



Dave Yost • Auditor of State



**GRAHAM DIGITAL ACADEMY  
CHAMPAIGN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets - June 30, 2010.....	7
Statement of Revenues, Expenses and Changes In Net Assets for the Fiscal Year Ended June 30, 2010 .....	8
Statement of Cash Flows for the Fiscal Year Ended June 30, 2010.....	9
Notes to the Basic Financial Statements .....	10
Independent Accountant's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	17
Schedule of Prior Audit Finding .....	19

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Graham Digital Academy  
Champaign County  
1512 S. US Hwy. 68, Suite J100  
Urbana, Ohio 43078

To the Board of Directors:

We have audited the accompanying basic financial statements of the Graham Digital Academy, Champaign County (the Academy), a component unit of the Graham Local School District, as of and for the fiscal year ended June 30, 2010, 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 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 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, 2010, and the changes in its financial position and its 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 February 1, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

February 1, 2011

**GRAHAM DIGITAL ACADEMY  
CHAMPAIGN COUNTY, OHIO**  
*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
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, 2010. 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, 2010 are as follows:

- Total net assets were \$179,341, which is a decrease of \$310,513 from fiscal year 2009.
- Total assets at June 30, 2010 were \$219,178, a decrease of 57.38% from one year prior.
- Liabilities totaled \$39,837, which is an increase from the \$24,396 reported for fiscal year 2009.
- Operating revenues equaled 294,658 and non-operating revenues were \$47,403, which is a decrease of \$542,668 and a decrease of \$7,417, respectively from fiscal year 2009.
- Total operating expenses amounted to \$629,343. The total operating expenses decreased from \$1,014,207 in fiscal year 2009. This is a decrease of \$384,864 or 37.9%.

### **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, 2010  
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 2010 compared with fiscal year 2009:

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

	2010	2009
<b>ASSETS:</b>		
Other Assets	\$ 15,316	265,395
Capital Assets, Net	203,862	248,855
Total Assets	219,178	514,250
<b>LIABILITIES:</b>		
Current Liabilities	28,762	9,517
Long-Term Obligations:		
Due Within One Year	3,804	3,804
Due In More Than One Year	7,271	11,075
Total Liabilities	39,837	24,396
<b>NET ASSETS:</b>		
Invested in Capital Assets, net of related debt	192,787	233,976
Unrestricted	(13,446)	255,878
Total Net Assets	\$ 179,341	489,854

Total assets were \$219,178 at June 30, 2010, which is a decrease of \$295,072 from June 30, 2009. The primary reason for the decrease was due to cash on hand at the end of the year being \$240,691 less than it was one year before. The decrease in cash on hand was due to the cash expenditures of the Academy exceeding cash receipts in the current year.

Total liabilities were \$39,837, which consisted of intergovernmental payables, a capital lease and miscellaneous accounts payable items. The liabilities reported at the end of fiscal year 2010 were 63.3 percent more than those reported for the prior year due primarily to the increase of payables reported for fiscal year 2010.

The \$269,324 decrease in unrestricted net assets reported at June 30, 2010 compared to the prior year is mainly the result of the current year decrease in cash on hand at the end of the year.

**GRAHAM DIGITAL ACADEMY  
CHAMPAIGN COUNTY, OHIO**  
*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

Table 2 shows the changes in net assets for the fiscal year 2010 compared with fiscal year 2009, as well as a listing of revenues and expenses.

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

	2010	2009
<b>OPERATING REVENUES:</b>		
Foundation Payments	\$ 238,689	788,409
Miscellaneous	55,969	48,917
<b>NON-OPERATING REVENUES:</b>		
Grants	41,821	50,969
Other Revenue	4,625	-
Interest	957	3,851
Total Revenues	342,061	892,146
<b>OPERATING EXPENSES:</b>		
Purchased Services	482,908	677,784
Computer Equipment and Maintenance	25,721	175,927
Materials and Supplies	24,581	71,577
Miscellaneous	20,148	10,516
Depreciation	75,985	78,403
<b>NON-OPERATING EXPENSES:</b>		
Loss on Disposal of Capital Assets	23,231	50,329
Total Expenses	652,574	1,064,536
Change in Net Assets	\$ (310,513)	(172,390)

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 \$788,409 in fiscal 2009 to \$238,689 in fiscal year 2010, due to a decrease in the number of students served by the Academy. Revenue from the foundation program is 69.8% of total revenues received by the Academy. Intergovernmental revenue (foundation program plus federal and state educational specific grants) are 82.0% 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 \$1,014,207 in fiscal year 2009 to \$629,343 in fiscal year 2010, a 37.9% decrease. The \$194,876 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 \$150,206 compared to the prior year. Materials and supplies decreased \$46,996 from the prior year as a decrease in students limited the need to purchase as much instructional supplies in the current year. Depreciation expense remained fairly consistent with prior year.

