



Dave Yost • Auditor of State

A. B. GRAHAM ACADEMY
CHAMPAIGN COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

A.B. Graham Academy
Champaign County
370 E. Main Street
St. Paris, Ohio 43072

To the Board of Directors:

We have audited the accompanying basic financial statements of the A.B. Graham Academy, Champaign County (the Academy), a component unit of the Graham Local School District, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of A.B. Graham Academy, as of June 30, 2012, 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.

The Academy restated balances, as described in Note 12 to report all activity in one fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2012, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

Dave Yost
Auditor of State

August 7, 2012

A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of the A.B. Graham Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2012 are as follows:

- Total net assets were \$165,779, which is an increase of \$151,753 from the balance of fiscal year 2011.
- Total assets at June 30, 2012 were \$248,534, an increase of \$177,562 from the balance from one year prior.
- Liabilities totaled \$82,755, which is an increase from the \$56,946 reported for fiscal year 2011.
- Operating revenues equaled \$1,260,852 and non-operating revenues were \$76,889, which is an increase of \$244,825 and a decrease of \$93,091, respectively from fiscal year 2011.
- Total operating expenses amounted to \$1,185,988. The total operating expenses decreased from \$1,226,334 or 3.3%, from those reported the prior year.

Using this Annual Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets and a statement of cash flows. As the Academy reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the potential changes in the laws governing community schools in the State of Ohio will also need to be evaluated.

A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 1 provides a summary of the Academy's net assets for fiscal year 2012 compared with fiscal year 2011:

TABLE 1
NET ASSETS, JUNE 30,

	<u>2012</u>	(restated) <u>2011</u>
ASSETS:		
Other Assets	\$ 224,468	66,516
Capital Assets, Net	<u>24,066</u>	<u>4,456</u>
Total Assets	<u>248,534</u>	<u>70,972</u>
LIABILITIES:		
Current Liabilities	61,700	56,946
Long-Term Obligations:		
Due Within One Year	5,053	-
Due In More Than One Year	<u>16,002</u>	<u>-</u>
Total Liabilities	<u>82,755</u>	<u>56,946</u>
NET ASSETS:		
Invested in Capital Assets, net of related debt	3,011	4,456
Restricted for Specific Grant Programs	-	19,472
Unrestricted	<u>162,768</u>	<u>(9,902)</u>
Total Net Assets	<u>\$ 165,779</u>	<u>14,026</u>

Total assets were \$248,534 at June 30, 2012, which is an increase of \$177,562 from June 30, 2011. The primary reason for the increase was an increase in cash on hand from the prior year. The increase in cash on hand was due to the cash receipts of the Academy exceeding cash expenditures in the current year.

Total liabilities were \$82,755, which consisted of a copier lease and miscellaneous accounts payable items. The liabilities reported at the end of fiscal year 2012 were \$25,809 more than those reported for the prior year due to the increase of payables and addition of a copier lease reported for fiscal year 2012.

The \$172,670 increase in unrestricted net assets reported at June 30, 2012 compared to the prior year is mainly the result of the current year increase in cash on hand at the end of the year.

A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2 shows the changes in net assets for the fiscal year 2012 compared with fiscal year 2011, as well as a listing of revenues and expenses.

TABLE 2
CHANGE IN NET ASSETS, JUNE 30,

	2012	2011
OPERATING REVENUES:		
Foundation Payments	\$ 1,258,711	1,016,027
Miscellaneous	2,141	-
NON-OPERATING REVENUES:		
Grants	76,543	169,379
Interest	346	601
 Total Revenues	 1,337,741	 1,186,007
OPERATING EXPENSES:		
Purchased Services	1,074,039	1,068,377
Computer Equipment and Maintenance	46,242	96,507
Materials and Supplies	44,264	43,653
Miscellaneous	15,787	16,352
Depreciation	5,656	1,445
 Total Expenses	 1,185,988	 1,226,334
 Change in Net Assets	 \$ 151,753	 (40,327)

The Academy's activities are funded primarily from the state foundation program which provides funding based on a per pupil formula. Unlike traditional schools within the State of Ohio, community schools receive no support from the local community in the form of property taxes. Therefore, intergovernmental revenues from the state foundation program and specific educational federal and state grants are the only consistent revenue sources for the Academy. Revenue from the foundation program increased from \$1,016,027 in fiscal year 2011 to \$1,258,711 in fiscal year 2012, due to an increase in the number of students served by the Academy. Revenue from the foundation program is 94.1% of total revenues received by the Academy. Intergovernmental revenue (foundation program plus federal and state educational specific grants) are 99.8% of the total revenues reported by the Academy. It is clear the Academy is financially dependent on the State of Ohio continuing to fund community schools in a consistent manner from one year to the next.

