

Graham Digital Academy
(A Component Unit of Graham Local School District)
Champaign County, Ohio

Basic Financial Statements

June 30, 2009

(with Independent Auditors' Report)



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Graham Digital Academy, Champaign County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2008 through June 30, 2009. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 14, 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Graham Digital Academy
370 E. Main Street
St. Paris, Ohio 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, 2009, 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 the 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, 2009, and the changes in financial position, and cash flows 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 November 24, 2009, 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 assessing the results of our audit.

The management's discussion and analysis on pages 2 through 5, 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, Hackett & Co.

Springfield, Ohio
November 24, 2009

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**GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
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, 2009. 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, 2009 are as follows:

- Total net assets were \$489,854, which is a decrease of \$172,390 from fiscal year 2008.
- Total assets at June 30, 2009 were \$514,250, a decrease of 28.21% from one year prior.
- Liabilities totaled \$24,396, which is a decrease from the \$29,666 reported for fiscal year 2008.
- Operating revenues equaled 837,326 and non-operating revenues were \$54,820, which is an increase of \$105,251 and an increase of \$4,579, respectively from fiscal year 2008.
- Total operating expenses amounted to \$1,014,207. The total operating expenses increased from \$650,235 in fiscal year 2008. This is an increase of \$363,972 or 56.0%.

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
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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 2009 compared with fiscal year 2008:

**TABLE 1
NET ASSETS, JUNE 30,**

	2009	Restated 2008
ASSETS:		
Other Assets	\$ 265,395	450,333
Capital Assets, Net	248,855	265,973
Total Assets	514,250	716,306
LIABILITIES:		
Current Liabilities	9,517	35,379
Long-Term Obligations:		
Due Within One Year	3,804	3,800
Due In More Than One Year	11,075	14,883
Total Liabilities	24,396	54,062
NET ASSETS:		
Invested in Capital Assets, net of related debt	233,976	247,290
Unrestricted	255,878	414,954
Total Net Assets	\$ 489,854	662,244

Total assets were \$514,250 at June 30, 2009, which is a decrease of \$202,056 from June 30, 2008. The primary reason for the decrease was due to cash on hand at the end of the year being \$187,228 less than it was one year before. The decrease in cash on hand was due to the cash expenditures of the Academy exceeding cash receipts in the current year.

Total liabilities were \$24,396, which consisted of intergovernmental payables to TRECA Digital Academy for billing services provided, a capital lease and miscellaneous accounts payable items. The liabilities reported at the end of fiscal year 2009 were 54.9 percent less than those reported for the prior year due primarily to the reduction of payables reported for fiscal year 2009.

The \$159,076 decrease in unrestricted net assets reported at June 30, 2009 compared to the prior year is the result of the current year decrease in net assets which was somewhat offset by capital asset additions exceeding depreciation expense for the year.

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Unaudited*

Table 2 shows the changes in net assets for the fiscal year 2009 compared with fiscal year 2008, as well as a listing of revenues and expenses.

**TABLE 2
CHANGE IN NET ASSETS, JUNE 30,**

	2009	2008
OPERATING REVENUES:		
Foundation Payments	\$ 788,409	710,584
Miscellaneous	48,917	21,491
NON-OPERATING REVENUES:		
Grants	50,969	44,357
Interest	3,851	5,884
Total Revenues	892,146	782,316
OPERATING EXPENSES:		
Purchased Services	677,784	464,361
Computer Equipment and Maintenance	175,927	81,790
Materials and Supplies	71,577	38,145
Miscellaneous	10,516	1,317
Depreciation	78,403	64,622
NON-OPERATING EXPENSES:		
Loss on Disposal of Capital Assets	50,329	-
Total Expenses	1,064,536	650,235
Change in Net Assets	\$ (172,390)	132,081

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 \$710,584 in fiscal 2008 to \$788,409 in fiscal year 2009, due to an increase in the number of students served by the Academy as well as an increase in the per pupil funding amount used by the State from \$5,565 per student in the prior year to \$5,732 per student in the current year. Revenue from the foundation program is 88.4% of total revenues received by the Academy. Intergovernmental revenue (foundation program plus federal and state educational specific grants) are 94.1% 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 increased from \$650,235 in fiscal year 2008 to \$1,014,207 in fiscal year 2009, a 56.0% increase. The \$213,423 increase in purchased services expenses relates to the purchase of individualized educational computer software for students as well as the payments to the sponsor 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 increased by \$94,137 compared to the prior year. Materials and supplies increased \$33,432 from the prior year as additional instructional supplies needed for the new educational curriculum purchased as well as general computer and office supplies. Depreciation expense increased due to the acquisition of new computers during the fiscal year.

**GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
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Capital Assets

At June 30, 2009, the capital assets of the Academy consisted of \$374,306 of office equipment and computers off-set by \$125,451 in accumulated depreciation resulted in net capital assets of \$248,855. Capital assets in the amount of \$111,614 were added during the current fiscal year. During the fiscal year, the Academy recorded depreciation expense of \$78,403.

See Note 5 of the notes to the basic financial statements for more detailed information on the Academy's capital assets.

Economic Factors

The Academy expects student enrollment to continue to increase for fiscal year 2010, and the Academy anticipates that will 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 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 T. Ryan Jenkins, Treasurer, at Graham Digital Academy, 370 East Main Street, St. Paris, Ohio 43072 or email at JenkinsR@graham.k12.oh.us.

Graham Digital Academy
CHAMPAIGN COUNTY, OHIO
Statement of Net Assets
June 30, 2009

ASSETS:

Cash	\$	242,155
Intergovernmental Receivables		23,240
Capital Assets:		
Capital Assets, net of accumulated depreciation		<u>248,855</u>
Total Assets		<u>514,250</u>

LIABILITIES:

Accounts Payable		7,992
Intergovernmental Payable		1,525
Long-Term Obligations:		
Due Within One Year		3,804
Due In More Than One Year		<u>11,075</u>
Total Liabilities		<u>24,396</u>

NET ASSETS:

Invested in Capital Assets, net of related debt		233,976
Unrestricted		<u>255,878</u>
Total Net Assets	\$	<u><u>489,854</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, 2009

OPERATING REVENUES:

Foundation Payments	\$	788,409
Miscellaneous		<u>48,917</u>
Total Operating Revenues		<u>837,326</u>

OPERATING EXPENSES:

Purchased Services		677,784
Computer Equipment and Maintenance		175,927
Materials and Supplies		71,577
Miscellaneous		10,516
Depreciation		<u>78,403</u>
Total Operating Expenses		<u>1,014,207</u>

Operating Loss (176,881)

NON-OPERATING REVENUES:

Grants		50,969
Interest		3,851
Loss on disposal of capital assets		<u>(50,329)</u>
Total Non-Operating Revenues		<u>4,491</u>

Change in Net Assets (172,390)

Net Assets, Beginning of Year, restated 662,244

Net Assets, End of Year \$ 489,854

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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Foundation Payments	\$ 786,119
Cash Payments for Goods and Services	(951,150)
Other Revenues	48,917
Other Expenses	<u>(10,516)</u>
Net Cash Used by Operating Activities	<u>(126,630)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Grants Received	<u>50,969</u>
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**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES:**

Acquisition of Capital Assets	(111,614)
Principal Payments on Capital Lease Obligation	<u>(3,804)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(115,418)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest	<u>3,851</u>
Net Decrease in Cash	(187,228)
Cash, Beginning of Year	<u>429,383</u>
Cash, End of Year	\$ <u><u>242,155</u></u>

**Reconciliation of Operating Loss to Net Cash
Used by Operating Activities**

Operating Loss	\$ <u>(176,881)</u>
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**Adjustments to Reconcile Operating Loss to Net
Cash Used by Operating Activities**

Depreciation	78,403
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivables	(2,290)
Decrease in Accounts Payable	(21,168)
Decrease in Intergovernmental Payable	<u>(4,694)</u>
Total Adjustments	<u>50,251</u>

Net Cash Used by Operating Activities	\$ <u><u>(126,630)</u></u>
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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 2009

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, 2007. 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 2009.

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 2008, a service contract was approved between the Academy and the Sponsor for a five year period ending June 30, 2012. 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 \$421,941 during fiscal year 2009 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 130 students, were purchased from outside organizations during fiscal year 2009.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2009

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 2009*

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 has revised its capitalization threshold to include all assets over \$500 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.

**GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2009*

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 – PRIOR PERIOD ADJUSTMENT

During fiscal year 2009 the Academy changed its capitalization threshold from \$750 to \$500 to capture more of the computer equipment utilized. This change resulted in an additional \$13,073 of equipment with accumulated depreciation of \$11,500 being recognized as of June 30, 2008. Due to this change, the net assets reported for the Academy at June 30, 2008 were restated from the \$660,671 previously report to \$662,244.

