



**Auditor of State
Betty Montgomery**

THE GRAHAM SCHOOL
FRANKLIN COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying basic financial statements of Graham School, Franklin County, Ohio, (the Graham), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Graham's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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 School, Franklin County, Ohio, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2005, on our consideration of the Graham's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 21, 2005

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

Our discussion and analysis of The Graham School (Graham) financial performance provides an overall review of Graham's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at Graham's financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Graham's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new 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 Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key Financial Highlights for Graham for the 2003-2004 school year are as follows:

Total assets decreased by \$233,556, while cash and cash equivalents decreased by \$12,120 and capital assets, net, decreased due to depreciation exceeding capital assets additions.

Total net assets decreased by \$271,097.

Total revenues were \$1,353,653. Total expenses were \$1,624,750.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. These statements are organized so the reader can understand the financial position of Graham. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for Graham. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how Graham finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

REPORTING GRAHAM AS A WHOLE

The view of Graham as a whole looks at all financial transactions and asks, "How did we do financially during 2004?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report Graham's net assets and change in those assets. This change in net assets is important because it tells the reader that, for Graham as a whole, the financial position of Graham has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

FINANCIAL ANALYSIS

Graham is not required to present government-wide financial statements as Graham is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

Table 1 provides a summary of Graham's net assets for 2004 compared to 2003:

Table 1
Statement of Net Assets

	<u>2004</u>	<u>2003</u>
Assets		
Current Assets	\$ 25,926	87,211
Capital Assets, Net of Accumulated Depreciation	1,539,750	1,702,021
Total Assets	<u>\$1,565,676</u>	<u>1,789,232</u>
Liabilities		
Current Liabilities	\$ 1,390,760	172,746
Due More than One Year	139,691	1,310,164
Total Liabilities	<u>1,530,451</u>	<u>1,482,910</u>
Net Assets		
Investment in Capital Assets, Net of Related Debt	226,518	378,510
Unrestricted	<u>(191,293)</u>	<u>(72,188)</u>
Total Net Assets	<u>\$ 35,225</u>	<u>306,322</u>

Total assets decreased by \$223,556, while total liabilities decreased by \$47,541. Cash and cash equivalents decreased by \$12,120. The decrease of \$271,097 in net in assets from the prior fiscal year was primarily due to reductions of Capital Assets, Net of accumulated Depreciation, and the reduction of Current Assets.

**THE GRAHAM SCHOOL
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Table 2 shows the changes in net assets for fiscal year 2004:

**Table 2
Change in Net Assets**

	<u>2004</u>	<u>2003</u>
Operating Revenue :		
Foundation Payments	1,038,150	919,504
Disadvantaged Pupil Impact Aid	-	47,545
Special Education	70,290	-
Classroom Materials & Fees	3,959	3,795
Other Operating Revenues	15,172	11,200
Total Operating Revenues	<u>1,127,571</u>	<u>982,044</u>
Operating Expenses :		
Salaries	861,258	718,725
Fringe Benefits	235,182	213,012
Purchased Services	178,125	142,841
Materials and Supplies	48,333	39,229
Depreciation Expense	167,299	106,545
Other Operating Expense	32,850	9,806
Total Operating Expenses	<u>1,523,047</u>	<u>1,230,158</u>
Operating Loss	(395,476)	(248,114)
Non-Operating Revenues and(Expenses)		
Operating Grants – State	8,174	6,383
Operating Grants – Federal	58,340	57,540
Interest Income	189	1,185
Contributions and Donations	159,379	106,548
Interest and Fiscal Charges	(101,703)	(115,985)
Total Non-Operating Revenues and (Expenses)	<u>124,379</u>	<u>95,671</u>
Decrease in Net Assets	<u>\$(271,097)</u>	<u>\$(192,443)</u>

Operating revenues increased \$145,527, which represents a 15% increase from 2003. While Operating expenses increased by \$292,889, which represents a 24% increase from 2003. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.

Capital Assets

Graham has \$1,539,750 invested in capital assets net of depreciation. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Debt

At June 30, 2004 Graham had \$1,313,232 in mortgage notes payable, of which \$1,173,541 is due within one year. Note 14 summarizes mortgage notes outstanding.

BUDGET

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Community School's contract with its Sponsor. The contract between Graham and its Sponsor does not prescribe a budgetary process for Graham. Graham has developed a five-year projection that is reviewed periodically by the Board of Trustees.