Operating expenses decreased from \$1,226,334 in fiscal year 2011 to \$1,185,988 in fiscal year 2012, a 3.3% decrease. The \$5,662 increase in purchased services expenses relates to the increase in the payments for contractual employee services. Purchases of computer equipment and accessories, which did not meet the Academy's capitalization threshold, and maintenance agreements on computer equipment decreased by \$50,265 compared to the prior year. Materials and supplies increased \$611 from the prior year as the Academy being in its third year of operation has begun maintaining routine expenditures.

A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Capital Assets

At June 30, 2012, the capital assets of the Academy consisted of \$32,492 of computer equipment and a copier off-set by \$8,426 in accumulated depreciation resulted in net capital assets of \$24,066. A capital asset addition for a copier was added during the current fiscal year. During the fiscal year, the Academy recorded depreciation expense of \$5,656.

See Note 4 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

Economic Factors

The Academy is currently operating at capacity and has already had to turn away students. The Academy will strive to continue its success in future years and will continuously look for ways to enhance the student learning process.

The Academy will continue to use space provided by the Sponsor in the Graham Local Schools Board of Education building.

The Academy's management must plan carefully and prudently to provide the resources to meet student needs over the next several fiscal years. Financially, the future is not without challenges.

Contacting the Academy's Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Matthew Ketcham, Treasurer, at A.B. Graham Academy, 370 East Main Street, St. Paris, Ohio 43072 or email at ketcham@mccesc.k12.oh.us.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO**
Statement of Net Assets
June 30, 2012

ASSETS:

Cash	\$ 219,583
Intergovernmental Receivables	4,885
Capital Assets:	
Capital Assets, net of accumulated depreciation	<u>24,066</u>
 Total Assets	 <u>248,534</u>

LIABILITIES:

Accounts Payable	59,808
Due To Students	1,892
Long-Term Obligations:	
Due Within One Year	5,053
Due In More Than One Year	<u>16,002</u>
 Total Liabilities	 <u>82,755</u>

NET ASSETS:

Invested in Capital Assets, net of related debt	3,011
Unrestricted	<u>162,768</u>
 Total Net Assets	 \$ <u>165,779</u>

See accompanying notes to the basic financial statements.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO**
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

OPERATING REVENUES:

Foundation Payments	\$ 1,258,711
Miscellaneous	<u>2,141</u>

Total Operating Revenues	<u>1,260,852</u>
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OPERATING EXPENSES:

Purchased Services	1,074,039
Computer Equipment and Maintenance	46,242
Materials and Supplies	44,264
Miscellaneous	15,787
Depreciation	<u>5,656</u>

Total Operating Expenses	<u>1,185,988</u>
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Operating Income	<u>74,864</u>
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NON-OPERATING REVENUES:

Grants	76,543
Interest	<u>346</u>

Total Non-Operating Revenues	<u>76,889</u>
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Change in Net Assets	151,753
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Net Assets, Beginning of Year	<u>14,026</u>
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Net Assets, End of Year	<u>\$ 165,779</u>
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See accompanying notes to the basic financial statements.

