Graham Digital Academy

(A Component Unit of Graham Local School District)

Champaign County, Ohio

Basic Financial Statements

June 30, 2008

(with Independent Auditors' Report)

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Graham Digital Academy, Champaign County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 12, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

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CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Graham Digital Academy (the Academy), a component unit of Graham Local School District, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham Digital Academy, as of June 30, 2008, and the changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2008, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 5, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 8, 2008

2525 north limestone street, ste. 103
springfield, oh 45503

www.cshco.com
p. 937.399.2000
f. 937.399.5433

cincinnati | columbus | dayton | middletown | springfield

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, 2008. 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, 2008 are as follows:

- Total net assets were $660,671, which is an increase of $132,081 from fiscal year 2007.
- Total assets increased to $714,733. That is an increase of 34.26% from last fiscal year.
- Liabilities totaled $54,062, which increased from the $3,776 reported for fiscal year 2007.
- Operating revenues equaled $732,075 and non-operating revenues were $50,241,which is an increase of $206,993 and an increase of $8,782, respectively from fiscal year 2007.
- Total operating expenses amounted to $650,235. The total operating expenses increased from $432,463 from fiscal year 2007. This is an increase of $217,772 or 50.36%.

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 2008 compared with fiscal year 2007:

TABLE 1
NET ASSETS, JUNE 30,

	2008	2007
ASSETS:		
Other Assets	$ 450,333	317,122
Capital Assets, Net	264,400	215,244
Total Assets	714,733	532,366
LIABILITIES:		
Current Liabilities	35,379	3,776
Noncurrent Liabilities:		
Due Within One Year	3,800	-
Due In More Than One Year	14,883	-
Total Liabilities	54,062	3,776
NET ASSETS:		
Invested in Capital Assets, net of related debt	245,717	215,244
Restricted	-	6,385
Unrestricted	414,954	306,961
Total Net Assets	$ 660,671	528,590

Total assets were $714,733 at June 30, 2008, which is an increase of $182,367 from June 30, 2007. Cash increased $112,261 to $429,383 with the increase attributed to revenues exceeding expenditures by approximately $132,000 in the current year.

The increase in assets also was attributable to the purchase of capital assets during the current year. The major acquisitions were laptop computers and various other equipment for the Academy in the amount of $113,778.

Total liabilities were $54,062, which consisted of intergovernmental payables to TRECA Digital Academy for billing services provided, new debt and miscellaneous accounts payable items.

The net impact of the assets increase and liabilities increase was an increase of net assets of $132,081 .

Table 2 shows the changes in net assets for the fiscal year 2008 compared with fiscal year 2007, as well as a listing of revenues and expenses.

TABLE 2
CHANGE IN NET ASSETS, JUNE 30,

		2008	2007
OPERATING REVENUES:			
Foundation Payments	$	710,584	521,685
Miscellaneous		21,491	3,397
NON-OPERATING REVENUES (EXPENSES):			
Grants		44,357	37,048
Interest		5,884	4,411
Total Revenues		782,316	566,541
OPERATING EXPENSES:			
Purchased Services		464,361	346,799
Materials and Supplies		38,145	20,995
Maintenance		81,790	13,402
Miscellaneous		1,317	2,136
Depreciation		64,622	49,131
Total Expenses		650,235	432,463
Change in Net Assets	$	132,081	134,078

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

Foundation payments increased from $521,685 in fiscal 2007 to $710,584 in fiscal year 2008. Foundation payments comprised 90.83% of total revenues. The increase is due to an increase in student enrollment from fiscal year 2007.

The State Foundation Program is the primary support for the Academy's students. Combined, foundation payments and non-operating grant revenue comprised 96.50% of total revenues.

Operating expenses increased from $432,463 in fiscal year 2007 to $650,235 in fiscal year 2008, a 50.35% increase. The Academy purchased services from its sponsor, Graham Local School District. The Academy paid the Sponsor $240,366 for services in fiscal year 2008, an increase of $83,421 from the prior fiscal year. These expense increases were due to the Academy having approximately 30 more students than in the prior fiscal year. Expenses paid to the Sponsor comprised 36.97% of total operating expenses of the Academy during fiscal year 2008.

Capital Assets

At June 30, 2008, the capital assets of the Academy consisted of $420,681 of office equipment and computers off-set by $156,281 in accumulated depreciation resulted in net capital assets of $264,400. Capital assets in the amount of $113,778 were added during the current fiscal year. During the fiscal year, the Academy recorded depreciation expense of $64,622.

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 expects student enrollment to continue to increase for fiscal year 2009, 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 continue to use space provided by the Sponsor in the Graham Local Schools Board of Education building.

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

Contacting the Academy's Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact T. Ryan Jenkins, Treasurer, at Graham Digital Academy, 370 East Main Street, St. Paris, Ohio 43072 or email at JenkinsR@graham.k12.oh.us.

