

The Graham School

Franklin County, Ohio

Basic Financial Statements
and Independent Auditor's Reports

June 30, 2008





Mary Taylor, CPA

Auditor of State

Board of Directors
The Graham School
3950 Indianola Avenue
Columbus, Ohio 43214

We have reviewed the *Independent Auditor's Report* of The Graham School, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 1, 2009

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**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Graham School
3950 Indianola Avenue
Columbus, Ohio 43214

We have audited the accompanying basic financial statements of the enterprise fund of The Graham School, Franklin County, Ohio (Graham), as of and for the year ended June 30, 2008, which collectively comprise Graham's basic financial statements as listed in the Table of Contents. We also have audited the accompanying supplemental schedule of management company expenses presented as supplementary information for the year ended June 30, 2008. These financial statements are the responsibility of 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 *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the enterprise fund of The Graham School, Franklin County, Ohio as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the supplemental schedule referred to above presents fairly, in all material respects, the management expenses incurred by Graham on behalf of another school for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2009, on our consideration of Graham's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

KENNEDY COTTRELL RICHARDS LLC



March 6, 2009

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
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, 2008. 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 2007-2008 school year are as follows:

- Total assets decreased by \$76,964 (or 6%). Cash and cash equivalents decreased by \$34,985 and capital assets, net of accumulated depreciation, decreased by \$77,106 due to regular depreciation .
- Total liabilities increased by \$476,035 (or 24%) primarily due to draws on the line of credit to cover operations.
- Total net assets decreased by \$552,999 (or 79%).
- Total revenues were \$2,742,339. Total expenses were \$3,288,597.

USING THIS ANNUAL REPORT

This report consists of three parts, the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the School did financially during fiscal year 2008. 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 includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2008. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal years 2008 and 2007.

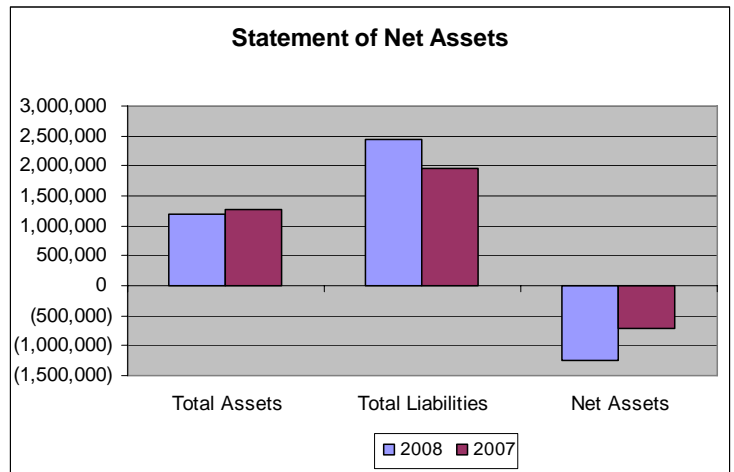
**Table 1
Statement of Net Assets**

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets	\$ 79,843	\$ 79,701
Capital Assets, Net of Accumulated Depreciation	<u>1,102,481</u>	<u>1,179,587</u>
Total Assets	<u><u>1,182,324</u></u>	<u><u>1,259,288</u></u>
Liabilities		
Current Liabilities	1,530,674	1,085,404
Long Term Liabilities	<u>905,933</u>	<u>875,168</u>
Total Liabilities	2,436,607	1,960,572
Net Assets		
Investment in Capital Assets, Net of Related Debt	(43,562)	50,992
Unrestricted	<u>(1,210,721)</u>	<u>(752,276)</u>
Total Net Assets	<u><u>\$(1,254,283)</u></u>	<u><u>\$ (701,284)</u></u>

Total assets decreased by \$76,964, while total liabilities increased by \$476,035. Cash and cash equivalents decreased by \$34,985 and capital assets, net of accumulated depreciation, decreased by \$77,106 due to regular depreciation.

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2007 and 2008, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School 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 THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

**Table 2
Change in Net Assets**

	<u>2008</u>	<u>2007</u>
Operating Revenue :		
State Aid	\$1,426,982	\$1,362,143
Classroom Materials & Fees	6,435	4,747
Services to Schools	728,463	143,828
Other Operating Revenues	<u>3,881</u>	<u>11,051</u>
Total Operating Revenues	<u>2,165,761</u>	<u>1,521,769</u>
 Operating Expenses :		
Salaries	1,817,223	1,112,735
Fringe Benefits	511,429	302,775
Purchased Services	578,157	346,351
Materials and Supplies	109,615	102,965
Depreciation Expense	113,372	129,200
Other Operating Expense	<u>33,218</u>	<u>66,869</u>
Total Operating Expenses	<u>3,163,014</u>	<u>2,060,895</u>
 Operating Loss	(997,253)	(539,126)
 Non-Operating Revenues and (Expenses)		
Grants – State	16,196	14,002
Grants – Federal	348,577	105,470
Interest Income	(6,240)	(182)
Contributions and Donations	211,304	113,162
Interest and Fiscal Charges	(125,583)	(116,826)
Debt Forgiveness	<u>-</u>	<u>300,000</u>
Total Non-Operating Revenues and (Expenses)	<u>444,254</u>	<u>415,626</u>
 Increase (Decrease) in Net Assets	<u>\$ (552,999)</u>	<u>\$ (123,500)</u>

