



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

The Graham School
Franklin County
3950 Indianola Avenue
Columbus, Ohio 43214

We have audited the accompanying Balance Sheet of the Graham School, Franklin County, (the School) as of June 30, 2002, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Graham Community School, Franklin County as of June 30, 2002, and the results of its operations 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 November 14, 2002 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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JIM PETRO
Auditor of State

November 14, 2002

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THE GRAHAM SCHOOL
FRANKLIN COUNTY

BALANCE SHEET
AS OF JUNE 30, 2002

Assets

Current Assets

Cash with Fiscal Agent	\$ 148,643
Accounts Receivable	1,018
Intergovernmental Receivable	22,524
Prepaid Items	<u>5,365</u>
Total Current Assets	177,550

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>1,394,431</u>
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Total Assets	<u><u>\$ 1,571,981</u></u>
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Liabilities and Equity

Current Liabilities

Accounts Payable	\$ 22,029
Accrued Wages Payable	85,037
Intergovernmental Payable	12,113
State Pension Systems Payable	9,703
Accrued Interest Payable	6,254
Mortgage Notes Payable	<u>12,732</u>

Total Current Liabilities	147,868
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Long-Term Liabilities

Mortgage Notes Payable	<u>925,348</u>
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Total Liabilities	1,073,216
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Equity

Retained Earnings	<u>498,765</u>
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Total Equity	<u>498,765</u>
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Total Liabilities and Equity	<u><u>\$ 1,571,981</u></u>
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The accompanying notes are an integral part of the financial statements.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenues

Foundation Payments	\$ 830,154
Disadvantaged Public Impact Aid	51,911
Food Services	2,239
Miscellaneous	<u>87,164</u>

Total Operating Revenues 971,468

Operating Expenses

Salaries	675,038
Fringe Benefits	158,169
Purchased Services	205,646
Materials and Supplies	54,685
Depreciation	83,466
Other	<u>6,678</u>

Total Operating Expenses 1,183,682

Operating Loss (212,214)

Non-Operating Revenues and (Expenses)

Federal Grants	233,570
State Grants	106
Interest Income	2,078
Contributions and Donations	300
Proceeds from the Sale of Capital Assets	418,000
Interest and Fiscal Charges	<u>(75,475)</u>

Total Non-Operating Revenues (Expenses) 578,579

Net Income 366,365

Retained Earnings at Beginning of Year	<u>132,400</u>
Retained Earnings at End of Year	<u><u>\$498,765</u></u>

The accompanying notes are an integral part of the financial statements.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Cash Flows from Operating Activities

Cash received from Food Services	\$ 2,196
Cash received from State Foundation and Disadvantaged Public Impact Aid	1,032,150
Cash received from Other Sources	86,839
Cash Payments to Suppliers for Goods and Services	(364,163)
Cash Payments to Employees for Services	(594,278)
Cash Payments for Employee Benefits	<u>(158,237)</u>

Net Cash Provided by Operating Activities 4,507

Cash Flows from NonCapital Financing Activities

Operating Grants Received - Federal	<u>60,717</u>
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Net Cash Provided by Noncapital Financing Activities 60,717

Cash Flows from Capital and Related Financing Activities

Proceeds from the Sale of Capital Assets	418,000
Principal Payments	(11,819)
Interest Payments	(78,883)
Payments for Capital Acquisitions	<u>(258,435)</u>

Net Cash Provided by Capital and Related Financing Activities 68,863

Cash Flows from Investing Activities

Cash Received from Interest on Investments	<u>2,078</u>
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Net Cash Provided by Investing Activities 2,078

Net Increase in Cash and Cash Equivalents	136,165
Cash at the Beginning of the Year	<u>12,478</u>

Cash at the End of the Year \$ 148,643

Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities

Operating Loss \$ (212,214)

**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities**

Depreciation 83,466

Changes in Assets and Liabilities:

Increase in Accounts Receivable	(1,018)
Increase in Prepaid Items	(3,301)
Increase in Intergovernmental Receivable	(22,524)
Increase in Accounts Payable	6,503
Increase in Accrued Wages	151,937
Decrease in Accrued Interest Payable	(3,408)
Increase in Intergovernmental Payable	<u>5,066</u>

Total Adjustments 216,721

Net Cash Provided by Operating Activities \$ 4,507

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**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE ENTITY

The Graham School (Graham) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. Graham is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect Graham's tax-exempt status. Graham's objective is to use the Columbus community to form partnerships for student learning. Individualized programs are used to meet student's needs. Parents and students are included in all decision-making. Graham, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. Graham may acquire facilities as needed and contract for any services necessary for the operation of the school.

