

GRAHAM DIGITAL ACADEMY
(A Component Unit of Graham Local School District)

Basic Financial Statements

June 30, 2006

with

Independent Auditors' Report



Mary Taylor, CPA

Auditor of State

Board of Directors
Graham Digital Academy
370 East Main Street
St. Paris, Ohio 43072

We have reviewed the *Independent Auditor's Report* of the Graham Digital Academy, Champaign County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Graham Digital Academy is responsible for compliance with these laws and regulations.

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

Mary Taylor, CPA
Auditor of State

February 15, 2007

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GRAHAM DIGITAL ACADEMY

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Independent Auditor's Report

Board of Directors
Graham Digital Academy
370 E. Main Street
St. Paris, OH 43072

We have audited the accompanying basic financial statements of Graham Digital Academy (the Academy), a component unit of Graham 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 Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have 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.

Clark, Schaefer, Hachett & Co.

Springfield, Ohio
December 15, 2006

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Graham Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2006. 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.

The Management's Discussion and Analysis (the "MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis — for State and Local Governments" issued in June of 1999. Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2006 are as follows:

- Total net assets were \$394,512 which is an increase of \$203,892 from fiscal year 2005. Increase is due to Academy budgeting expenditures with in revenues and closely monitoring the budget through out the year.
- Total assets increased to \$398,343, attributed to an increase in cash and the Academy's purchase of \$140,366 in computer equipment.
- Liabilities totaled \$3,831, which is consistent with the \$5,056 reported for fiscal year 2005.
- Operating revenues equaled \$350,619 and non-operating revenues were \$168,454, which is a decrease of \$2,719 and \$5,772, respectively from fiscal year 2005.
- Total operating expenses amounted to \$315,181, a decrease of \$82,479 from fiscal year 2005. Decrease is primarily a result of a decrease in maintenance and purchased services expenditures.

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.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

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 condition of the Academy building and potential changes in the laws governing digital schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the Academy's net assets for fiscal year 2006 compared with fiscal year 2005:

TABLE 1
NET ASSETS

	2006	2005
ASSETS:		
Current Assets	\$ 207,468	\$ 119,098
Noncurrent Assets	190,875	76,578
Total Assets	398,343	195,676
 LIABILITIES		
Current Liabilities	3,831	5,056
 NET ASSETS:		
Invested in Capital Assets	190,875	76,578
Unrestricted	203,637	114,042
Total Net Assets	\$ 394,512	\$ 190,620

Total assets were \$398,343 at June 30, 2006, which is an increase of \$202,667 from June 30, 2005. Cash increased \$76,833 to \$195,931 with the increase attributed to a decrease in expenses over the prior fiscal year. Expenses decreased approximately \$82,500 from fiscal year 2005. Revenues remained consistent with prior year's amounts.

The increase in assets also was attributable to the purchase of capital assets during the current year. The major acquisition was laptop computers and various other equipment for the Academy in the amount of approximately \$140,000.

Total liabilities were \$3,831, which was a decrease of \$1,225 for fiscal year 2005. Liabilities consisted primarily of intergovernmental payables to TRECA Digital Academy for billing services provided.

The net impact of the assets increase and liabilities decrease was an increase of net assets of \$203,892.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Table 2 shows the changes in net assets for the fiscal year 2006 compared with fiscal year 2005, as well as a listing of revenues and expenses.

TABLE 2
CHANGE IN NET ASSETS

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:		
Foundation Payments	\$ 334,204	\$ 353,268
Miscellaneous	16,415	70
NON-OPERATING REVENUES:		
Grants	166,796	173,532
Interest	<u>1,658</u>	<u>694</u>
Total Revenues	<u>519,073</u>	<u>527,564</u>
OPERATING EXPENSES:		
Purchased Services	238,055	296,420
Materials and Supplies	20,610	9,936
Maintenance	28,299	69,927
Miscellaneous	2,148	5,307
Depreciation	26,069	16,070
NON-OPERATING EXPENSES:		
Loss on Disposal of Capital Assets	<u>-</u>	<u>3,755</u>
Total Expenses	<u>315,181</u>	<u>401,415</u>
CHANGE IN NET ASSETS	<u><u>\$ 203,892</u></u>	<u><u>\$ 126,149</u></u>

The Academy's activities consist of enterprise activity. Community schools receive no support from taxes.

Foundation payments decreased from \$353,268 in fiscal 2005 to \$334,204 in fiscal year 2006. Foundation payments comprised 64 percent of total revenues. The decrease is due to a slight decline in number of full-time students enrolled in 2006 compared to 2005; additional students went to part-time status.

Total non-operating revenues also decreased from fiscal year 2005. Non-operating grant revenue was \$166,796 in fiscal year 2006 as compared to \$173,532 in fiscal year 2005.

