GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY

REGULAR AUDIT

FOR THE FISCALYEAR ENDED JUNE 30, 2011

Dave Yost · Auditor of State

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of Graham Digital Academy, Champaign County, Ohio (the Academy), a component unit of the Graham Local School District, as of and for the year ended June 30, 2011, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Graham Digital Academy, Champaign County, Ohio, as of June 30, 2011, and the respective changes in financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 13, the Academy changed its capitalization threshold from $500 to $5,000 for the fiscal year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2011 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Dave Yost

Dave Yost
Auditor of State

August 10, 2011

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, 2011. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2011 are as follows:

- Total net assets were $75,946, which is an increase of $80,579 from the restated balance of fiscal year 2010.
- Total assets at June 30, 2011 were $104,467, an increase of $69,263 from the restated balance from one year prior.
- Liabilities totaled $28,521, which is a decrease from the $39,837 reported for fiscal year 2010.
- Operating revenues equaled 234,223 and non-operating revenues were $87,461, which is a decrease of $60,435 and an increase of $40,058, respectively from fiscal year 2010.
- Total operating expenses amounted to $241,105. The total operating expenses decreased from $629,343, or 61.7%, from those reported the prior year.

Using this Annual Report

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

Statement of Net Assets

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

This statement reports the Academy's net assets, however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the 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 2011 compared with fiscal year 2010:

TABLE 1
NET ASSETS, JUNE 30,

		2011	2010
ASSETS:			(restated)
Other Assets	$	90,841	15,316
Capital Assets, Net		13,626	19,888
Total Assets		104,467	35,204
LIABILITIES:			
Current Liabilities		21,250	28,762
Long-Term Obligations:			
Due Within One Year		3,804	3,804
Due In More Than One Year		3,467	7,271
Total Liabilities		28,521	39,837
NET ASSETS:			
Invested in Capital Assets, net of related debt		6,355	8,813
Restricted for Specific Grant Programs		40,252	-
Unrestricted		29,339	(13,446)
Total Net Assets	$	75,946	(4,633)

Total assets were $104,467 at June 30, 2011, which is an increase of $69,263 from June 30, 2010. The primary reason for the increase was an increase in cash on hand and intergovernmental receivables from the prior year. The increase in cash on hand was due to the cash receipts of the Academy exceeding cash expenditures in the current year.

Total liabilities were $28,521, which consisted of intergovernmental payables, a capital lease and miscellaneous accounts payable items. The liabilities reported at the end of fiscal year 2011 were 28.4 percent less than those reported for the prior year due primarily to the decrease of payables reported for fiscal year 2011.

The $42,785 increase in unrestricted net assets reported at June 30, 2011 compared to the prior year is mainly the result of the current year increase in cash on hand at the end of the year.

Table 2 shows the changes in net assets for the fiscal year 2011 compared with fiscal year 2010, as well as a listing of revenues and expenses.

TABLE 2
CHANGE IN NET ASSETS, JUNE 30,

		2011	2010
OPERATING REVENUES:			
Foundation Payments	$	213,559	238,689
Miscellaneous		20,664	55,969
NON-OPERATING REVENUES:			
Grants		87,330	41,821
Other Revenue		-	4,625
Interest		131	957
Total Revenues		321,684	342,061
OPERATING EXPENSES:			
Purchased Services		208,200	482,908
Computer Equipment and Maintenance		10,368	25,721
Materials and Supplies		2,896	24,581
Miscellaneous		13,379	20,148
Depreciation		6,262	75,985
NON-OPERATING EXPENSES:			
Loss on Disposal of Capital Assets		-	23,231
Total Expenses		241,105	652,574
Change in Net Assets	$	80,579	(310,513)

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 decreased from $238,689 in fiscal 2010 to $213,559 in fiscal year 2011, due to a decrease in the number of students served by the Academy. Revenue from the foundation program is 66.4% of total revenues received by the Academy. Intergovernmental revenue (foundation program plus federal and state educational specific grants) are 93.5% of the total revenues reported by the Academy. It is clear the Academy is financially dependent on the State of Ohio continuing to fund community schools in a consistent manner from one year to the next.