**GRAHAM DIGITAL ACADEMY  
CHAMPAIGN COUNTY, OHIO**  
*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2010  
Unaudited*

---

**Capital Assets**

At June 30, 2010, the capital assets of the Academy consisted of \$398,496 of office equipment and computers off-set by \$194,634 in accumulated depreciation resulted in net capital assets of \$203,862. Capital assets in the amount of \$54,223 were added during the current fiscal year. During the fiscal year, the Academy recorded depreciation expense of \$75,985.

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 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](mailto:ketcham@mccesc.k12.oh.us).

**GRAHAM DIGITAL ACADEMY**  
**CHAMPAIGN COUNTY, OHIO**  
Statement of Net Assets  
June 30, 2010

---

**ASSETS:**

Cash	\$	1,464
Intergovernmental Receivables		13,852
Capital Assets:		
Capital Assets, net of accumulated depreciation		<u>203,862</u>
Total Assets		<u>219,178</u>

**LIABILITIES:**

Accounts Payable		1,887
Intergovernmental Payable		26,875
Long-Term Obligations:		
Due Within One Year		3,804
Due In More Than One Year		<u>7,271</u>
Total Liabilities		<u>39,837</u>

**NET ASSETS:**

Invested in Capital Assets, net of related debt		192,787
Unrestricted		<u>(13,446)</u>
Total Net Assets	\$	<u><u>179,341</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, 2010

---

<b>OPERATING REVENUES:</b>	
Foundation Payments	\$ 238,689
Miscellaneous	<u>55,969</u>
Total Operating Revenues	<u>294,658</u>
<b>OPERATING EXPENSES:</b>	
Purchased Services	482,908
Computer Equipment and Maintenance	25,721
Materials and Supplies	24,581
Miscellaneous	20,148
Depreciation	<u>75,985</u>
Total Operating Expenses	<u>629,343</u>
Operating Loss	<u>(334,685)</u>
<b>NON-OPERATING REVENUES AND (EXPENSES):</b>	
Grants	41,821
Interest	957
Other Revenue	4,625
Loss on Disposal of Capital Assets	<u>(23,231)</u>
Total Non-Operating Revenues and (Expenses)	<u>24,172</u>
Change in Net Assets	(310,513)
Net Assets, Beginning of Year	<u>489,854</u>
Net Assets, End of Year	<u>\$ 179,341</u>

See accompanying notes to the basic financial statements.

**GRAHAM DIGITAL ACADEMY**  
**CHAMPAIGN COUNTY, OHIO**  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2010

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received from Foundation Payments	\$ 248,077
Cash Payments for Goods and Services	(513,965)
Other Revenues	55,969
Other Expenses	<u>(20,148)</u>
Net Cash Used by Operating Activities	<u>(230,067)</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Grants Received	41,821
Other Non-Operating Revenues	<u>4,625</u>
Net Cash Provided by Noncapital Financing Activities	<u>46,446</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of Capital Assets	(54,223)
Principal Payments on Capital Lease Obligation	<u>(3,804)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(58,027)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest	<u>957</u>
Net Decrease in Cash	(240,691)
Cash, Beginning of Year	<u>242,155</u>
Cash, End of Year	\$ <u><u>1,464</u></u>
 <b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>	
Operating Loss	\$ <u>(334,685)</u>
 <b>Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities</b>	
Depreciation	75,985
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivables	9,388
Decrease in Accounts Payable	(6,105)
Increase in Intergovernmental Payable	<u>25,350</u>
Total Adjustments	<u>104,618</u>
Net Cash Used by Operating Activities	\$ <u><u>(230,067)</u></u>

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 2010*

---

**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 2010.

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 \$270,734 during fiscal year 2010 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 2010.