Graham was approved for operation under a contract with the Ohio Department of Education (the sponsor) for a period of five years commencing May 16, 2000. The Sponsor is responsible for evaluating the performance of Graham and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

Graham operates under the direction of a ten-member Governing Board. The Governing Board is responsible for carrying out the 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. The Governing Board controls Graham's one instructional/support facility staffed by 2 noncertified and 12 certificated full time teaching personnel who provide services to 130 students.

Graham has entered into a service agreement with the Lucas County Educational Service Center, Lucas County, Ohio to provide certain financial and accounting services and the Treasurer of Lucas County ESC serves as the Chief Fiscal Officer of Graham (See Note 13).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Graham have been prepared in conformity with generally accepted accounting principles as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Graham also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of Graham's accounting policies are described below:

A. Basis of Presentation

Enterprise Accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus/Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases and decreases in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in Graham's contract with its Sponsor. The contract between Graham and its Sponsor does prescribe an annual budget requirement in addition to preparing a five year forecast which is to be updated on an annual basis.

D. Equity in Pooled Cash and Cash Equivalents

All monies received by Graham are accounted for by Graham's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in Graham's name. Monies for all funds of Graham are maintained in these accounts or temporarily used to purchase short-term investments. For purposes of the Statement of Cash Flows and for presentation on the balance sheet, investments with a maturity of three months or less at the time they are purchased by Graham are considered to be cash equivalents.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value on the date received. Graham does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. Buildings are depreciated over forty years.

F. Intergovernmental Revenues (Nonexchange Transactions)

Graham currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements are met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues (Nonexchange Transactions) (Continued)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year use is first permitted, matching requirements, in which Graham must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to Graham on a reimbursement basis.

Graham also participated in the Federal Charter School Grant Program Phase III through the Ohio Department of Education. Under this program, Graham was awarded \$150,000 to offset start-up costs of the school. During fiscal year 2002, Graham received \$150,000 in award monies. Revenues received from this program are recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under federal grants and entitlements for the 2002 school year totaled \$233,570.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Other Contributions/Donations

The school receives various contributions and donations which are primary for the general operations of the school. These other contributions and donations are shown as non-operating revenue on the income statement.

3. CASH AND CASH EQUIVALENTS

Graham's cash is maintained in a separate account with their fiscal agent. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at June 30, 2002 was as follows:

Demand Deposits	\$146,899
Petty Cash	<u>1,744</u>
Total Deposits	<u>\$148,643</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation and collateralized by the financial institution's public entity deposit pool. While Graham's carrying amount for deposits was \$148,643, the bank balance was \$172,131.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2002, consisted of a \$1,018 accounts receivable and \$22,524 of intergovernmental receivable for grants. Accounts receivables are considered collectible in full. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. FIXED ASSETS

The following is a summary of changes in the fixed assets during the fiscal year:

<u>Classification</u>	<u>Ending Balance</u>
Buildings	\$1,108,200
Furniture and Equipment	82,931
Leasehold Improvements	<u>195,876</u>
Total	1,387,007
Accumulated Depreciation	<u>(134,376)</u>
Net Fixed Assets	1,252,631
Land	<u>141,800</u>
Total Net Fixed Assets	<u>\$1,394,431</u>

6. RISK MANAGEMENT

A. Property and Liability:

Graham 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. For fiscal year 2002, Graham contracted with Westfield Insurance Company for property and general liability insurance.

The Education Liability policy covers errors and omissions, directors and officers, professional, products completed operations and premises operations subject to the general aggregate. This policy is protected by Nationwide Agribusiness Insurance Company with a \$2,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible.

The Commercial Property policy covers the building and its contents for \$450,000 and \$15,000, respectively. This policy is protected by Westfield Insurance Company with a \$250 deductible.