OTHER INFORMATION

Graham's management is aware of their current financial condition and are reviewing options to reduce expenses and as well as increasing overall revenues. (See Note 17).

For the Future

In conclusion, Graham has committed itself to financial excellence. In addition, Graham's financial relationship with the Lucas County Educational Service Center aids in the raising of the quality of financial records and strengthens internal controls. All of Graham's financial abilities will be needed to meet the challenges of the future.

Contacting Graham's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of Graham's finances and to show Graham's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Cheryl Long of The Graham School, 3950 Indianola Avenue, Columbus, Ohio 43214 or e-mail at cheryl@thegrahamschool.org.

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

Assets:

Current Assets:

Cash and Cash Equivalents with Fiscal Agent	\$	20,744
Receivables:		
Accounts		3,157
Intergovernmental		95
Prepaid Items		1,930
Total Current Assets		<u>25,926</u>

Non-Current Assets:

Capital Assets, Net		<u>1,539,750</u>
Total Non-Current Assets		<u>1,539,750</u>
Total Assets	\$	<u><u>1,565,676</u></u>

Liabilities:

Current Liabilities:

Accounts Payable	\$	15,647
Accrued Wages		100,888
Intergovernmental Payable		2,062
State Pension Payable		22,638
Accrued Interest Payable		75,984
Mortgage Notes Payable		1,173,541
Total Current Liabilities		<u>1,390,760</u>

Long-Term Liabilities:

Mortgage Notes Payable		<u>139,691</u>
Total Liabilities		<u><u>1,530,451</u></u>

Net Assets:

Investment in Capital Assets, Net of Related Debt		226,518
Unrestricted		<u>(191,293)</u>
Total Net Assets	\$	<u><u>35,225</u></u>

See Accompanying Notes to the Basic Financial Statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

Operating Revenues:

Foundation Payments	\$ 1,038,150
Special Education	70,290
Classroom Fees	3,959
Other Operating Revenues	<u>15,172</u>
 Total Operating Revenues	 <u>1,127,571</u>

Operating Expenses:

Salaries	861,258
Fringe Benefits	235,182
Purchased Services	178,125
Materials and Supplies	48,333
Depreciation	167,299
Other Operating Expenses	<u>32,850</u>
 Total Operating Expenses	 <u>1,523,047</u>
 Operating Loss	 <u>(395,476)</u>

Non-Operating Revenues and Expenses:

Operating Grants - State	8,174
Operating Grants - Federal	58,340
Interest	189
Contributions and Donations	159,379
Interest and Fiscal Charges	<u>(101,703)</u>
 Total Non-Operating Revenues and (Expenses)	 <u>124,379</u>
 Change in Net Assets	 <u>(271,097)</u>
 Net Assets at Beginning of Year (restated) See Note 16	 <u>306,322</u>
Net Assets at End of Year	<u><u>\$ 35,225</u></u>

See Accompanying Notes to the Basic Financial Statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$ 1,108,631
Cash Received from Classroom Materials and Fees	3,959
Cash Received from Other Operating Sources	11,420
Cash Payments to Suppliers for Goods and Services	(233,732)
Cash Payments to Employees for Services	(849,679)
Cash Payments for Employee Benefits	(218,359)
Net Cash Used for Operating Activities	<u>(177,760)</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received - State	8,174
Operating Grants Received - Federal	86,421
Contributions and Donations	159,379
Net Cash Provided by Noncapital Financing Activities	<u>253,974</u>

Cash Flows from Capital and Related Financing Activities:

Cash Payments for Capital Acquisitions	(5,028)
Cash Payments for Principal Payments	(10,299)
Cash Payments for Interest Payments	(73,196)
Net Cash Used for Capital and Related Financing Activities	<u>(88,523)</u>

Cash Flows from Investing Activities:

Cash Received from Interest on Investments	<u>189</u>
Net Cash Provided by Investing Activities	189

Net Decrease in Cash and Cash Equivalents	(12,120)
Cash and Cash Equivalents at Beginning of Year	<u>32,864</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 20,744</u></u>

(Continued)

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)

**Reconciliation of Operating Loss
to Net Cash Used for Operating Activities:**

Operating Loss \$ (395,476)

**Adjustments to Reconcile Operating Loss
to Net Cash Used for Operating Activities:**

Depreciation	167,299
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	7,211
Decrease in Intergovernmental Receivable	7,511
Decrease in Prepaid Items	6,362
Increase in Accounts Payable	13,365
Increase in Accrued Wages Payable	10,221
Decrease in Intergovernmental Payable	(5,692)
Increase in State Pensions Payable	11,439
Total Adjustments	<u>217,716</u>
Net Cash Used for Operating Activities	<u>\$ (177,760)</u>

See Accompanying Notes to the Basic Financial Statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

1. DESCRIPTION OF THE REPORTING 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 is in the process of changing its sponsor to Delaware Educational Service Center, effective fiscal 2005.

