



Dave Yost • Auditor of State

A. B. GRAHAM ACADEMY
CHAMPAIGN COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of A. B. Graham Academy, Champaign County, Ohio (the Academy), a component unit of the Graham Local School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

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.

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The conclusion of this review resulted in a material liability, in the amount of \$686,005, at the end of fiscal year 2014 which was not reported on the financial statements of the Academy. The unrecorded liability affects expenses, liabilities, and net position with an overall effect on revenues and assets.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position and results of operations, and cash flows of the A. B. Graham Academy as of and for the year ended June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 13, the Academy ceased operations effective June 30, 2014.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

March 23, 2015

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The discussion and analysis of the A.B. Graham Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2014 are as follows:

- Total net position was \$264,385, which is a decrease of \$145,949 from the balance of fiscal year 2013.
- Total assets at June 30, 2014 were \$290,893, a decrease of \$139,956 from the balance from one year prior.
- Liabilities totaled \$26,508, which is an increase of \$5,993 from the \$20,515 reported for fiscal year 2013.
- Operating revenues equaled \$1,551,083 and non-operating revenues were \$89,742, which is a decrease of \$17,293 and an increase of \$18,132, respectively from fiscal year 2013.
- Total operating expenses amounted to \$1,786,774. The total operating expenses increased \$391,343, or 28.0%, from those reported the prior year.

Using this Annual Report

This financial report contains the basic financial statements of the Academy, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net position, statement of revenues, expenses and change in net position 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 Position

The statement of net position answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and deferred outflows and liabilities and deferred inflows, 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 position; however, in evaluating the overall position and financial viability of the Academy, non-financial information such as the potential changes in the laws governing community schools in the State of Ohio will also need to be evaluated.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

Table 1 provides a summary of the Academy's net position for fiscal year 2014 compared with fiscal year 2013:

Table 1		
Net Position, June 30,		
	2014	2013
Assets:		
Other Assets	\$279,823	\$413,281
Capital Assets, Net	11,070	17,568
Total Assets	290,893	430,849
Liabilities:		
Current Liabilities	15,559	4,513
Long-Term Obligations:		
Due Within One Year	5,053	5,053
Due In More Than One Year	5,896	10,949
Total Liabilities	26,508	20,515
Net Position:		
Net Investment in Capital Assets	121	1,566
Restricted for Specific Grant Programs	22,572	
Unrestricted	241,692	408,768
Total Net Position	\$264,385	\$410,334

Total assets were \$290,893 at June 30, 2014, which is a decrease of \$139,956 from June 30, 2013. The primary reason was a decrease in cash on hand from the prior year. 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 \$26,508, which consisted of a copier lease and miscellaneous accounts payable items. The liabilities reported at the end of fiscal year 2014 were \$5,993 more than those reported for the prior year due to the increase of payables reported for fiscal year 2014.

The \$167,076 decrease in unrestricted net position reported at June 30, 2014 compared to the prior year is mainly the result of the current year decrease in cash on hand at the end of the year.

Table 2 shows the changes in net position for the fiscal year 2014 compared with fiscal year 2013, as well as a listing of revenues and expenses.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

**Table 2
Change in Net Position, June 30,**

	2014	2013
Operating Revenues:		
Foundation Payments	\$1,539,906	\$1,564,290
Miscellaneous	11,177	4,086
Non-Operating Revenues:		
Grants	89,345	71,002
Interest	397	608
Total Revenues	<u>1,640,825</u>	<u>1,639,986</u>
Operating Expenses:		
Purchased Services	1,255,570	1,221,374
Computer Equipment and Maintenance	31,648	119,267
Materials and Supplies	482,398	36,695
Miscellaneous	10,660	11,597
Depreciation	6,498	6,498
Total Expenses	<u>1,786,774</u>	<u>1,395,431</u>
Change in Net Position	<u>(\$145,949)</u>	<u>\$244,555</u>

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 remained fairly consistent from \$1,564,290 in fiscal year 2013 to \$1,539,906 in fiscal year 2014. Revenue from the foundation program is 93.8% of total revenues received by the Academy. Intergovernmental revenue (foundation program plus federal and state educational specific grants) are 99.3% 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 increased from \$1,395,431 in fiscal year 2013 to \$1,786,774 in fiscal year 2014, a 28.0% increase. The \$34,196 increase in purchased services expenses relates to the increase in the payments 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 \$87,619 compared to the prior year. Materials and supplies increased \$445,703 from the prior year due mainly to purchases of electronic and instructional curriculum.