B. Worker's Compensation:

Graham pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employees Medical, Dental and Vision Benefits:

Graham has contracted through an independent agent to provide employee medical, dental, and vision insurance to its full-time employees who work 40 or more hours per week.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement Systems

Graham contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, standalone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 100 East Broad Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and Graham is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. Graham's required contribution for pension obligations to SERS for the years ending June 30, 2002 and 2001 were \$4,273 and \$2,490, respectively, Graham has contributed \$3,815 for fiscal year 2002. The unpaid contribution for fiscal year 2002, in the amount of \$458 is recorded as a payable to State Pension Systems.

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for certified teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency wholly controlled, managed and supported in whole, or in part, by the state or any political subdivision thereof. Any member who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age may retire. The maximum annual retirement allowance, payable for life, is the greater of the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest years' salaries. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total numbers of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

A retiree of STRS Ohio or other Ohio public retirement system is eligible for reemployment following the elapse of two months from the date of retirement.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

A. State Teachers Retirement System (Continued)

Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Retirement benefits are annually increased by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increases since retirement, less previous cost of living increases, up to a maximum of 3% of the original base benefit. The plan offers access to health care benefits, for retirees and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial retirement of monthly Medicare Part B premiums.

A member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member. Additional death benefit coverage of \$1,000 or \$2,000 can be purchased. Various other benefits are available to members' beneficiaries.

Benefits are established by Chapter 3307 of the Ohio Revised Code. Plan members and the School are required to contribute 9.3 percent and 14 percent respectively, of their annual covered salary, 9.5 percent of the School contribution is used to fund pension costs. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the years ending June 30, 2002 and 2001 was \$46,285 and \$34,032; Graham has contributed \$37,040 for fiscal year 2002. The remainder of \$9,245 has been recorded as a payable to State Pension Systems.

9. POST EMPLOYMENT BENEFITS

Graham provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired noncertificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For Graham, this amount equaled \$22,051 for the fiscal year ended June 30, 2002.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. POST EMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 million at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal period, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay had been established at \$12,400. For Graham, the amount to fund health care benefits, including surcharge, was \$10,558 for the fiscal year ended June 30, 2002.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits as \$315.7 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000 (the latest information available).

10. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001 the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

Graham is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

11. CONTINGENCIES

A. Grants

Graham received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the school. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Graham at June 30, 2002.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State Law. The effect of this suit, if any, on the school is not presently determinable.

12. FULL-TIME EQUIVALENCY REVIEWS

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 results of the review some times results in state funding being adjusted. This information was not available as of the date of this report. Graham does not anticipate any material adjustments to state funding for fiscal year 2002, as a result of such review.

13. FISCAL AGENT

The service agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of The Graham School. As part of this agreement, Graham shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to Graham from the State of Ohio. The total contract payment of \$15,024 was paid during the year in full.

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- A. Maintain custody of all funds received by Graham in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- B. Maintain all books and accounts of Graham;
- C. Maintain all financial records of all state funds of Graham and follow State Auditor procedures for receiving and expending state funds;
- D. Assist Graham in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. Invest funds of Graham in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

13. FISCAL AGENT (Continued)

F. Pay obligations incurred by Graham within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of Graham so long as the proposed expenditure is within the approved budget and funds are available.

14. PURCHASED SERVICES

For the period July 1, 2001 through June 30, 2002, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 88,307
Property Services	32,288
Travel Mileage/Meeting Expense	25,922
Communications	17,157
Utilities	36,196
Contracted Craft or Trade Services	5,416
Tuition	<u>360</u>
Total Purchased Services	<u>\$205,646</u>

15. OPERATING LEASES

Graham entered into an operating lease commencing September 27, 2000 for a term of 36 months for a copier. The copier is owned by Modern Leasing. The lease may be renewed continuously for consecutive months after the end of the term.

Graham also entered into an operating lease commencing December 21, 2000 for a term of 36 months for a computer system. The computer is owned by Dell Financial Services. The lease may be renewed continuously for consecutive months after the end of the term.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2002.

<u>Fiscal Year Ending</u>	Copier	Computer
2003	\$ 4,041	\$ 2,899
2004	<u>1,012</u>	<u>1,209</u>
Total Minimum Payments	<u>\$ 5,053</u>	<u>\$ 4,108</u>

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

16. LONG-TERM OBLIGATIONS

Long-term obligations of Graham as of June 30, 2002 were as follows:

R. Born/N. Edwards Mortgage 8.00%; Matures 6/1/2005	\$148,637
K. Born Mortgage 8.00%; Matures 6/1/2005	642,340
Dantomka, Ltd. Note 8.00%; Matures 7/01/2021	<u>147,103</u>
Totals	<u>\$ 938,080</u>

During Fiscal Year 2001 two mortgages were issued through Richard W. Born, Nancy B. Edwards, and Kathryn W. Born. The monthly payments of \$1,101 and \$4,899, commenced in June 2001 will conclude no later than June 2005. The proceeds from the mortgage notes were used to purchase Graham's new facility.

