a fee of \$25,000 for the 2005-06 school year for services acquired from SPARCC. The fee shall be due in two equal payments. The first payment shall be due upon receipt by the Digital Academy of the second installment paid to the Digital Academy pursuant to the Ohio Charter Schools Federal Sub-grant Program (or any similar funding program, regardless of name) or by June 1, 2005, whichever is later. The second payment shall be due by December 1, 2005, or upon receipt of the aforementioned second installment of such grant, whichever is later.
2. Enrollment - \$3,500 per full time Grade 9-12 student and \$2,500 per full-time K-8 student enrolled per year. Part-time students may be enrolled on such terms as are agreed to by the parties. In case of a student enrolled with an IEP, the Digital Academy will determine if special education will be provided by SPARCC or otherwise. If substantially all of the special education and services are provided to such a student by other than SPARCC, the Digital Academy does not have to pay SPARCC the enrollment fee per the agreement, instead, actual costs for that student provided by SPARCC. If the special education for a student is provided by SPARCC, then any additional amount received from the Department of Education for special education and related services is due to SPARCC for that student.

Note: In the event that payments to the Digital Academy from the Department of Education are reduced, the payments due from the Digital Academy to SPARCC shall be reduced accordingly.

**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**NOTE 7 - CONTINGENCIES**

**A. Grants**

The Digital Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally required compliance with terms and conditions, specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Sponsor due to the dissolution of the Digital Academy at June 30, 2006. However in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Sponsor at June 30, 2006.

**B. Litigation**

A suit was filed in Franklin County Common Pleas Court, on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state's 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<sup>th</sup>, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. Since the Digital Academy has dissolved at June 30, 2006, the effect of this suit, if any, would not have any effect on the Digital Academy.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time 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 Digital Academy was reviewed two times during this initial year of operations and zero errors were found in enrollment, withdrawals and attendance.

**NOTE 8 - CONTINUED EXISTENCE**

Due to the expectations of the operation of the Digital Academy that would have resulted in the ineffective spending and an overuse of personnel, the Digital Academy ceased educational operations effective June 30, 2006. The Sponsorship Contract requires that, upon dissolution, any remaining assets of the Digital Academy be conveyed to the Sponsor (Fairless Local School District). On June 30, 2006 the Digital Academy transferred its remaining capital assets of \$95,027, net of accumulated depreciation, to the Sponsor in accordance with the Sponsorship Contract. This transfer of assets to the Sponsor is reflected on the financial statements as "Assets to Sponsor upon Dissolution".

Contrary to Ohio Rev. Code Sections 3314.074 and 3314.015(e), the Digital Academy did not fully comply with close out procedures required by the Ohio Department of Education.



# 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*

Fairless Digital Academy  
Stark County  
11885 Navarre Road S.W.  
Navarre, Ohio 44662

To the Board of Directors:

We have audited the financial statements of the Fairless Digital Academy, Stark County, Ohio, (the Digital Academy) a component unit of the Fairless Local School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated May 31, 2007 in which we noted the Digital Academy ceased educational operations effective June 30, 2006. 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 Digital Academy's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

### Compliance and Other Matters

As part of reasonably assuring whether the Digital Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2006-001.

We intend this report solely for the information and use of management, the Board of Directors and the Digital Academy's sponsor. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA  
Auditor of State

May 31, 2007

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**FAIRLESS DIGITAL ACADEMY  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-001**

**Ohio Rev. Code Section 3314.074** establishes the order of the distribution of assets when a community school permanently closes and ceases operations. In addition, **Ohio Rev. Code Section 3314.015(e)** provides that the Ohio Department of Education (ODE) shall adopt procedures for use by a community school governing authority and sponsor when the school closes. In May, 2006 the ODE's Office of Community Schools (OCS) issued the required procedures listing the actions to be taken by community school's Governing Authority (GA) Sponsors, and the ODE when closing a community school.

The OCS's "Community School Closing Procedures Guidance" requires a charter school to do the following:

ACTIONS FOR THE DIGITAL ACADEMY

Step 8- Account for all school property throughout the closing process.

Step 9- After the school has closed, to make disposition of school property (they shall):

- a. Notify all other community schools and traditional public schools of the date of the sale;
- b. Price items at fair market value
- c. Federally purchased items (CCIP and grant purchases) need to be separately submitted to ODE, and the Office of Federal Programs, and a request made regarding their dissemination (request to sell items to other schools towards debt satisfaction).
- d. Any E-tech (formerly known as Ohio School Net) hardware and software must be returned to E-Tech to be redistributed per statutory requirements.