Capital Assets

At June 30, 2014, the capital assets of the Academy consisted of \$32,492 of computer equipment and a copier off-set by \$21,422 in accumulated depreciation resulted in net capital assets of \$11,070. There were no capital asset additions during the current fiscal year. During the fiscal year, the Academy recorded depreciation expense of \$6,498.

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

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

Economic Factors

The Academy ceased doing business at the conclusion of the 2013-2014 school year because it did not secure a new sponsor.

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 A.B. Graham Academy, 370 East Main Street, St. Paris, Ohio 43072 or email at ketcham@mccesc.k12.oh.us.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2014**

Assets:	
Cash	\$257,251
Intergovernmental Receivables	22,572
Capital Assets:	
Capital Assets, net of accumulated depreciation	11,070
Total Assets	<u>290,893</u>
Liabilities:	
Accounts Payable	14,259
Due To Students	1,300
Long-Term Obligations:	
Due Within One Year	5,053
Due In More Than One Year	5,896
Total Liabilities	<u>26,508</u>
Net Position:	
Net Investment in Capital Assets	121
Restricted for Specific Grant Programs	22,572
Unrestricted	241,692
Total Net Position	<u><u>\$264,385</u></u>

See accompanying notes to the basic financial statements.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Operating Revenues:	
Foundation Payments	\$1,539,906
Miscellaneous	<u>11,177</u>
Total Operating Revenues	<u>1,551,083</u>
Operating Expenses:	
Purchased Services	1,255,570
Computer Equipment and Maintenance	31,648
Materials and Supplies	482,398
Miscellaneous	10,660
Depreciation	<u>6,498</u>
Total Operating Expenses	<u>1,786,774</u>
Operating Loss	<u>(235,691)</u>
Non-Operating Revenues:	
Grants	89,345
Interest	<u>397</u>
Total Non-Operating Revenues	<u>89,742</u>
Change in Net Position	(145,949)
Net Position, Beginning of Year	<u>410,334</u>
Net Position, End of Year	<u><u>\$264,385</u></u>

See accompanying notes to the basic financial statements.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Cash Flows From Operating Activities:	
Cash Received from Foundation Payments	\$1,539,906
Cash Payments for Goods and Services	(1,758,478)
Other Revenues	11,304
Other Expenses	<u>(10,879)</u>
Net Cash Used in Operating Activities	<u>(218,147)</u>
Cash flows From Non-Capital Financing Activities:	
Grants Received	<u>81,811</u>
Cash Flows From Capital and Related Financing Activities:	
Principal Payments on Capital Lease Obligation	<u>(5,053)</u>
Cash Flows From Investing Activities:	
Interest	<u>397</u>
Net Decrease in Cash	(140,992)
Cash, Beginning of Year	<u>398,243</u>
Cash, End of Year	<u>257,251</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:	
Operating Loss	<u>(235,691)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation	6,498
Changes in Assets and Liabilities:	
Increase in Accounts Payable	11,138
Decrease in Due to Students	<u>(92)</u>
Total Adjustments	<u>17,544</u>
Net Cash Used in Operating Activities	<u><u>(\$218,147)</u></u>

See accompanying notes to the basic financial statements.

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**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

The A.B. Graham 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, as amended by GASB Statement No. 61.