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 non-certified and 11 certificated full time teaching personnel who provide services to 198 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 11).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Graham have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. 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 (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of Graham's accounting policies.

A. Basis of Presentation

Graham uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and 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 Statement of Net Assets. 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 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 annually.

D. 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 Graham are maintained in these accounts or are temporarily used to purchase short-term investments. Investments of the cash management pool and with original maturities of three months or less at the time they are purchased by Graham are considered to be cash equivalents.

During 2004, investments were limited to STAR Ohio. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

E. Capital Assets and Depreciation

All 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 values as of the date received. Graham maintains a capitalization threshold of five hundred dollars. 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. Interest incurred during the construction of capital assets is also capitalized.

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

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

Graham currently participates in the State Foundation Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues (foundation payments and special education) in the accounting period in which they are earned and become measurable.

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

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and the expense is reported in the year in which the services are consumed.

H. 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Graham or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Graham presently has no restricted net assets.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of Graham. Operating expenses are necessary costs incurred to provide the service that is the primary activity of Graham. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS

Deposits: The carrying value of the School's deposits totaled \$15,517, and the bank balance totaled \$16,686, all of which was covered by federal depository insurance.

Investments of Graham as of June 30, 2004 were as follows:

Weighted Average <u>Investments</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>
STAR Ohio	5,227	0.003
Total Investments	\$5,227	

Interest Rate Risk – The School has no policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The investments in STAR Ohio are rated AAAM by Standard & Poor's.

4. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

<u>Receivables</u>	<u>Amount</u>
Accounts	\$3,157
<u>Intergovernmental</u>	
Title IID '03 - Technology	95
Total Intergovernmental Receivables	95
Total Receivables	<u>\$ 3,252</u>

5. CAPITAL ASSETS (Restated)

A summary of Graham's changes in capital assets at June, 2004, was as follows:

	<u>Balance 06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>
Land	\$ 141,800	\$ -	\$ -	\$ 141,800
Buildings	1,108,200	-	-	1,108,200
Improvements	596,150	1,164	-	597,314
Furniture and Equipment	96,792	3,864	-	100,656
Totals at Historical Cost	1,942,942	5,028	-	1,947,970
Less Accumulated Depreciation	(240,921)	(167,299)	(-)	(408,220)
Net Capital Assets	<u>\$ 1,702,021</u>	<u>(\$ 162,271)</u>	<u>(\$ -)</u>	<u>\$1,539,750</u>

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

6. RISK MANAGEMENT

A. Insurance Coverage

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 the year ended 2004, Graham contracted with the Hartford Casualty Insurance Company and Employers Insurance of Wausau to have the following insurance coverage:

Commercial General Liability per occurrence	\$1,000,000
Commercial General Liability aggregate	2,000,000
Umbrella Liability per occurrence	5,000,000
Umbrella Liability aggregate	5,000,000
Automobile Liability combined single limit	1,000,000
Commercial Property Liability – Personal Property (\$1,000 Deductible)	22,100
Excess Volunteer Liability per occurrence	1,000,000
Excess Volunteer Liability aggregate	3,000,000

Graham owns real property located at 3950 Indianola Avenue, Columbus, Ohio. For the year ended 2004, Graham contracted with the Westfield Group and had the following insurance coverage:

Blank Limit Liability – Buildings/Contents (\$500 Deductible)	\$1,664,000
Data Processing (\$500 Deductible/\$1,000 Breakdown Deductible)	25,000

B. Workers' 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. Employee 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.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Graham contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer defined benefit pension administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to 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 financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and Graham was required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of Graham's contribution is used to fund pension obligations with the remainder being used to fund health care benefits: for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2003, 8.17 percent of annual covered salary 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 obligation to SERS for fiscal years June 30, 2004, 2003, 2002 were \$14,179, \$15,900 and \$4,273, respectively. For 2004, Graham contributed \$14,108 and the remainder has been recorded as a payable to State Pension Systems.

B. State Teachers Retirement Systems (STRS)

Graham participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members, and death and survivor benefits to beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio, 43215-3371 or by calling (614) 227-4090, or by visiting the STRS of Ohio web site at www.strsohio.org.