**GRAHAM DIGITAL ACADEMY**  
**CHAMPAIGN COUNTY, OHIO**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June, 30 2010*

---

**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 2010*

---

***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 \$500 with a useful life of more than one year. The Academy does not have any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

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

***G. Net Assets***

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

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

***H. Operating Revenues and Expenses***

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

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

***I. Intergovernmental Revenues***

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

**GRAHAM DIGITAL ACADEMY  
CHAMPAIGN COUNTY, OHIO**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June, 30 2010*

---

**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, 2010, the carrying amount of the Academy's deposits was \$1,464 and the bank balance was \$15,367. The entire balance 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, 2010, was as follows:

	<u>Balance</u> <u>6/30/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2010</u>
<b><u>Capital Assets, being depreciated:</u></b>				
Office Equipment and Computer	\$ 374,306	54,223	(30,033)	398,496
Less: Accumulated Depreciation	<u>(125,451)</u>	<u>(75,985)</u>	<u>6,802</u>	<u>(194,634)</u>
<b>Capital Assets, net</b>	<b><u>\$ 248,855</u></b>	<b><u>(21,762)</u></b>	<b><u>(23,231)</u></b>	<b><u>203,862</u></b>

**NOTE 5 – LONG-TERM OBLIGATIONS**

Detail of the changes in the capital lease of the academy for the year ended June 30, 2010 is as follows:

<u>Long Term Debt</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Amount Due</u> <u>Within</u> <u>One Year</u>
Capital Lease - Copier	\$ 14,879	-	3,804	11,075	3,804

**GRAHAM DIGITAL ACADEMY  
CHAMPAIGN COUNTY, OHIO**  
*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June, 30 2010*

---

**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:

<u>Year Ending June 30,</u>	<u>Capital Lease</u>
2011	3,804
2012	3,804
2013	3,467
Minimum Lease Payments	\$ <u>11,075</u>

During fiscal year 2010, A.B. Graham Academy reimbursed the Academy for use of the copier and also made payments directly to the lessor on behalf of the Academy. Total lease payments reimbursed and paid by A.B. Graham Academy were \$10,148.

**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 2010, the Academy contracted with the Southwestern Ohio Educational Purchasing Council for property and fleet insurance, liability insurance, crime, terrorism and automobile coverage. Coverage provided through the Council is as follows:

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

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

**GRAHAM DIGITAL ACADEMY**  
**CHAMPAIGN COUNTY, OHIO**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June, 30 2010*

---

**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 July 1, 2004, the Academy entered into a Comprehensive Services Agreement with TRECA. This agreement's term includes the 2009-2010 school year. This agreement allowed the Academy to utilize TRECA's technical resources and experience in matters relating to the creation of an online community school, including the funding of such schools through available federal grant authority. TRECA provided the Academy with planning, design, and implementation services as necessary for the establishment of the Academy, including assistance in the preparation of any applications for funding from the Federal Charter School Grant Program. TRECA also provided planning, instructional, supervisory/administrative, special education and technical services sufficient to effectively implement the Academy's educational plan and assessment and accountability plan set forth in the contract with its Sponsor.

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

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

The Academy paid TRECA a fee of \$2,315 per full-time student for the 2009-2010 school year. For fiscal year 2010, this amounted to \$34,893.

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 \$1,400 to \$21,000 per student per academic year depending upon the handicap. The Tier Enhancement Services are defined within the contract between the Academy and TRECA. This totaled \$4,882 in fiscal year 2010. Total purchased services paid to TRECA in fiscal year ended June 30, 2010 were \$39,775.

**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, 2010.

**GRAHAM DIGITAL ACADEMY**  
**CHAMPAIGN COUNTY, OHIO**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June, 30 2010*

---

***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 2010, 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**

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

**NOTE 12 – PURCHASED SERVICES**

During the year ended June 30, 2010, purchased service expenses totaling \$482,908 were provided for services rendered by various vendors for fiscal services, data processing and professional and technical services in the amount of \$18,996, \$19,185 and \$444,727, respectively.



# Dave Yost • Auditor of State

## 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  
1512 S. US Hwy. 68, Suite J100  
Urbana, Ohio 43078

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, 2010, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated February 1, 2011. 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*.

Graham Digital Academy  
Champaign County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We did note certain matters not requiring inclusion in this report that we reported to the Academy's management in a separate letter dated February 1, 2011.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

February 1, 2011

GRAHAM DIGITAL ACADEMY  
CHAMPAIGN COUNTY

SCHEDULE OF PRIOR AUDIT FINDING  
JUNE 30, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	Capital asset additions and disposals were not accurately reflected in the accounting records.	Yes	

**This Page is Intentionally Left Blank.**



# Dave Yost • Auditor of State

**GRAHAM DIGITAL ACADEMY**

**CHAMPAIGN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 15, 2011**