A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Foundation Payments	\$ 1,258,711
Cash Payments for Goods and Services	(1,159,693)
Other Revenues	2,543
Other Expenses	<u>(16,287)</u>
Net Cash Provided by Operating Activities	<u>85,274</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Grants Received	<u>94,337</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal Payments on Capital Lease Obligation	<u>(4,211)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest	<u>346</u>
Net Increase in Cash	175,746
Cash, Beginning of Year, restated	<u>43,837</u>
Cash, End of Year	\$ <u><u>219,583</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ <u>74,864</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	5,656
Changes in Assets and Liabilities:	
Increase in Accounts Payable	54,270
Decrease in Due to Students	(98)
Decrease in Intergovernmental Payable	<u>(49,418)</u>
Total Adjustments	<u>10,410</u>
Net Cash Provided by Operating Activities	\$ <u><u>85,274</u></u>

Non-Cash Capital and Related Financing Activity Item:

In 2012, the Academy added a copier with a fair market value of \$25,266 through a capital lease agreement.

See accompanying notes to the basic financial statements.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2012*

NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

The A.B. Graham Academy (the "Academy") is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through the twelfth grade. The Academy is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the Graham Local School District ("the Sponsor") for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.

The Academy is a newly formed charter conversion school that provides instruction through traditional approaches (classroom based instruction, tutoring, etc.), as well as innovative non-classroom based experiences (community service, travel, internships, internet-based coursework, etc.).

The Academy was approved for operation under contract with the Sponsor until superseded by a mutually agreed upon service agreement commencing October 26, 2009. The Sponsor reserves the right to terminate this agreement with a 90-day notice to the Academy. The Sponsor provided and maintained space at its Board of Education Office at no cost for the Academy during fiscal year 2012.

The Academy operates under the direction of a seven-member Board of Directors appointed by the Sponsor. The Board consists of five voting members who are not employed by the sponsor and 2 non-voting members who hold administrative positions with the Sponsor. The Board of Directors is responsible for carrying out 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.

In fiscal year 2010, a service contract was approved between the Academy and the Sponsor for a five year period ending June 30, 2015. In agreement with this contract, the Academy purchased the following services from the Sponsor: part-time personnel to administer and oversee the instruction and governance of the Academy, hourly staff to provide support to the Academy, marketing support, EMIS data transmission, insurance, and consulting. According to the contract, the total amount of these services is reimbursed for actual expenses incurred by the Sponsor. The Academy paid the Sponsor \$379,828 during fiscal year 2012 for these services. All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.

All of the Academy's personnel services were purchased from outside organizations during fiscal year 2012.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2012*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The Academy has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its proprietary activities, subject to the same limitation. The Academy has elected not to apply these FASB Statements and Interpretations. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Enterprise reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Academy finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy's basic financial statements are prepared using the full accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Expenses are recognized at the time they are incurred.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2012*

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the Academy and its Sponsor. The contract between the Academy and its Sponsor requires the Academy to prepare a five-year annual budget detailing revenues and expenses.

E. Cash and Cash Equivalents

All monies received by the Academy are maintained in a demand deposit account. For internal accounting purposes, the Academy segregates its cash.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The Academy maintains a capitalization threshold to include all assets over \$5,000 with a useful life of more than one year. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of office equipment and computers are computed using the straight-line method over estimated useful lives of five years.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists, of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are primarily payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy.

All revenues and expenses not meeting these definitions are reported as non-operating.

I. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2012*

J. Grants

Entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements of the grants have been met.

K. Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 – DEPOSITS AND INVESTMENTS

The Academy does not have a policy addressing custodial credit risk for its deposits. As of June 30, 2012, the Academy's bank balance of \$243,975 was covered by federal depository insurance of the Federal Deposit Insurance Corporation (FDIC).

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>6/30/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2012</u>
<u>Capital Assets, being depreciated:</u>				
Office Equipment and Computer	\$ 7,226	25,266	-	32,492
Less: Accumulated Depreciation	<u>(2,770)</u>	<u>(5,656)</u>	<u>-</u>	<u>(8,426)</u>
Capital Assets, net	\$ <u>4,456</u>	<u>19,610</u>	<u>-</u>	<u>24,066</u>

In fiscal year 2010, the Academy began making payments on a copier lease that was originally entered into by Graham Digital Academy in April 2008. No legal action was taken to put the lease in the name of A.B. Graham Academy. As a result, the asset and related liability remain with Graham Digital Academy. Principal payments made during the current fiscal year by A.B. Graham Academy were \$634. This lease was terminated in fiscal year 2012 and replaced with a new lease in the name of A.B. Graham Academy. See Notes 5 & 6 for further detail.

