

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

Basic Financial Statements

June 30, 2005

with

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Board of Education
Graham Digital Academy
St. Paris, Ohio

We have reviewed the *Independent Auditor's Report* of the Graham Digital Academy, Champaign County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

March 22, 2006

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GRAHAM DIGITAL ACADEMY

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Graham Digital Academy (the Academy), a component unit of Graham Local School District, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham Digital Academy, as of June 30, 2005, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2005, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 7 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
December 29, 2005

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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, 2005. 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, 2005 are as follows:

- Total net assets were \$190,620, which is an increase of \$126,149 from fiscal year 2004.
- Total assets increased to \$195,676. That is an increase of 173.88 percent from last fiscal year.
- Liabilities totaled \$5,056, which is consistent with the \$6,976 reported for fiscal year 2004.
- Operating revenues equaled \$353,338 and non-operating revenues were \$174,226, which is an increase of \$280,258 and \$68,822, respectively from fiscal year 2004.
- Total operating expenses amounted to \$397,660 for fiscal year 2005. The total operating expenses increased from \$100,087 from fiscal year 2004. This is an increase of \$297,573 or 297.31 percent.

Using this Annual Report

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

Statement of Net Assets

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

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
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 2005 compared with fiscal year 2004:

TABLE 1
NET ASSETS, JUNE 30,

	2005	2004
ASSETS:		
Current Assets	\$ 119,098	57,781
Noncurrent Assets	76,578	13,666
Total Assets	195,676	71,447
 LIABILITIES:		
Current Liabilities	5,056	6,976
 NET ASSETS:		
Invested in Capital Assets, net of related debt	76,578	13,666
Unrestricted	114,042	50,805
Total Net Assets	\$ 190,620	64,471

Total assets were \$195,676 at June 30, 2005, which is an increase of \$124,229 from June 30, 2004. Cash increased \$68,817 to \$119,098 with the increase attributed to an increase in foundation payments from the State. The increase in foundation payments is a result of increased student enrollment, which increased to 56 in fiscal year 2005 from 31 in fiscal year 2004. The amount of foundation payments received from the State increases as student enrollment increases. The State remits foundation payments to community schools on a monthly basis. During fiscal year 2005, the Academy received twelve foundation payments as opposed to only receiving four foundation payments in fiscal year 2004. The Academy began operations during fiscal year 2004.

The increase in assets also was attributable to the purchase of capital assets during the current year. The major acquisition was the installation of workstations for the Academy in the amount of approximately \$73,000.

Total liabilities were \$5,056, which was a decrease of \$1,920 for fiscal year 2004. Liabilities consisted of intergovernmental payables to TRECA Digital Academy for billing services provided.

The net impact of the assets increase and liabilities decrease was an increase of net assets of \$126,149.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2 shows the changes in net assets for the fiscal year 2005 compared with fiscal year 2004, as well as a listing of revenues and expenses.

TABLE 2
CHANGE IN NET ASSETS, JUNE 30,

	2005	2004
OPERATING REVENUES:		
Foundation Payments	\$ 353,268	73,070
Miscellaneous	70	10
NON-OPERATING REVENUES (EXPENSES):		
Grants	173,532	105,000
Interest	694	404
Total Revenues	527,564	178,484
OPERATING EXPENSES:		
Purchased Services	296,420	93,056
Materials and Supplies	9,936	5,000
Maintenance	69,927	112
Miscellaneous	5,307	56
Depreciation	16,070	1,863
NON-OPERATING EXPENSES:		
Loss on Disposal of Capital Assets	3,755	-
Total Expenses	401,415	100,087
Change in Net Assets	\$ 126,149	78,397

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

Foundation payments increased from \$73,070 in fiscal 2004 to \$353,268 in fiscal year 2005. Foundation payments comprised 67 percent of total revenues. The increase is due to, as previously discussed, a rise in student enrollment and the Academy being in existence for the entire 2005 fiscal year.