The State Foundation Program and the Ohio Charter Schools Federal Sub-grant Program are, by far, the primary support for the Academy's students. Combined, foundation payments and non-operating grant revenue comprised 97 percent of total revenues.

Operating expenses decreased from \$397,660 in fiscal year 2005 to \$315,181 in fiscal year 2006, a 21 percent decrease. The decrease is a result of start-up costs still being incurred in fiscal year 2005 and the capitalization of assets. The Academy purchased services from its sponsor, Graham Local School District. The Academy paid the Sponsor \$117,558 for services in fiscal year 2006, a decrease of \$140,158 or 54 percent from the prior fiscal year. Expenses paid to the Sponsor comprised 37 percent of total operating expenses of the Academy during fiscal year 2006.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Capital Assets

At June 30, 2006, the capital assets of the Academy consisted of \$233,403 of office equipment and computers off-set by \$42,528 in accumulated depreciation resulted in net capital assets of 190,875. Capital assets in the amount of \$140,366 were added during the current fiscal year. During the fiscal year, the Academy recorded depreciation expense of \$26,069.

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

For the Future

The Academy expects student enrollment to continue to increase for fiscal year 2007, and the Academy anticipates that will to continue growing in future fiscal years until it reaches capacity. This growth will result in payments from the State School Foundation Program to increase substantially.

The Academy will apply for additional grant monies of \$150,000 under the Ohio Charter Schools Federal Sub-grant Program during fiscal year 2007. The Academy anticipates receiving approval from the Ohio Department of Education for these grant monies. These grant funds may be used to enhance the operations of the Academy.

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 Robert Hoover, Treasurer, at Graham Digital Academy, 370 East Main Street, St. Paris, Ohio 43072 or email at HooverB@graham.k12.oh.us.

**GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO**

Statement of Net Assets

June 30, 2006

ASSETS:

Cash	\$	195,931
Intergovernmental Receivables		11,537
Capital Assets:		
Capital Assets, net of accumulated depreciation		<u>190,875</u>
Total Assets		<u>398,343</u>

LIABILITIES:

Accounts Payable		320
Intergovernmental Payable		<u>3,511</u>
Total Liabilities		<u>3,831</u>

NET ASSETS:

Invested in Capital Assets		190,875
Unrestricted		<u>203,637</u>
Total Net Assets	\$	<u><u>394,512</u></u>

See accompanying notes to the basic financial statements.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Statement of Revenues, Expenses and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006

OPERATING REVENUES:	
Foundation Payments	\$ 334,204
Miscellaneous	<u>16,415</u>
Total Operating Revenues	<u>350,619</u>
 OPERATING EXPENSES:	
Purchased Services	238,055
Materials and Supplies	20,610
Maintenance	28,299
Miscellaneous	2,148
Depreciation	<u>26,069</u>
Total Operating Expenses	<u>315,181</u>
Operating Income	<u>35,438</u>
 NON-OPERATING REVENUES:	
Grants	166,796
Interest	<u>1,658</u>
Total Non-Operating Revenues	<u>168,454</u>
Change in Net Assets	203,892
Net Assets, Beginning of Year	<u>190,620</u>
Net Assets, End of Year	<u>\$ 394,512</u>

See accompanying notes to the basic financial statements.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Foundation Payments	\$	322,667
Cash Payments for Goods and Services		(288,189)
Other Revenues		16,415
Other Expenses		<u>(2,148)</u>

Net Cash Provided by Operating Activities 48,745

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Grants Received		<u>166,796</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of Capital Assets		<u>(140,366)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest		<u>1,658</u>
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Net Increase in Cash 76,833

Cash, Beginning of Year 119,098

Cash, End of Year \$ 195,931

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating Income \$ 35,438

Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities

Depreciation		26,069
Changes in Assets and Liabilities:		
(Increase) in Intergovernmental Receivables		(11,537)
Increase in Accounts Payable		320
(Decrease) in Intergovernmental Payable		<u>(1,545)</u>

Total Adjustments 13,307

Net Cash Provided by Operating Activities \$ 48,745

See accompanying notes to the basic financial statements.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 1 – DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

The Graham Digital 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 designed for students who have a desire for, and whose education can be optimized by, a program of online instruction in an independent environment that does not include ancillary components of a more traditional education. Because the focus is on distance learning, the ability of students to learn independently in their own homes using an online educational program is an essential element of the Academy's program.

The Academy was approved for operation under contract with the Sponsor for a period of five years commencing July 1, 2002. The Academy began operations on March 11, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Sponsor provided and maintained space at its Board of Education Office at no cost for the Academy during fiscal year 2006.