Operating revenues increased \$643,992, which represents a 42.3% increase from 2007. Operating expenses increased by \$1,102,119, which represents a 53.48% increase from 2007. Operating revenue and expense increases are due primarily to related activities for the Charles School (see note 19). Also, federal grants increased \$243,107 primarily due to the award of the charter school dissemination grant. The purpose of this grant is to allow the school to share its curriculum with other charter schools. This also led to the increase in operating expenses for purchased services as consultants were needed to help with this project.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
UNAUDITED**

BUDGETING HIGHLIGHTS

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 the School and its Sponsor does prescribe a budgetary process. The School has developed a one year spending plan and a five-year projection that is reviewed periodically by the Board of Trustees. The five-year projections are also submitted to the Sponsor and the Ohio Department of Education.

CAPITAL ASSETS

Graham has \$1,102,481 invested in capital assets, net of accumulated depreciation. The decrease of \$113,372 is due to regular depreciation. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

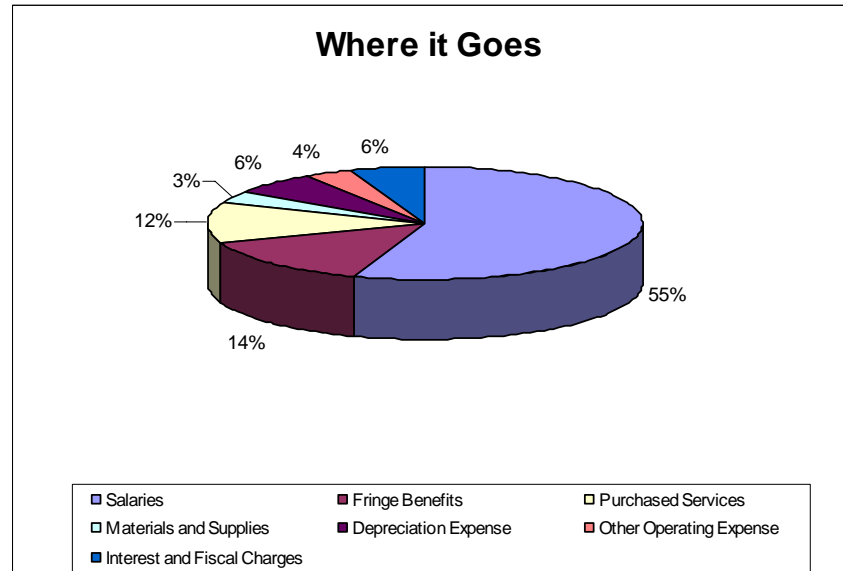
DEBT

At June 30, 2008, Graham had \$944,310 in short-term debt (Note 12). In addition, Graham had \$905,933 in long-term notes payable, of which \$26,657 is due within one year. Note 13 summarizes all of Graham's long-term liabilities.

OTHER INFORMATION

For the Future

In conclusion, Graham has committed itself to financial excellence. Graham has contracted with Delaware Union Educational Service Center as its sponsor effective July 1, 2005. See Note 17 for further information. Graham has donations to help offset its operating deficits and this practice is expected to continue. The school has an annual giving program and has a hired fund raising specialist to help with this effort. 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
JUNE 30, 2008**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 18,095
Beneficial Interest in Assets Held By Others	18,260
Prepays	<u>43,488</u>
Total Current Assets	79,843

Noncurrent Assets:

Capital Assets:

Non-Depreciable Capital Assets	141,800
Depreciable Capital Assets, net	<u>960,681</u>

Total Noncurrent Assets 1,102,481

Total Assets **\$ 1,182,324**

Liabilities

Current Liabilities:

Accounts Payable	\$ 58,527
Accrued Wages and Benefits	269,181
Line of Credit	846,000
Intergovernmental Payable	4,129
Accrued Interest Payable	254,527
Notes Payable	<u>98,310</u>
Total Current Liabilities	1,530,674

Long-Term Liabilities:

Due within one year	26,657
Due within more than one year	<u>879,276</u>

Total Long-Term Liabilities 905,933

Total Liabilities **\$ 2,436,607**

Net Assets

Investment in Capital Assets, Net of Related Debt	\$ (43,562)
Unrestricted	<u>(1,210,721)</u>