Total non-operating revenues increased from \$105,404 in fiscal year 2004 to \$174,226 in fiscal year 2005. This increase is mainly due to an increase in non-operating grants revenue of \$68,532. The Academy was awarded a \$150,000 Federal Charter School Grant in fiscal year 2005 and a separate \$105,000 Federal Charter School Grant in Fiscal year 2004.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
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The State Foundation Program and the Ohio Charter Schools Federal Sub-grant Program are, by far, the primary support for the Academy's students. Combined, foundation payments and non-operating grant revenue comprised 99.86 percent of total revenues.

Operating expenses increased from \$100,087 in fiscal year 2004 to \$397,660 in fiscal year 2005, a 297.31 percent increase. The increase is a result of student enrollment increasing from 31 in fiscal year 2004 to 56 in fiscal year 2005 and the Academy being in existence for the entire 2005 fiscal year. The Academy began operations in fiscal year 2004. Because of the rise in student enrollment, more services were required to be purchased, especially from the Graham Local School District (the "Sponsor"). The Academy paid the Sponsor \$257,712 for services in fiscal year 2005, an increase of \$181,223 or 230.89 percent from the prior fiscal year. Expenses paid to the Sponsor comprised 64.8 percent of total operating expenses of the Academy during fiscal year 2005.

Capital Assets

At June 30, 2005, the capital assets of the Academy consisted of \$93,037 of office equipment and computers off-set by \$16,459 in accumulated depreciation resulted in net capital assets of \$76,578. Capital assets in the amount of \$82,737 were added during the current fiscal year. During the fiscal year, the Academy recorded depreciation expense of \$16,070.

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

For the Future

The Academy 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 \$366,000 for fiscal year 2006.

The Academy received its initial State Foundation Program payment in April of 2004; therefore, the Academy only received four months of State Foundation Program payments in fiscal year 2004. For fiscal year 2005, the Academy received a full year of foundation payments and will continue to receive full year payments in the future.

GRAHAM DIGITAL ACADEMY
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For the Fiscal Year Ended June 30, 2005
Unaudited

In addition, the Academy expects student enrollment to continue to increase for fiscal year 2006, and the Academy anticipates that will to continue growing in future fiscal years until it reaches capacity. This growth will result in payments from the State School Foundation Program to increase substantially.

The Academy will apply for additional start-up grant monies of \$150,000 under the Ohio Charter Schools Federal Sub-grant Program during fiscal year 2006. The Academy anticipates receiving approval from the Ohio Department of Education for these grant monies. These grant funds may be used to enhance the operations of the Academy.

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

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

Contacting the Academy's Management

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

**GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO**

Statement of Net Assets
June 30, 2005

ASSETS:

Cash	\$ 119,098
Capital Assets:	
Capital Assets, net of accumulated depreciation	<u>76,578</u>
Total Assets	<u>195,676</u>

LIABILITIES:

Intergovernmental Payable	<u>5,056</u>
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NET ASSETS:

Invested in Capital Assets	76,578
Unrestricted	<u>114,042</u>
Total Net Assets	\$ <u><u>190,620</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, 2005

OPERATING REVENUES:

Foundation Payments	\$	353,268
Miscellaneous		<u>70</u>
Total Operating Revenues		<u>353,338</u>

OPERATING EXPENSES:

Purchased Services		296,420
Materials and Supplies		9,936
Maintenance		69,927
Miscellaneous		5,307
Depreciation		<u>16,070</u>
Total Operating Expenses		<u>397,660</u>

Operating Loss (44,322)

NON-OPERATING REVENUES (EXPENSES):

Grants		173,532
Interest		694
Loss on sale of capital assets		<u>(3,755)</u>
Total Non-Operating Revenues (Expenses)		<u>170,471</u>

Change in Net Assets 126,149

Net Assets, Beginning of Year 64,471

Net Assets, End of Year \$ 190,620

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, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Foundation Payments	\$	360,768
Cash Payments for Goods and Services		(378,203)
Other Revenues		70
Other Expenses		<u>(5,307)</u>
Net Cash Used by Operating Activities		<u>(22,672)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Grants Received		<u>173,532</u>
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**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES:**