The Academy is a newly formed charter conversion school that provides instruction through traditional approaches (classroom based instruction, tutoring, etc.), as well as innovative non-classroom based experiences (community service, travel, internships, internet-based coursework, etc.).

The Academy was approved for operation under contract with the Sponsor until superseded by a mutually agreed upon service agreement commencing October 26, 2009. The Sponsor reserves the right to terminate this agreement with a 90-day notice to the Academy. The Sponsor provided and maintained space at its Board of Education Office at no cost for the Academy during fiscal year 2014.

The Academy operates under the direction of a five-member Board of Directors appointed by the Sponsor. The Board consists of five voting members who are not employed by 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 2009, a service contract was approved between the Academy and the Sponsor for a five year period ending June 30, 2014. 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 \$518,558 during fiscal year 2014 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 2014.

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 more significant of the Academy's accounting policies are described below.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The Academy's basic financial statements consist of a statement of net position, a statement of revenues, expenses and change in net position and a statement of cash flows.

Enterprise reporting focuses on the determination of the change in net position, 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 position. The statement of revenues, expenses and change in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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.

D. Revenue – Exchange and Non-exchange Transaction

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.

E. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate category for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2014, the Academy reported no deferred outflows of resources.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until then. At June 30, 2014, the Academy had no items which were classified as deferred inflows of resources.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Expenses/Expenditures

Expenses are recognized at the time they are incurred.

G. 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.

H. 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.

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

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

J. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment 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.

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

K. 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.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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.

M. Grants

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

N. 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.

3. DEPOSITS AND INVESTMENTS

The Academy does not have a policy addressing custodial credit risk for its deposits. As of June 30, 2014, the carrying amount of the Academy's deposits was \$257,251 and the bank balance was \$271,509. \$250,000 of the bank balance was covered by federal depository insurance of the Federal Deposit Insurance Corporation (FDIC) and the remaining \$21,509 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Academy's name.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014
Capital Assets, being depreciated:				
Office Equipment and Computer	\$32,492			\$32,492
Less: Accumulated Depreciation	(14,924)	(\$6,498)		(21,422)
Capital Assets, Net	\$17,568	(\$6,498)	\$0	\$11,070

In fiscal year 2012, the Academy began making payments on a copier lease; see Notes 5 & 6 for further detail.

5. LONG-TERM OBLIGATIONS

Detail of the changes in the capital lease of the Academy for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Additions	Deductions	Balance June 30, 2014	Amount Due Within One Year
Long-Term Debt					
Capital Lease – Copier	\$16,002	\$0	\$5,053	\$10,949	\$5,053

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

6. CAPITAL LEASE – LESSEE DISCLOSURE

The Academy is obligated under a copier lease entered into during fiscal year 2012. 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 \$25,266. The agreement has zero percent interest.

The following is a schedule of future minimum lease payments under the capital lease:

<u>Year Ending June 30,</u>	
2015	\$5,053
2016	5,053
2017	843
Minimum Lease Payments	<u>\$10,949</u>

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 2014, the Academy contracted with the Argonaut Insurance Group for property and fleet insurance, liability insurance, crime, terrorism and automobile coverage. Coverage provided is as follows:

Argonaut Insurance Group

Liability:

General and employee benefits liability:

Per occurrence	\$1,000,000
Aggregate annual total	3,000,000

Educator's legal liability:

Per occurrence	1,000,000
Aggregate limit	3,000,000

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

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, 2014.

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. See Note 13 for further information.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

9. 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.

10. FISCAL AGENT AND ADMINISTRATIVE SERVICES

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

11. PURCHASED SERVICES

During the year ended June 30, 2014, purchased service expenses totaling \$1,255,570 were provided for services rendered by various vendors for fiscal services, data processing and professional and technical services in the amount of \$25,723, \$22,462 and \$1,207,385, respectively.

12. CHANGE IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2014, the Academy implemented GASB Statements No. 65 and No. 66 which are described below.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the Academy.

GASB Statement No. 66 *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62* (GASB 66) improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the Academy.