GRAHAM DIGITAL ACADEMY
CHAMPAIGN COUNTY, OHIO
Statement of Net Assets
June 30, 2008

ASSETS:		
Cash	$	429,383
Intergovernmental Receivables		20,950
Capital Assets:		
Capital Assets, net of accumulated depreciation		264,400
Total Assets		714,733
LIABILITIES:		
Accounts Payable		29,160
Intergovernmental Payable		6,219
Noncurrent Liabilities:		
Due Within One Year		3,800
Due In More Than One Year		14,883
Total Liabilities		54,062
NET ASSETS:		
Invested in Capital Assets, net of related debt		245,717
Unrestricted		414,954
Total Net Assets	$	660,671

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 Year Ended June 30, 2008

OPERATING REVENUES:		
Foundation Payments	$	710,584
Miscellaneous		21,491
Total Operating Revenues		732,075
OPERATING EXPENSES:		
Purchased Services		464,361
Materials and Supplies		38,145
Maintenance		81,790
Miscellaneous		1,317
Depreciation		64,622
Total Operating Expenses		650,235
Operating Income		81,840
NON-OPERATING REVENUES:		
Grants		44,357
Interest		5,884
Total Non-Operating Revenues		50,241
Change in Net Assets		132,081
Net Assets, Beginning of Year		528,590
Net Assets, End of Year	$	660,671

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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Foundation Payments	$	689,634
Cash Payments for Goods and Services		(552,693)
Other Revenues		21,491
Other Expenses		(1,317)
Net Cash Provided by Operating Activities		157,115
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants Received		44,357
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets		(94,778)
Principal Payment on Capital Lease		(317)
Net Cash Used by Capital and Related Financing Activities		(95,095)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest		5,884
Net Increase in Cash		112,261
Cash, Beginning of Year		317,122
Cash, End of Year	$	429,383
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$	81,840
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation		64,622
Changes in Assets and Liabilities:		
Increase in Intergovernmental Receivables		(20,950)
Increase in Accounts Payable		28,386
Increase in Intergovernmental Payable		3,217
Total Adjustments		75,275
Net Cash Provided by Operating Activities	$	157,115

Non-cash Items:
District acquired $19,000 in capital assets through a capital lease

See accompanying notes to the basic financial statements.

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 an additional period of five years commencing July 1, 2007. The Academy began operations on March 11, 2004. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration. The Sponsor provided and maintained space at its Board of Education Office at no cost for the Academy during fiscal year 2008.

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 2008 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 $240,366 during fiscal year 2008 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 120 students, were purchased from outside organizations during fiscal year 2008.

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 currently capitalizes all assets over $750 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. 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, 2008, $338,269 of the Academy's bank balance of $438,269 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Academy to a successful claim by the Federal Deposit Insurance Corporation.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance 6/30/2007	Additions	Reductions	Balance 6/30/2008
Capital Assets, being depreciated:				
Office Equipment and Computer	$ 306,903	113,778	-	420,681
Less: Accumulated Depreciation	(91,659)	(64,622)	-	(156,281)
Capital Assets, net	$ 215,244	49,156	-	264,400

NOTE 5 –LONG-TERM OBLIGATIONS

Detail of the changes in the capital lease of the academy for the year ended June 30, 2008 is as follows:

	Balance 6/30/2007	Additions	Deductions	Balance 6/30/2008	Amount Due Within One Year
Capital Lease - Copier	$ -	19,000	317	18,683	$ 3,800

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
2009	$ 3,800
2010	3,800
2011	3,800
2012	3,800
2013	3,483
Minimum Lease Payments	$18,683

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 2008, 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 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 2007-2008 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 2007-2008 school. For fiscal year 2008, this amounted to $179,418.

The Academy also contracted with TRECA for services in connection with students who are disabled or suspected disabled as defined by the agreement. The fee is $500 per student per academic year for students receiving Tier One Enhancement Services and a range of $1,400 to $21,000 per student per academic year depending upon the handicap. The Tier Enhancement Services are defined within the contract between the Academy and TRECA. This totaled $29,110 in fiscal year 2008. Total purchasued services paid to TRECA in fiscal year ended June 30, 2008 were $208,528.

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, 2008.

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 2008, 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 School District Treasurer as their fiscal officer. The Academy does not directly pay the Treasurer; however, it does reimburse Graham Local School District for the services.

NOTE 12 – PURCHASED SERVICES

During the year ended June 30, 2008, purchased service expenses for services rendered by various vendors were for data processing services in the amount $464,361.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the basic financial statements of Graham Digital Academy (the Academy),a component unit of Graham Local School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiency described in the accompanying schedule of findings and responses, find 2008-001, to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

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

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 8, 2008

Graham Digital Academy
Schedule of Findings and Responses
Fiscal Year Ended June 30, 2008

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

Finding Number	2008 - 001

Management is responsible for ensuring the financial statements are complete and prepared accurately in accordance with accounting principles generally accepted in the United States of America (GAAP).

During the current audit, it was necessary to adjust the Academy's financial statements to properly report and classify certain items including capital assets and long term debt.

Management Response:

The Academy has implemented procedures to ensure expenses are properly capitalized including capital leases.

Schedule of Prior Year Findings

Finding Number 2007-001 – Audit adjustments were required in the prior year to present financial statements in accordance with GAAP. Finding is repeated in current year as finding 2008-001.

Mary Taylor, CPA
Auditor of State

GRAHAM DIGITAL ACADEMY

CHAMPAIGN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 24, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us