Acquisition of Capital Assets		<u>(82,737)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest		<u>694</u>
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Net Increase in Cash		68,817
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Cash, Beginning of Year		<u>50,281</u>
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Cash, End of Year	\$	<u><u>119,098</u></u>
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**Reconciliation of Operating Loss to Net Cash
Used by Operating Activities**

Operating Loss	\$	<u>(44,322)</u>
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**Adjustments to Reconcile Operating Loss to Net
Cash Used by Operating Activities**

Depreciation		16,070
Changes in Assets and Liabilities:		
Decrease in Intergovernmental Receivables		7,500
Decrease in Intergovernmental Payable		<u>(1,920)</u>

Total Adjustments		<u>21,650</u>
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Net Cash Used by Operating Activities	\$	<u><u>(22,672)</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, 2005

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 2005.

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 2005 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 \$37,892 during fiscal year 2005 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 56 students, were purchased from outside organizations during fiscal year 2005.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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, 2005

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. Net assets invested in capital assets, 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. At June 30, 2005, the Academy had no capital related debt.

H. Operating Revenues and Expenses

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

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

I. Intergovernmental Revenues

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

**GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO**
*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005*

The Academy also participates in the Federal Charter School Grant Program and the State Community Schools Start-up Grant through the Ohio Department of Education. Under these programs, the Academy was awarded \$150,000 during the fiscal year ended June 30, 2005, to offset start-up costs of the Academy.

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 AND INVESTMENTS

The Academy does not have a policy addressing custodial credit risk for its deposits. At June 30, 2005, the carrying amount of the Academy's deposits was \$119,098, and the bank balance was \$119,098. \$19,098 of the bank deposits was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Reductions	Balance 6/30/2005
<u>Capital Assets, being depreciated:</u>				
Office Equipment and Computer	\$ 15,675	82,737	(5,375)	93,037
Less: Accumulated Depreciation	<u>(2,009)</u>	<u>(16,070)</u>	<u>1,620</u>	<u>(16,459)</u>
Capital Assets, net	<u>\$ 13,666</u>	<u>66,667</u>	<u>(3,755)</u>	<u>76,578</u>

NOTE 5 – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2005, 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 6 – 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.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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...". 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 7 – AGREEMENTS WITH THE TRI-RIVERS EDUCATIONAL COMPUTER ASSOCIATION

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

On July 1, 2004, the Academy entered into a Comprehensive Services Agreement with TRECA. This agreement's term includes the 2004-2005 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 \$10,000 for the 2004-2005 school. In addition, the Academy will pay TRECA \$3,550 per full-time high school student and \$2,550 per full-time kindergarten through eighth grade student enrolled in the Academy per school year. For fiscal year 2005, this amounted to \$131,657.

The Academy also contracted with TRECA for services in connection with students who are disabled or suspected disabled as defined by the agreement. The fee is \$500 per student per academic year for students receiving Tier One Enhancement Services and a range of \$1,500 to \$21,000 per Student per academic year depending upon the handicap. The Tier Enhancement Services are defined within the contract between the Academy and TRECA. This totaled \$40,016 in fiscal year 2005.

Total purchased services paid to TRECA in fiscal year ended June 30, 2005 were \$200,108. As of June 30, 2005, the Academy owed \$5,056 to TRECA.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 – CONTINGENCIES

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2005.

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. 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 2005, as a result of such review.

NOTE 9 – 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 10 – FISCAL AGENT

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

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 – PURCHASED SERVICES

During the year ended June 30, 2005, purchased service expenses for services rendered by various vendors were as follows:

Instruction Services	\$ 3,326
Management Services	71,679
Data Processing Services	219,304
Professional/Legal Services	289
Other Professional and Technical Services	<u>1,822</u>
	\$ <u>296,420</u>



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

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

We have audited the basic financial statements of Graham Digital Academy (the Academy), a component unit of Graham Local School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 29, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 29, 2005



**Auditor of State
Betty Montgomery**

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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
APRIL 4, 2006**