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

13. SUBSEQUENT EVENT / CEASE OPERATIONS

After the 2013-2014 school year, the Academy's sponsor did not renew its contract. The Academy was unable to procure another sponsor, and therefore closed effective June 30, 2014. The Academy is currently working through the appropriate closeout procedures as set forth by the State of Ohio. The Academy's assets were sold via auction by February 24, 2015. Subsequent to June 30, 2014, the Academy had cash receipts of \$49,396 and cash disbursements of \$146,760 resulting in a cash balance as of March 23, 2015, of \$159,887. Cash disbursements consisted of payments for purchased services for instructional personnel, support administrative services and other purchased services including the annual report compilation and audit fees. The Academy had outstanding audit fees in the amount of \$1,169. All remaining audit fees will be remitted to the Auditor of State and all remaining cash will be provided to the Ohio Department of Education.

A final closing full time equivalency (FTE) review was completed for A.B. Graham Academy by representatives of the Ohio Department of Education (ODE) on June 3, 2014 for the 2013-2014 school year. The results of the review questioned the validity of some of the students and resulted in the school being required to return foundation funds to ODE (\$686,005). While the Board and management of A.B. Graham did not agree with the finding, they did not appeal the decision due to the status of the schools' operations (A.B. Graham Academy discontinued day to day operations on June 30, 2014).

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

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the A.B. Graham Academy, Champaign County, (the Academy), a component unit of Graham Local School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated March 23, 2015. We have issued an adverse opinion due to the Academy not reporting a material liability at the end of fiscal year 2014. We also noted the Academy ceased operations June 30, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-001.

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Academy's Response to Finding

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 23, 2015

**A.B. GRAHAM ACADEMY
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2014**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2014-001

Noncompliance and Material Weakness – Financial Reporting

Ohio Rev. Code §117.38 states each public office, other than a state agency, shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Any public office, other than a state agency, that does not file its financial report at the time required by this section shall pay to the auditor of state twenty-five dollars for each day the report remains unfiled after the filing date; provided, that the penalty payments shall not exceed the sum of seven hundred fifty dollars. The auditor of state may waive all or any part of the penalty assessed under this section upon the filing of the past due financial report.

The Academy did not file its annual report with the Auditor of State for fiscal year ending June 30, 2014.

In addition, the financial statements provided by the Academy for audit included several errors and/or misstatements. The Ohio Department of Education (ODE) conducted a final review of the Academy's enrollment data and full-time equivalency (FTE) calculations. ODE determined the Academy should have received foundation revenues in the amount of \$857,886 rather than the \$1,543,891 actually received; therefore the Academy owes \$686,005 back to ODE. The Academy did not present the liability on its financial statements which resulted in understated liabilities and expenses and ultimately overstated revenues, assets, and net position.

Additionally, the Academy reported outstanding checks at June 30, 2014 as liabilities rather than the actual obligations the Academy still needed to pay which resulted in overstated accounts payable by \$14,084. The Academy also overstated intergovernmental receivable and the associated revenue by \$15,038 due to calculating the received amount incorrectly. The financial statements presented were materially misstated as a result of the above errors.

Officials' Response:

A final closing full time equivalency (FTE) review was completed for the A.B. Graham Academy by representatives of the Ohio Department of Education on June 3, 2014 for the 2013-2014 school year. The results of the review questioned the validity of some of the students and resulted in the school being required to return foundation funds to ODE. This FTE review has been conducted in accordance with ODE procedures every year since the school came into existence. The school has not changed its procedures on how these students are handled and their "validity" has never been questioned. Therefore, since the Board and management of the A.B. Graham Academy DID, in fact, consider those students to be valid, we chose not to report ODE's claim as a liability. The Board and management of A.B. Graham Academy were prepared to appeal ODE's decision; however, we did not appeal the decision due to the status of the schools' operations (A.B. Graham Community School discontinued day to day operations on June 30, 2014).

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AB GRAHAM 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 14, 2015**