New members have a choice of three retirement plan options, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by members. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (STRS) (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, members were required to contribute 9.3 percent of their annual covered salary and Graham is required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Graham's required contributions for pension obligations to STRS for the years ended June 30, 2004, 2003, and 2002 were \$96,714, \$70,064, and \$46,285, respectively. For 2004, Graham contributed \$82,853 and the remainder has been recorded as a payable to State Pension Systems.

8. POSTEMPLOYMENT BENEFITS

Graham provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and 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 STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For Graham, this amount equaled to \$6,442 during fiscal year 2004.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was 3.1 billion. For the fiscal year ended June 30, net health care costs paid by STRS were \$ 268,739,000 and STRS had 111, 853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to 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. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400.

For Graham, the amount to fund health care benefits, including surcharges, during 2004 was \$14,179.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

9. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." Graham is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

10. CONTINGENCIES

A. Grants

Graham receives 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 operating fund. 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, 2004.

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard on November 18th, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public educational system and this matter was sent to the Ohio Supreme Court. The effect of this suit, if any, on the Graham School is not presently determinable.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

10. CONTINGENCIES (Continued)

C. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by Graham. These reviews are conducted to ensure Graham is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. According to the review of fiscal year 2004, Graham was underpaid \$1,787, which will be included with foundation funding in fiscal year 2005. This amount is deemed immaterial and is not reflected as an Intergovernmental Receivable on the Statement of Net Assets

11. FISCAL AGENT

Graham entered into the service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the School. As part of this agreement, Graham shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to Graham from the State of Ohio. A total contract payment of \$22,354 was paid during the year, and a liability in the amount of \$1,466 was recorded as accounts payable on the Statement of Net Asset as of June 30, 2004.

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

- Maintain custody of all funds received by Graham in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- Maintain all books and accounts of Graham;
- Maintain all financial records of all state funds of Graham and follow State Auditor procedures for receiving and expending state funds;
- Assist Graham in meeting all financial reporting requirements established by the Auditor of Ohio;
- 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
- 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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

12. PURCHASED SERVICES

For the period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 74,263
Property Services	31,421
Travel Mileage/Meeting Expense	26,305
Communications	20,018
Utilities	23,237
Tuition	2,881
Total Purchased Services	<u>\$ 178,125</u>

13. OPERATING LEASES – LESSEE DISCLOSURE

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.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2004.

<u>Year Ending June 30.</u>	<u>Copier</u>
2005	\$ 11,112
2006	11,112
2007	11,112
2008	<u>10,186</u>
Total	<u>\$ 43,522</u>

14. LONG-TERM LIABILITIES

The changes in Graham's long-term obligations during the year consist of the following:

	Principal Outstanding 06/30/03	Additions	Reductions	Principal Outstanding 06/30/04	Amounts Due Within One Year
R. Born/N. Edwards Mortgage	\$ 146,872	\$ -	\$ 1,979	\$ 144,893	\$144,893
K. Born Mortgage	634,657	-	8,320	626,337	626,337
Dantomka, Lt. Note-a	398,310	-	-	398,310	398,310
Dantomka, Lt. Note-b	<u>143,692</u>	-	-	<u>143,692</u>	<u>4,001</u>
Total Long-Term Liabilities	<u>\$1,323,511</u>	<u>\$ -</u>	<u>\$ 10,299</u>	<u>\$1,313,232</u>	<u>\$1,173,541</u>

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

14. LONG-TERM LIABILITIES (Continued)

During the year ended 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 and 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 the year ended 2001 through Dantomka, Ltd. In 2004, Graham renegotiated their payments with Dantomka, Ltd. to only pay the interest on the Note. The principal payments have been suspended indefinitely. Currently, the monthly payments are \$958 and the proceeds from the note were used to purchase Graham's new facility. (Note-b)

In April 2003, Graham executed a promissory note in the amount of \$398,310 to Dantomka, Ltd for leasehold improvements that it completed on behalf of Graham during fiscal year 2002. The note has accrued interest of \$41,301 and has an interest rate of prime plus 2.5% indexed each year on April 7. The note also is callable within thirty days by Dantomka, Ltd. Both the leasehold improvement, net of depreciation and accompanying liabilities have been adjusted as of 6/30/03.