On April 11, 2006, the Digital Academy's Board of Directors approved a Closure Plan to dissolve the Academy at the end of fiscal year 2005-2006. This plan indicated any assets remaining upon the dissolution of the Academy shall be conveyed to the Sponsor in accordance with the Community School Sponsorship Contract dated December 16, 2002.

Capital assets, with a net book value of \$95,027, were conveyed to the Sponsor District, Fairless Local School District, on June 30, 2006. All capital assets were purchased with federal grant monies and none of these assets were purchased with E-Tech monies.

On February 27, 2007, a "fair market quote" of \$6,370 for the Digital Academy's inventory was obtained from a Trade In/Trade Up Program. To offset the \$6,370 asset value, the Sponsor estimated and was able to support \$6,000 of liabilities. The inventory listing did not include 7<sup>th</sup> and 8<sup>th</sup> grade curriculum software and other assets at a cost of \$74,976 which were conveyed to the Sponsor. The software was purchased after the Board decided to close the Digital Academy.

### FINDING NUMBER 2006-001 (Continued)

The actions taken by the Fairless Digital Academy were not in accordance with the guidelines issued by ODE for closing a community school. The Digital Academy and/or Sponsor should contact the ODE to rectify any outstanding items associated with the closing of the school and the noncompliance items listed above.

**Officials' Response:** Ohio Revised Code Section 3314.01 effective June 30, 2005, establishes guidelines for closing community schools. The Ohio Department of Education (ODE) issued this guidance and an advisory to all schools in May, 2006. These guidelines include actions required to be taken by community school's Governing Authority (GA) Sponsors, and the ODE when closing a community school.

In pertinent part, ORC sections 3314.01 and 3314.074 and the Ohio Department of Education's "Community School Closing Procedures Guidance" require a charter school to do the following:

#### ACTIONS FOR THE DIGITAL ACADEMY

Step 8- Account for all school property throughout the closing process.

Step 9- After the school has closed, to make disposition of school property (they shall):

- a. Notify all other community schools and traditional public schools of the date of the sale;
- b. Price items at fair market value
- c. Federally purchased items (CCIP and grant purchases) need to be separately submitted to ODE, and the Office of Federal Programs, and a request made regarding their dissemination (request to sell items to other schools towards debt satisfaction).
- d. Any E-tech (formerly known as Ohio School Net) hardware and software must be returned to E-Tech to be redistributed per statutory requirements.

Step 12 – The school must submit financials to the Auditor of State including the results of the property sale.

It is important to note that the above procedures were communicated on a website sometime in May, 2006. The original Sponsorship Agreement was signed and approved by the Ohio Department of Education on December 16, 2002. That approved agreement states that any assets remaining upon the dissolution of the school, Fairless Digital Academy, shall be conveyed to the Sponsor, Fairless Local Schools.

Prior to the Fairless Digital Academy making a final decision regarding closing their doors, the Treasurer of the Digital Academy had several telephone conversations with Wendy Jaroz and Gail Davenport at the Office of Community Schools. At the time of these inquiries, ODE had NO guidance on closing procedures.

Based on the original sponsorship agreement, on April 11, 2006 the Fairless Digital Academy Board voted to close their doors on June 30, 2006.

**FINDING NUMBER 2006-001 (Continued)**

**Officials' Response (Continued)**

Mona Fair, Superintendent of the sponsoring district, Fairless Local Schools, sent a letter dated July 1, 2006 to the Office of Community Schools notifying them of the dissolution of the Fairless Digital Academy. Attached to this letter was an outline of a closure plan which included a section specifically stating that assets would be conveyed to the Sponsor. No communication or response from ODE was ever received by the Superintendent of the Sponsoring School or the Treasurer of the Digital Academy; therefore, it was understood that the closure was completed in compliance with the approved Sponsorship Agreement.

In early February 2007, the Treasurer of the Digital Academy received notification of a possible citation based on the change in law regarding the Community School Closing Procedures Guidance. The Fairless Local Schools, in an effort to be proactive in complying with the new law, obtained "fair market value" quotes for all materials, supplies, and equipment purchased with federal funds. This figure, \$6,370.00, less the absorbed expenses of \$6,000.00, for a total balance of \$370.00 will be submitted to the ODE Office of Federal Programs along with a request for guidance regarding the dissemination of assets per Step 9 c. above. The Fairless Digital Academy did not purchase assets with ETech monies.

The Fairless Digital Academy has endeavored to operate in a fiscally responsible manner and in line with all information available to it at the time. The Fairless Local Schools and the Fairless Digital Academy will comply with all procedures set forth by the Ohio Department of Education and by the Auditor of State.





**Mary Taylor, CPA**  
Auditor of State

**FAIRLESS DIGITAL ACADEMY**

**STARK 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  
JULY 12, 2007**