A promissory note was issued in Fiscal Year 2001 through Dantomka, Ltd. The monthly payments are \$1,254 and will conclude in July 2021. The proceeds from the note were used to purchase Graham's new facility.

The annual requirements to amortize all outstanding note debt as of June 30, 2002, including interest is as follows:

Fiscal Year Ending <u>June 30</u>	R. Born/ N. Edwards <u>Mortgage</u>	K. Born <u>Mortgage</u>	Dantomka, Lt. <u>Promissory Note</u>
2003	\$ 13,208	\$ 58,793	\$15,056
2004	13,208	58,792	15,056
2005	156,435	671,998	15,056
2006	-	-	15,056
2007	-	-	15,056
2008-12	-	-	75,280
2013-17	-	-	75,280
2018-22	<u>-</u>	<u>-</u>	<u>61,477</u>
 Total	 182,851	 789,583	 287,317
Less: Amount representing Interest	<u>(34,214)</u>	<u>(147,243)</u>	<u>(140,214)</u>
 TOTALS	 <u>\$ 148,637</u>	 <u>\$ 642,340</u>	 <u>\$ 147,103</u>

Graham entered into debt agreements with maturities extending beyond the end of the fiscal year which is not in compliance with Ohio Revised Code Section 3314.08 (J).

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

17. RELATED PARTY TRANSACTION

Dantomka, Ltd. is a limited liability corporation, which is a general partner of DK Services. The individual who serves as Dean of Academics, Board member and Developer of Graham, also serves as the president of DK Services and general partner of Dantomka, Ltd. During fiscal year 2001, Dantomka, Ltd. issued a \$150,000 promissory note at 8% to Graham for the purchase of a new facility. During fiscal year 2002, Graham paid \$13,801, principal and interest, to Dantomka Ltd. towards redemption of this debt issued.

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The Graham School
Franklin County
3950 Indianola Avenue
Columbus, Ohio 43214

We have audited the financial statements of the Graham School, Franklin County (the School) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 14, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the schedule of findings as item 2002-10625-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2002-10625-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated November 14, 2002.

The Graham School
Franklin County
Report On Compliance And On Internal Control Required By
Government Auditing Standards
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

JIM PETRO
Auditor of State

November 14, 2002

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2002

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

Finding Number	2002-10625-001
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DEBT

Ohio Rev. Code Section 3314.08 (J) allows community schools to borrow money to pay any necessary and actual expenses in anticipation of receiving state funding, however, such debt must mature no later than the end of the fiscal year. The School entered into debt agreements with maturities beyond the fiscal year end, which is not compliance with the aforementioned code section.

We recommend that if the School intends to issue debt that matures beyond the fiscal year, the School should clearly establish the debt is secured with funds other than state funding and the School should set forth how payments will be funded in the future.

Finding Number	2002-10625-002
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The School has not implemented an inventory tracking system to assist in the recording of their assets. Nor has the School developed a written fixed asset policy. The current accounting system does not identify fixed assets by location or by tag identification number. Failure to develop a fixed asset policy and controls over the School's fixed assets allows for errors and irregularities to occur without timely detection of management. Lack of an accounting system that records fixed assets allows for financial statement misstatement to occur.

To help in maintaining adequate safeguards and accountability over fixed assets, and to reduce the risk that the School's fixed assets could be misstated, the School should develop a written fixed asset policy. The School should also utilize an accounting system that records fixed asset activity accurately so that it can be reported properly on the financial statements. A periodic physical observation of fixed assets and comparison to accounting records should take place. Fixed asset additions and deletions throughout the year should be recorded at the time the activity occurs.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10625-001	Ohio Rev. Code Section 3314.08(J) – debt maturities exceeded on fiscal year	No	Not Corrected, repeat finding in the audit report as item 2002-10625-001.



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THE GRAHAM SCHOOL

FRANKLIN 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
JANUARY 28, 2003**