The annual requirements to amortize all outstanding note debt as of June 30, 2004, including interest are 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 b</u>	Dantomka, Lt. <u>Promissory Note a</u>
2005	\$ 155,537	\$ 671,998	15,056	468,183
2006	-	-	15,056	-
2007	-	-	15,056	-
2008	-	-	15,056	-
2009	-	-	15,056	-
20010-14	-	-	75,280	-
2015-19	-	-	75,280	-
2020-22	-	-	<u>46,421</u>	-
Total	155,537	671,998	272,261	468,183
Less: Amount Representing Interest	<u>(10,644)</u>	<u>(45,661)</u>	<u>(128,569)</u>	<u>(69,873)</u>
TOTALS	<u>\$ 144,893</u>	<u>\$ 626,337</u>	<u>\$ 143,692</u>	<u>\$ 398,310</u>

Graham entered into debt agreements with maturities extending beyond the end of the year, which is not in compliance with Ohio Revised Code Section 3314.08 (J). Effective April 8, 2003, this section was amended, in part, to permit facilities acquisition debt with a maturity not exceeding fifteen years. The Dantomka, Ltd. Promissory Note-b does not comply with the fifteen year maturity requirement.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2004
(Continued)**

15. 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, member of the Governing Board and developer of Graham, also serves as the president of DK Services and a general partner of Dantomka, Ltd. During 2001, Dantomka, Ltd. issued a \$150,000 promissory note at 8% to Graham for the purchase of a new facility. During 2004, Graham paid \$11,495 in interest to Dantomka, Ltd. towards the service of this note. In addition, in April 2003, Graham executed a promissory note in the amount of \$398,310 to Dantomka, Ltd for leasehold improvements that was completed on behalf of Graham during fiscal year 2002.

16. RESTATEMENT

The beginning net asset amount reflects the change at June 30, 2003 because Graham did not record a note liability and the related asset for the Mortgage Payable promissory note in the amount of \$398,310 to Dantomka, Ltd for leasehold improvements executed April of 2003. The change had the following effect on Graham's net assets as previously reported at June 30, 2003:

Net Assets, June 30, 2003	\$367,537
Adjustments:	
Accrued Interest Payable expense	(41,301)
Accumulated Depreciation Expense	<u>(19,914)</u>
Capital Assets	398,310
Note Payable	<u>(398,310)</u>
<u>Total Net Adjustment</u>	<u>(61,215)</u>
 Restated Net Assets, June 30, 2003	 <u>\$306,332</u>

17. MATTERS FOR CONCERN

Graham had an operating loss (\$395,476) and a change in net assets of (\$271,097) at the end of fiscal year 2004. Graham has established a formal plan to address these issues. In July, August, and September of 2004, Graham received proceeds from a line of credit with an individual creditor totaling \$85,000. In December 2004, Graham received donated stock of \$100,000. Also Graham has received a \$500,000 pledge from Charles Graham (Board Member) to be secured by the sale of real estate currently being sold. Graham is also negotiating its short term mortgages and notes due within in one year in the amount of \$1,169,540 to establish a longer repayment plan.

18. TAX EXEMPT STATUS

Graham was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.



Auditor of State Betty Montgomery

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

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

To the Board of Directors:

We have audited the basic financial statements of Graham School, Franklin County, Ohio, (the Graham) as of and for the year ended June 30, 2004, and have issued our report thereon dated April 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graham's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Graham's management dated April 21, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Graham's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of finding as item 2004-001. In a separate letter to the Graham's management dated April 21, 2005, we reported an other matter related to noncompliance we deemed immaterial.

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The Graham School
Franklin County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page -2-

We intend this report solely for the information and use of the audit committee, management and the Board of Directors. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 21, 2005

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2004

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

Finding Number	2004-001
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DEBT

Ohio Rev. Code Section 3314.08(J) (1) (b) allows community school to borrow money for a term not to exceed fifteen years for the purpose of acquiring facilities.

In order to acquire facilities, Graham entered into a debt agreement in fiscal year 2001 with a maturity extending to fiscal year 2021, This is not in compliance with the aforementioned section. The facilities acquisition promissory note maturing on July 1, 2021, has an outstanding principal balance of \$143,692 at June 30, 2004.

We recommend Graham review this section and consider how it might achieve compliance. We also recommend that Graham only issue debt that is in compliance with State laws and the terms of any applicable contract or grant agreements.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004**

<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>
2003-001	Ohio Rev. Code Section 3314.08(J) – debt maturities exceeded fifteen years	No	Not Corrected. Repeated finding in the audit report as item 2004-001.



**Auditor of State
Betty Montgomery**

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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
JUNE 23, 2005**