



**Auditor of State
Betty Montgomery**

**GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

Graham Digital Academy
Champaign County
370 East Main Street
St. Paris, Ohio 43072

To the Board of Directors:

We have audited the accompanying basic financial statements of Graham Digital Academy, Champaign County, (the "Academy"), a component unit of Graham Local School District, as of and for the fiscal year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Academy as of June 30, 2004, and the respective 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 March 22, 2005 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 22, 2005

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
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, 2004. 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 new 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. However, because this is the first fiscal year of existence of the Academy and the first fiscal year of adoption of the new reporting model, comparative prior fiscal year information does not exist. Subsequent reports will include the comparative information.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2004 are as follows:

- Net assets totaled \$64,471.
- Total assets were \$71,447.
- Liabilities totaled \$6,976.
- Operating revenues equaled \$73,080 and non-operating revenues were \$105,404.
- Operating expenses amounted to \$100,087.

Using this Annual Report

This annual report consists of the MD&A, the basic financial statements and the notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The statement of net assets and the statement of revenues, expenses and changes in net assets answer the question, "How did we do financially during fiscal year 2004?" The statement of net assets includes all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

**GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

Table 1 provides a summary of the Academy's net assets for fiscal year 2004 as follows:

**TABLE 1
NET ASSETS, JUNE 30, 2004**

	<u>2004</u>
Assets	
Current Assets	\$ 57,781
Noncurrent Assets	<u>13,666</u>
 Total Assets	 <u>71,447</u>
 Liabilities	
Current Liabilities	<u>6,976</u>
 Net Assets	
Unrestricted	\$ <u><u>64,471</u></u>

Total assets were \$71,447. Cash amounted to \$50,281 and intergovernmental receivable amounted to \$7,500.

Total liabilities were \$6,976, which consisted of intergovernmental payables.

The net impact was an increase of net assets of \$78,397.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as a listing of revenues and expenses.

TABLE 2
CHANGE IN NET ASSETS, JUNE 30, 2004

	2004
Operating Revenues	
Foundation Payments	\$ 73,070
Miscellaneous	10
Non-Operating Revenues	
Grants	105,000
Interest	404
Total Revenues	178,484
Operating Expenses	
Purchased Services	93,056
Materials and Supplies	5,000
Maintenance	112
Miscellaneous	56
Depreciation	1,863
Total Operating Expenses	100,087
Change in Net Assets	\$ 78,397

The Academy's activities consist of enterprise activity. Community schools receive no support from taxes. The State Foundation Program and the Ohio Charter Schools Federal Sub-grant Program are, by far, the primary support for the Academy's students.

Capital Assets

At June 30, 2004 the capital assets of the Academy consisted of \$15,675 of office equipment and computers off-set by \$2,009 in accumulated depreciation resulted in net capital assets of \$13,666. Capital assets in the amount of \$11,300 were added during the current fiscal year.

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

**GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
Unaudited*

For the Future

The Academy began operations in March 2004 with the Tri-Rivers Educational Computer Association providing most of its instructional, administrative, and fiscal services, much like a management company. The Academy will be working towards providing instructional, administrative, and fiscal services through the Graham Local School District (the "Sponsor"). As the Academy takes on increasingly more of the instructional, administrative, and fiscal services through its Sponsor, its costs should be more effectively monitored and adjusted, as necessary. However, management still must diligently plan expenses, staying carefully within the Academy's five-year plan.

The Academy has entered into a service contract for fiscal year 2005 with its Sponsor. In agreement with this contract, the Academy will purchase the following services from its Sponsor: personnel to administer and oversee the instruction and governance of the Academy, hourly personnel to provide instructional services to the Academy, hourly staff to provide support services to the Academy, marketing support, EMIS data transmission, insurance, and consulting. The total amount of these services will not exceed \$415,000 for fiscal year 2005.

The Academy received its initial State Foundation Program payment in April of 2004; therefore, the Academy only received three months of State Foundation Program payments in fiscal year 2004. For future fiscal years, the Academy will receive a full fiscal year's worth of State Foundation Program payments.

In addition, the Academy expects student enrollment for fiscal year 2005 to double, and the Academy anticipates the student enrollment to continue growing in fiscal years after fiscal year 2005 until it reaches its ceiling. This growth will result in payments from the State School Foundation Program to increase substantially.