NOTE 5 – LONG-TERM OBLIGATIONS

Detail of the changes in the capital lease of the Academy for the year ended June 30, 2012 is as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amount Due</u> <u>Within</u> <u>One Year</u>
<u>Long Term Debt</u>					
Capital Lease - Copier	\$ -	25,266	4,211	21,055	5,053

A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2012

NOTE 6 – CAPITAL LEASE – LESSEE DISCLOSURE

The Academy is obligated under a copier lease entered into during fiscal year 2012. The cost of the leased assets is accounted for in the capital assets and the related liability in the Long Term Debt. The original cost of the assets under the capital lease was \$25,266. The agreement has zero percent interest.

The following is a schedule of future minimum lease payments under the capital lease:

<u>Year Ending June 30,</u>	Capital Lease
2013	5,053
2014	5,053
2015	5,053
2016	5,053
2017	843
Minimum Lease Payments	\$ 21,055

NOTE 7 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the Academy contracted with the Philadelphia Indemnity Insurance Company for property and fleet insurance, liability insurance, crime, terrorism and automobile coverage and the Insurance Company of the State of Pennsylvania (as part of the Arthur J Gallagher School Risk Purchasing Group, LLC) for excess liability coverage. Coverage provided through these companies is as follows:

Philadelphia Indemnity Insurance Company

Property, including electronic data processing and business content damage.	\$ 71,472
Crime and employee dishonesty (each and every loss)	500,000
Liability:	
General and employee benefits liability:	
Per occurrence	\$ 1,000,000
Aggregate annual total	2,000,000
Automobile and school board legal	1,000,000
Sexual abuse/molestation liability	
Per occurrence	1,000,000
Aggregate limit	2,000,000

Insurance Company of the State of Pennsylvania

Liability:	
Umbrella/excess liability (per occurrence and aggregate)	\$ 5,000,000

Settled claims have not exceeded commercial coverage in any of the past two fiscal years, and there has not been a significant reduction in coverage from the prior fiscal year.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2012*

NOTE 8 – CONTINGENCIES

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2012.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the school. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. This information was not available as of the date of this report. The Academy does not anticipate any material adjustments to state funding for fiscal year 2012, as a result of such review.

NOTE 9 – FEDERAL TAX-EXEMPT STATUS

In accordance with the options granted under existing Ohio law and the Academy's relationship with Graham Local School District, the Academy is considered a governmental entity not subject to tax and is not required to file for not-for-profit tax-exempt status under Section 501 (c)(3) of the Internal Revenue Code.

NOTE 10 – FISCAL AGENT AND ADMINISTRATIVE SERVICES

The Academy utilizes the services of the Madison-Champaign Educational Service Center for a variety of services including its Treasurer as the Academy's fiscal officer. The Academy does not directly pay the Treasurer or other individuals; however, it does reimburse the Madison-Champaign Educational Service Center for the services.

NOTE 11 – PURCHASED SERVICES

During the year ended June 30, 2012, purchased service expenses totaling \$1,074,039 were provided for services rendered by various vendors for fiscal services, data processing and professional and technical services in the amount of \$29,042, \$83,082 and \$961,915, respectively.

NOTE 12 – RESTATEMENT OF BEGINNING BALANCES

During the year ended June 30, 2012, the Academy brought a fund into the general reporting entity that was previously reported as an agency fund. This change caused a restatement that increased the beginning balances of both cash and due to students of \$1,990.

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Dave Yost • Auditor of State

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

A.B. Graham Academy
Champaign County
370 E. Main Street
St. Paris, Ohio 43072

To the Board of Directors:

We have audited the financial statements of the A.B. Graham Academy, Champaign County, (the Academy) as of and for the year ended June 30, 2012, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated August 7, 2012, wherein we noted the Academy restated fund balances. 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 Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated August 7, 2012.

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

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

Dave Yost
Auditor of State

August 7, 2012



Dave Yost • Auditor of State

A.B. GRAHAM ACADEMY

CHAMPAIGN 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
SEPTEMBER 20, 2012**