Total Net Assets **\$(1,254,283)**

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**Statement of Revenues,
Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2008**

<u>Operating Revenues</u>	
State Aid	\$1,426,982
Classroom Fees	6,435
Services to Schools	728,463
Other Operating	<u>3,881</u>
Total Operating Revenues	<u>2,165,761</u>
<u>Operating Expenses</u>	
Salaries	1,817,223
Fringe Benefits	511,429
Purchased Services	578,157
Materials and Supplies	109,615
Depreciation	113,372
Other	<u>33,218</u>
Total Operating Expenses	<u>3,163,014</u>
Operating Loss	<u>(997,253)</u>
<u>Non-Operating Revenues (Expenses)</u>	
Grants	364,773
Contributions & Donations	211,304
Investment Income (Loss)	(6,240)
Interest and Fiscal Charges	(125,583)
Total Non-Operating Revenues (Expenses)	<u>444,254</u>
Change in Net Assets	<u>(552,999)</u>
Net Assets Beginning of Year	(701,284)
Net Assets End of Year	<u><u>\$(1,254,283)</u></u>

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$1,435,305
Cash Received from Other Operating Sources	738,779
Cash Payments to Suppliers for Goods and Services	(673,005)
Cash Payments to Employees for Services	(1,686,121)
Cash Payments for Employee Benefits	(536,710)
Other Cash Payments	<u>(33,218)</u>

Net Cash Used for Operating Activities (754,970)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Operating Grants	362,773
Cash Received from Contributions and Donations	<u>193,044</u>

Net Cash Provided by Noncapital Financing Activities 555,817

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES**

Cash Received from Line of Credit	247,000
Cash Payments for capital Assets	(1,317)
Cash Payments for Interest and Fiscal Charges	(57,773)
Cash Payments for Principal Payments	<u>(17,502)</u>

Net Cash Provided by Capital Financing Activities 170,408

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income (Loss)	(6,240)
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NET CASH USED FOR INVESTING ACTIVITIES (6,240)

NET DECREASE IN CASH AND CASH EQUIVALENTS (34,985)

CASH AND CASH EQUIVALENTS BEGINNING OF YEAR 53,080

CASH AND CASH EQUIVALENTS END OF YEAR \$ 18,095

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating Loss	\$(997,253)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	113,372
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(Increase) Decrease in Assets:

Intergovernmental Receivable	4,194
Prepays	(25,281)

Increase (Decrease) in Liabilities:

Accounts Payable	14,767
Intergovernmental Payable	4,129
Accrued Wages & Benefits	131,102

Net Cash Used For Operating Activities	<u>\$(754,970)</u>
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See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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. On June 10, 2005, Graham executed a contract with its new sponsor, Delaware Educational Service Center, effective fiscal year 2006.

Graham operates under the direction of a seven-member Governing Board. All of the Board Members who sit on the Graham's Board also serve on the Board of the Charles School at Ohio Dominican (Charles) (see note 18). 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 and Charles' two instructional/support facilities staffed by 16 non-certified and 40 certificated full time teaching personnel who provide services to 218 students at Graham and 71 students and Charles.

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. However, Graham has elected not to apply FASB statements and interpretations issued after November 30, 1989.

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, 2008
(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. Graham prepares a five-year forecast, which is to be updated annually.

D. Cash and Cash Equivalents

All cash received by the School is deposited in accounts in the School's name and reflected as Cash and Cash Equivalents on the Statement of Net Assets. The School does have investments during fiscal year 2008 (See Note 3).

E. Prepaid Items

Graham records payments made to vendors for services that will benefit periods beyond June 30, 2008, 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.

F. 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's capitalization threshold is one thousand dollars.

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, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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. Funding from these programs is listed as "State Aid" on the Statement of Revenues, Expenses, and Changes in Net Assets.

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.

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 Graham or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. 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, 2008
(Continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

Deposits: The carrying value of the School's deposits totaled \$ \$18,095, and the bank balance totaled \$84,653, all of which was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2008, all of the School's bank balance of \$84,653 was covered by Federal Deposit Insurance.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

B. Investments

During fiscal 2008, the School had equity investments in Wachovia Corp. These investments were donations and recorded as contribution revenue. At June 30, 2008, the school's Fair market value of the investments was \$3,793.

Concentration of Market Risk: The School places no limit on the amount that may be invested in any one issuer.

4. RECEIVABLES AND PREPAID EXPENSES

At June 30, 2008, Graham had no intergovernmental receivables and prepaid expenses in the amount of \$43,488. The prepaid expenses were from over withholding by State Teachers Retirement System from the schools State Aid payments. The school received a refund check for the entire amount in November of 2008.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

5. CAPITAL ASSETS

At June 30, 2008, the following table represents Graham's changes in capital assets. Capital assets are considered depreciable except for land.