Operating expenses decreased from $629,343 in fiscal year 2010 to $241,105 in fiscal year 2011, a 61.7% decrease. The $274,708 decrease in purchased services expenses relates to the decrease in purchases of individualized educational computer software for students as well as a decrease in 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 decreased by $15,353 compared to the prior year. Materials and supplies decreased $21,685 from the prior year as a decrease in students limited the need to purchase as much instructional supplies in the current year. Depreciation expense decreased by $69,723 due to a change in the Academy’s capital asset threshold.

Capital Assets

At June 30, 2011, the capital assets of the Academy consisted of $31,310 of computer equipment off-set by $17,684 in accumulated depreciation resulted in net capital assets of $13,626. No capital assets were added during the current fiscal year. During the fiscal year, the Academy recorded depreciation expense of $6,262.

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

Economic Factors

The Academy expects student enrollment to decline for fiscal year 2011, and the Academy anticipates that it will to continue shrinking in future fiscal years. This contraction will result in payments from the State School Foundation Program to decrease 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 Matthew Ketcham, Treasurer, at Graham Digital Academy, 370 East Main Street, St. Paris, Ohio 43072 or email at ketcham@mccesc.k12.oh.us.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Statement of Net Assets
June 30, 2011

ASSETS:		
Cash	$	57,053
Intergovernmental Receivables		33,788
Capital Assets:		
Capital Assets, net of accumulated depreciation		13,626
Total Assets		104,467
LIABILITIES:		
Accounts Payable		11,211
Intergovernmental Payable		10,039
Long-Term Obligations:		
Due Within One Year		3,804
Due In More Than One Year		3,467
Total Liabilities		28,521
NET ASSETS:		
Invested in Capital Assets, net of related debt		6,355
Restricted for Specific Grant Programs		40,252
Unrestricted		29,339
Total Net Assets	$	75,946

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, 2011

OPERATING REVENUES:		
Foundation Payments	$	213,559
Miscellaneous		20,664
Total Operating Revenues		234,223
OPERATING EXPENSES:		
Purchased Services		208,200
Computer Equipment and Maintenance		10,368
Materials and Supplies		2,896
Miscellaneous		13,379
Depreciation		6,262
Total Operating Expenses		241,105
Operating Loss		(6,882)
NON-OPERATING REVENUES:		
Grants		87,330
Interest		131
Total Non-Operating Revenues		87,461
Change in Net Assets		80,579
Net Deficit, Beginning of Year (restated)		(4,633)
Net Assets, End of Year	$	75,946

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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Foundation Payments	$	227,411
Cash Payments for Goods and Services		(228,976)
Other Revenues		20,664
Other Expenses		(13,379)
Net Cash Provided by Operating Activities		5,720
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants Received		53,542
Net Cash Provided by Noncapital Financing Activities		53,542
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Payments on Capital Lease Obligation		(3,804)
Net Cash Used by Capital and Related Financing Activities		(3,804)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest		131
Net Increase in Cash		55,589
Cash, Beginning of Year		1,464
Cash, End of Year	$	57,053
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	$	(6,882)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation		6,262
Changes in Assets and Liabilities:		
Decrease in Intergovernmental Receivables Affecting Operating Revenues		13,852
Increase in Accounts Payable		9,324
Decrease in Intergovernmental Payable		(16,836)
Total Adjustments		12,602
Net Cash Provided by Operating Activities	$	5,720

See accompanying notes to the basic financial statements.

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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 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 2011.

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 $139,143 during fiscal year 2011 for these services. All personnel providing services to the Academy on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.

All of the Academy's personnel services were purchased from outside organizations during fiscal year 2011.

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.

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 capitalizes all assets over $5,000 with a useful life of more than one year. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

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

G. Net Assets

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

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

H. Operating Revenues and Expenses

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

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

I. Intergovernmental Revenues

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

J. Grants

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

K. Estimates

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

NOTE 3 – DEPOSITS AND INVESTMENTS

The Academy does not have a policy addressing custodial credit risk for its deposits. As of June 30, 2011, the Academy's bank balance of $57,053 was covered by federal depository insurance of the Federal Deposit Insurance Corporation (FDIC). All statutory requirements for the deposit of money have been followed.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

		Restated Balance 6/30/2010	Additions	Reductions	Balance 6/30/2011
Capital Assets, being depreciated:					
Office Equipment and Computer	$	31,310	-	-	31,310
Less: Accumulated Depreciation		(11,422)	(6,262)	-	(17,684)
Capital Assets, net	$	19,888	(6,262)	-	13,626

The beginning balances for FY2011 were restated. See Note 13 for further discussion.