NOTE 4 – DEPOSITS AND INVESTMENTS

The Academy does not have a policy addressing custodial credit risk for its deposits. As of June 30, 2009, \$4,786 of the Academy's bank balance of \$254,786 was exposed to custodial credit risk because it 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 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Restated Balance 6/30/2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2009</u>
<u>Capital Assets, being depreciated:</u>				
Office Equipment and Computer	\$ 433,754	111,614	171,062	374,306
Less: Accumulated Depreciation	<u>(167,781)</u>	<u>(78,403)</u>	<u>(120,733)</u>	<u>(125,451)</u>
Capital Assets, net	<u>\$ 265,973</u>	<u>33,211</u>	<u>50,329</u>	<u>248,855</u>

NOTE 6 – LONG-TERM OBLIGATIONS

Detail of the changes in the capital lease of the academy for the year ended June 30, 2009 is as follows:

	<u>Balance June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>	<u>Amount Due Within One Year</u>
<u>Long Term Debt</u>					
Capital Lease - Copier	\$ 18,683	-	3,804	14,879	3,804

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2009

NOTE 7 – CAPITAL LEASE – LESSEE DISCLOSURE

The academy is obligated under a copier lease entered into during fiscal year 2008. 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 \$19,000. The agreement was consolidated under the Sponsor resulting in a zero percent interest.

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

<u>Year Ending June 30,</u>	<u>Capital Lease</u>
2010	\$ 3,804
2011	3,804
2012	3,804
2013	3,467
Minimum Lease Payments	<u>\$ 14,879</u>

NOTE 8 – 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 2009, the Academy contracted with the Southwestern Ohio Educational Purchasing Council for property and fleet insurance, liability insurance, crime, terrorism and automobile coverage. Coverage provided through the Council is as follows:

Property, including electronic data processing and business content damage.	\$ 452,000
Crime and employee dishonesty (each and every loss)	300,000
Liability:	
General and employee benefits liability:	
Per occurrence	\$ 1,000,000
Aggregate annual total	2,000,000
Umbrella/excess liability (per occurrence and aggregate)	5,000,000
Automobile and school board legal	1,000,000
Sexual abuse/molestation liability	
Per occurrence	1,000,000
Aggregate limit	2,000,000

Settled claims 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 2009*

NOTE 9 – 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 2008-2009 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.

The Academy paid TRECA a fee of \$2,315 per full-time student for the 2008-2009 school. For fiscal year 2009, this amounted to \$203,509.

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 \$1,400 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 \$29,627 in fiscal year 2008. Total purchased services paid to TRECA in fiscal year ended June 30, 2009 were \$233,136.

NOTE 10 – 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, 2009.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June, 30 2009

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 2009, as a result of such review.

NOTE 11 – 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 12 – 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 13 – PURCHASED SERVICES

During the year ended June 30, 2009, purchased service expenses for services rendered by various vendors were for data processing services in the amount \$677,784.

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, Ohio 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, 2009, and have issued our report thereon dated November 24, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiency described in the accompanying schedule of findings and responses, finding 2009-001, to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However we believe that the significant deficiency described above is not a material weakness.

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*.

We noted certain matters that we reported to management of the Academy in a separate letter dated November 24, 2009.

The Academy's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Academy's responses and, accordingly, we express no opinion on it.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
November 24, 2009

**Graham Digital Academy
Schedule of Findings and Responses
Fiscal Year Ended June 30, 2009**

Findings Related To The Financial Statements Required
To Be Reported In Accordance With *Governmental Auditing Standards*

Finding Number	2009 - 001
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During the audit of capital assets, it was noted that the District's capital asset listing did not properly reflect assets disposed of during the year and was not complete in regards to current year additions.

The District should develop effective internal controls to track all assets and reconcile all disposals to the master asset list. The District should also put monitoring procedures in place to ensure the controls are operating effectively.

Management Response:

The District has implemented procedures to correct the weakness noted above.

Schedule of Prior Year Findings

Finding Number 2008-001 – Audit adjustments were required in the prior year to present financial statements in accordance with GAAP. Corrected.

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Education
Graham Digital Academy:

Ohio Revised Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Graham Digital Academy (the Academy) has adopted an anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted policy 0118 in fiscal year 2004 that states “Graham Digital Academy will accept policies, guidelines, forms and handbooks, where appropriate, of the Graham Local School District”. As a result, the anti-harassment policy adopted by Graham Local School District at its meeting on December 12, 2005 (revised on December 17, 2007) is the policy in effect to meet the code sections referenced above.

2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):

- (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
- (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
- (3) A procedure for reporting prohibited incidents;
- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident.

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- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States.
- (10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
November 24, 2009



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
DECEMBER 24, 2009**