The Academy operates under the direction of a six-member Board of Directors appointed by the Sponsor. The Board consists of four members who hold administrative positions with the Sponsor, one public educator or public official not employed by the Sponsor, and one individual representing the interest of parents and students. The Board consists of five voting members and one non-voting member, who is the Treasurer. 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.

A service contract for fiscal year 2006 between the Academy and the Sponsor was also approved. 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 \$117,558 during fiscal year 2006 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, which provided services to 61 full time and part time students, were purchased from outside organizations during fiscal year 2006.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 currently capitalizes all assets over \$750 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.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are 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.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The Academy also participates in the Federal Charter School Grant Program and the State Community Schools Start-up Grant through the Ohio Department of Education. Under these programs, the Academy was awarded \$150,000 during the fiscal year ended June 30, 2006, to offset start-up costs of the Academy.

J. 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. At June 30, 2006, the carrying amount of the Academy's deposits was \$195,931, and the bank balance was \$195,931. \$95,931 of the bank deposits was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

NOTE 4 – CAPITAL ASSETS

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

	<u>Balance</u> <u>6/30/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2006</u>
<u>Capital Assets, being depreciated:</u>				
Office Equipment and Computers	\$ 93,037	\$ 140,366	\$ -	\$ 233,403
Less: Accumulated Depreciation	(16,459)	(26,069)	-	(42,528)
Capital Assets, net	<u>\$ 76,578</u>	<u>\$ 114,297</u>	<u>\$ -</u>	<u>\$ 190,875</u>

NOTE 5 – 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 2006, the Academy was covered under the Sponsor's insurance for property, liability, and inland marine coverage.

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

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 – AGREEMENTS WITH THE TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION

The Academy entered into agreements with the Tri-Rivers Educational Computer Association ("TRECA"), which is a data acquisition site and member of the Ohio Education Computer Network established in accordance with Ohio Revised Code Section 3301.075.

On July 1, 2004, the Academy entered into a Comprehensive Services Agreement with TRECA. This agreement's term includes the 2005-2006 school year. This agreement allowed the Academy to utilize TRECA's technical resources and experience in matters relating to the creation of an online community school, including the funding of such schools through available federal grant authority. TRECA provided the Academy with planning, design, and implementation services as necessary for the establishment of the Academy, including assistance in the preparation of any applications for funding from the Federal Charter School Grant Program. TRECA also provided planning, instructional, supervisory/administrative, special education and technical services sufficient to effectively implement the Academy's educational plan and assessment and accountability plan set forth in the contract with its Sponsor.

All personnel providing services to the Academy on behalf of TRECA under the Comprehensive Services Agreement are considered employees of TRECA, and TRECA shall be solely responsible for all payroll functions.

The technical services provided by TRECA to the Academy includes access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel. The Academy is responsible for recovering and returning to TRECA any such equipment provided to students by TRECA and not promptly returned to TRECA by a student upon graduation, withdrawal, or expulsion from the Academy. In the event that the Academy is unable to recover such equipment or the equipment is recovered in other than good working condition, and provided the student has been enrolled in the Academy for fewer than twenty-one school days, the Academy shall reimburse TRECA for the costs of such equipment in the amount of \$1,500 per student.

In addition, the Academy will pay TRECA \$3,600 per full-time student per school year. For fiscal year 2006, this amounted to \$88,351.

The Academy also contracted with TRECA for services in connection with students who are disabled or suspected disabled as defined by the agreement. The fee is \$500 per student per academic year for students receiving Tier One Enhancement Services and a range of \$1,500 to \$21,000 per Student per academic year depending upon the handicap. The Tier Enhancement Services are defined within the contract between the Academy and TRECA. This totaled \$12,376 in fiscal year 2006.

Total purchased services paid to TRECA in fiscal year ended June 30, 2005 were \$104,448. As of June 30, 2006, the Academy owed \$3,511 to TRECA.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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, 2006.

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 2006, as a result of such review.

NOTE 9 – FEDERAL TAX-EXEMPT STATUS

In accordance with the options granted under existing Ohio law, the Academy operates as an Ohio not-for-profit corporation and has not filed for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

NOTE 10 – FISCAL AGENT

The Academy utilizes the services of the Graham Local School District treasurer as their fiscal officer. The Academy does not directly pay the treasurer; however, it does reimburse Graham Local School District for the services.

NOTE 11 – PURCHASED SERVICES

During the year ended June 30, 2006, purchased service expenses for services rendered by various vendors were for data processing services in the amount \$238,055.



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Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Directors
Graham Digital Academy
370 E. Main Street
St. Paris, OH 43072

We have audited the basic financial statements of Graham Digital Academy (the Academy), a component unit of Graham Local School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hachett & Co.

Springfield, Ohio
December 15, 2006



Mary Taylor, CPA
Auditor of State

GRAHAM DIGITAL 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
MARCH 1, 2007**