NOTE 5 – LONG-TERM OBLIGATIONS

Detail of the changes in the capital lease of the Academy for the year ended June 30, 2011 is as follows:

Long Term Debt		Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011	Amount Due Within One Year
Capital Lease - Copier	$	11,075	-	3,804	7,271	3,804

NOTE 6 – 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:

Year Ending June 30,	Capital Lease
2012	3,804
2013	3,467
Minimum Lease Payments	$ 7,271

During fiscal year 2011, A.B. Graham Academy made payments directly to the lessor on behalf of the Academy for its use of the copier. Total lease payments paid by A.B. Graham Academy were $3,804.

NOTE 7 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the Academy contracted with the Philadelphia Indemnity Insurance Company for property and fleet insurance, liability insurance, crime, terrorism and automobile coverage and the Insurance Company of the State of Pennsylvania (as part of the Arthur J Gallagher School Risk Purchasing Group, LLC) for excess liability coverage. Coverage provided through these companies is as follows:

Philadelphia Indemnity Insurance Company	
Property, including electronic data processing and business content damage.	$ 476,000
Crime and employee dishonesty (each and every loss)	500,000
Liability:	
General and employee benefits liability:	
Per occurrence	$ 1,000,000
Aggregate annual total	3,000,000
Automobile and school board legal	1,000,000
Sexual abuse/molestation liability	
Per occurrence	1,000,000
Aggregate limit	2,000,000
Insurance Company of the State of Pennsylvania	
Liability:	
Umbrella/excess liability (per occurrence and aggregate)	$ 5,000,000

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

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 May 18, 2010, the Academy entered into a Comprehensive Services Agreement with TRECA. This agreement's term is the 2010-2011 school year. Pursuant to this agreement, TRECA provided specifically contracted planning, instructional, supervisory/administrative, and technical services sufficient to substantially implement the Academy's 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, the Academy shall reimburse TRECA for the costs of such equipment in the amount of $600 per student.

The Academy paid TRECA a fee of $3,900 per full-time student for the 2010-2011 school year. For fiscal year 2011, this amounted to $9,893.

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 $23,000 per student per academic year depending upon the handicap. The Tier Enhancement Services are defined within the contract between the Academy and TRECA. Although the Academy did not utilize TRECA in this capacity for fiscal year 2011, the Academy did expend $25 in fiscal year 2011, which was a reimbursement for fiscal year 2010 services. Total purchased services paid to TRECA in fiscal year ended June 30, 2011 were $9,918

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, 2011.

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 2011, as a result of such review.

NOTE 10 – 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 11 – FISCAL AGENT AND ADMINISTRATIVE SERVICES

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

NOTE 12 – PURCHASED SERVICES

During the year ended June 30, 2011, purchased service expenses totaling $208,200 were provided for services rendered by various vendors for fiscal services, data processing and professional and technical services in the amount of $4,803, $11,649 and $191,748, respectively.

NOTE 13 – RESTATEMENT OF BEGINNING BALANCE

During fiscal year 2011, the Academy changed its capitalization threshold from $500 to $5,000. As a result, the beginning balance of net assets requires the following restatement:

Net assets reported at 06/30/2010	$ 179,341
Change in capitalization threshold net of accumulated depreciation	(183,974)
Restated net assets at 07/01/2010	$ (4,633)

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

Graham Digital Academy
Champaign County
370 E. 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) as of and for the year ended June 30, 2011, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated August 10, 2011, wherein we noted the Academy changed its capitalization threshhold. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Academy's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain matter not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated August 10, 2011.

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

Dave Yost
Auditor of State

August 10, 2011

Dave Yost • Auditor of State

Independent Accountants' Report on Applying Agreed-Upon Procedure

Graham Digital Academy
Champaign County
370 E. Main Street
St. Paris, OH 43072

To the Board of Education:

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

1. We noted the Board amended its anti-harassment policy at its meeting on November 23, 2011, to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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 the Academy's Sponsor and is not intended to be and should not be used by anyone other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

August 10, 2011

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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
SEPTEMBER 20, 2011