The Academy will apply for additional start-up grant monies of \$150,000 under the Ohio Charter Schools Federal Sub-grant Program during fiscal year 2005. 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 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, 2004

ASSETS:

Cash	\$	50,281
Intergovernmental Receivables		7,500
Capital Assets:		
Capital Assets, net of accumulated depreciation		<u>13,666</u>
Total Assets		<u>71,447</u>

LIABILITIES:

Intergovernmental Payable		<u>6,976</u>
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NET ASSETS:

Unrestricted	\$	<u><u>64,471</u></u>
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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, 2004

OPERATING REVENUES:

Foundation Payments	\$	73,070
Miscellaneous		<u>10</u>
Total Operating Revenues		<u>73,080</u>

OPERATING EXPENSES:

Purchased Services		93,056
Materials and Supplies		5,000
Maintenance		112
Miscellaneous		56
Depreciation		<u>1,863</u>
Total Operating Expenses		<u>100,087</u>

Operating Loss (27,007)

NON-OPERATING REVENUES:

Grants		105,000
Interest		<u>404</u>
Total Non-Operating Revenues		<u>105,404</u>

Change in Net Assets 78,397

Net Assets, Beginning of Year (13,926)

Net Assets, End of Year \$ 64,471

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, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Foundation Payments	\$	65,570
Cash Payments for Goods and Services		(112,074)
Other Revenues		10
Other Expenses		<u>(56)</u>
Net Cash Used by Operating Activities		<u>(46,550)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Grants Received		<u>105,000</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of Capital Assets		<u>(11,300)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest		<u>404</u>
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Net Increase in Cash		47,554
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Cash, Beginning of Year		<u>2,727</u>
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Cash, End of Year	\$	<u><u>50,281</u></u>
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Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Operating Loss	\$	<u>(27,007)</u>
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Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities

Depreciation		1,863
Changes in Assets and Liabilities:		
Increase in Intergovernmental Receivables		(7,500)
Decrease in Intergovernmental Payable		<u>(13,906)</u>

Total Adjustments		<u>(19,543)</u>
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Net Cash Used by Operating Activities	\$	<u>(46,550)</u>
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See accompanying notes to the basic financial statements.

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GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 2004.

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 2004 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 \$57,036 during fiscal year 2004 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 31 students, were purchased from outside organizations during fiscal year 2004.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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, 2004

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 \$1,000 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.

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.

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 \$105,000 during the fiscal year ended June 30, 2004, to offset start-up costs of the Academy.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

J. Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles 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

At fiscal year end, the carrying amount of the Academy's deposits was \$50,281, and the bank balance was \$50,281. The entire bank balance was covered by federal depository. 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, 2004, was as follows:

	Balance 6/30/2003	Additions	Reductions	Balance 6/30/2004
<u>Capital Assets, being depreciated:</u>				
Office Equipment and Computer	\$ 4,375	11,300	-	15,675
Less: Accumulated Depreciation	(146)	(1,863)	-	(2,009)
Capital Assets, net	\$ 4,229	9,437	-	13,666

NOTE 5 – RECEIVABLES

Receivables at June 30, 2004 consisted of State Teacher Retirement System deduction refunds from Ohio Department of Education Foundation Settlements.

NOTE 6 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to tons; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2004, 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.

NOTE 7 – STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "... the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 8 – 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 September 16, 2002, the Academy entered into a Comprehensive Services Agreement with TRECA. This agreement's term includes the 2002-2003 and 2003-2004 school years. 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 \$60,000 for the 2002-2003 school year and paid TRECA a fee of \$25,000 for the 2003-2004 school year. In addition, the Academy will pay TRECA \$3,500 per full-time high school student and \$2,500 per full-time kindergarten through eighth grade student enrolled in the Academy per school year. For fiscal year 2004, this amounted to \$17,503.

The Academy also contracted with TRECA for special education and related services provided to a student enrolled in the Academy with an Individual Education Plan. The Academy will pay TRECA for these services based on TRECA's actual costs instead of the per student amount described in the previous paragraph. This totaled \$1,967 in fiscal year 2004.

Total purchased services paid to TRECA in fiscal year ended June 30, 2004 were \$44,500. As of June 30, 2004, the Academy owed \$6,976 to TRECA, which is reported as "Intergovernmental Payable."

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 9 – 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, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State laws. On April 21, 2003, the Common Pleas Court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals; the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Academy is not presently determinable.

C. 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.

NOTE 10 – FEDERAL TAX-EXEMPT STATUS

In accordance with the options granted under existing Ohio law, the Academy has not yet filed for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Under federal statute, a corporate entity has 27 months from its date of incorporation to apply for federal tax exemption. The Academy currently operates as an Ohio not-for-profit corporation, it will ultimately apply for tax-exempt status under Internal Revenue Code Section 501(c)(3). The Academy has filed an Internal Revenue Service Form 990, "Return of Organization Exempt from Income Tax". Since the Academy is in the process of filing for tax-exempt status, no provision for a possible income tax liability has been made.

NOTE 11 – 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 for his services.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 12 - PURCHASED SERVICES

For the period ended June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Directors' Expense	\$43,424
Contractual Services	30,595
Fiscal Services	7,499
Equipment Expense	6,640
Board Services	2,382
Technical Expense	1,158
Advertising Expense	1,021
Meeting/Travel Expense	219
Legal Services	<u>118</u>
TOTAL	\$93,056

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Graham Digital Academy
Champaign County
370 East Main Street
St. Paris, Ohio 43072

To the Board of Directors:

We have audited the financial statements of Graham Digital Academy, Champaign County, (the "Academy"), a component unit of Graham Local School District, as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated March 22, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the Academy's management in a separate letter dated March 22, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 22, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

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
MAY 5, 2005**