	Balance			Balance
	<u>06/30/07</u>	<u>Additions</u>	<u>Retirements</u>	<u>06/30/08</u>
Non-Depreciable Capital Assets				
Land	\$ 141,800	-	-	\$ 141,800
Capital Assets Being Depreciated:				
Building	1,108,200	-	-	1,108,200
Improvements	682,394	-	-	682,394
Furniture and Equipment	<u>103,893</u>	<u>36,266</u>	-	<u>140,159</u>
Total Capital Assets Being Depreciated	<u>1,894,487</u>	<u>36,266</u>	-	<u>1,930,753</u>
Less Accumulated Depreciation:				
Building	(174,163)	(27,705)	-	(201,868)
Improvements	(582,654)	(76,994)	-	(659,648)
Furniture and Equipment	<u>(99,883)</u>	<u>(8,673)</u>	-	<u>(108,556)</u>
Total Accumulated Depreciation	<u>(856,700)</u>	<u>(113,372)</u>	-	<u>(970,072)</u>
Net Total Capital Assets	<u>\$1,179,587</u>	<u>\$ (77,106)</u>	<u>\$ -</u>	<u>\$1,102,481</u>

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 2008, 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)	25,600
Excess Volunteer Liability per occurrence	1,000,000
Excess Volunteer Liability aggregate	3,000,000

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

6. RISK MANAGEMENT (continued)

A. Insurance Coverage (continued)

Graham owns real property located at 3950 Indianola Avenue, Columbus, Ohio. For the year ended 2008, Graham contracted with the Westfield Group and had the following insurance coverage:

Blank Limit Liability – Buildings/Contents (\$500 Deductible) \$2,186,000

No payments have been made within the past three years to settle claims in excess of the above noted insurance coverage.

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

Plan Description - The School contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone 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, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$51,899, \$30,546 and \$47,424 respectively, of which 100% has been contributed.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement Systems (STRS)

Plan Description - The School contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is 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. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, 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's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service that 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.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations 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.

The School's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$144,298, \$105,821, and \$145,202 respectively, of which 100% has been contributed.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (continued)

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

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2008, there were no members that elected Social Security. The contribution rate is 6.2 percent of wages.

8. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement Systems

Plan Description - The School participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$16,216.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$20,504, \$9,585, and \$14,063 respectively, of which 100% has been contributed.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$3,238, \$1,905, and \$2,706 respectively all of which has been contributed for fiscal years 2008 and 100% for fiscal years 2007 and 2006.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System

Plan Description - The School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$11,100, \$8,140, and \$10,137 respectively all of which has been contributed for all fiscal years.

9. 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 are 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, 2008.

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.

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. A review was conducted over the 2007-2008 school year which resulted in an overpayment that has been recorded as an intergovernmental receivable.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

10. PURCHASED SERVICES

For the period July 1, 2007 through June 30, 2008, purchased service expenses were payments for services rendered by various vendors, as follows:

Description	Amount
Professional and Technical Services	\$ 354,322
Property Services	83,235
Travel Mileage/Meeting Expense	7,176
Communications	14,751
Utilities	38,423
Contracted Trade Services	14,583
Tuition	12,931
<u>Pupil Transportation Services</u>	<u>52,736</u>
Total Purchased Services	<u>\$ 578,157</u>

11. CAPITAL LEASES – LESSEE DISCLOSURE

In September of 2007, Graham entered into a lease agreement with Modern Leasing for a copier. Graham's lease obligations met the criteria for a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$34,949 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. The accumulated depreciation for the capital lease fixed assets was \$6,990 at June 30, 2008. Principal payments for fiscal year 2008 totaled \$4,329.

The following is a schedule of the future minimum payments required under the capital lease as of June 30, 2008.

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 8,635
2010	8,635
2011	8,635
2012	8,635
2013	<u>2,160</u>
Total minimum Lease Payments	\$ 36,700
Less: amount representing interest	6,080
Present value of minimum lease payments	\$ 30,620

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

12. SHORT- TERM DEBT

At June 30, 2008, the following table represents Graham's short-term debt issuances:

	<u>Principal</u>			<u>Principal</u>	
	<u>Outstanding</u>			<u>Outstanding</u>	
	<u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/08</u>	
Chuck Graham - Line of Credit	\$ 599,000	\$ 247,000	\$ -	\$ 846,000	
Dantomka, Lt. Note-a	<u>98,310</u>	<u>-</u>	<u>-</u>	<u>98,310</u>	
Total Short-Term Liabilities	<u>\$ 697,310</u>	<u>\$ 247,000</u>	<u>\$ -</u>	<u>\$ 944,310</u>	

On November 17, 2003, Graham entered into an open end promissory note with Charles E. Graham (Payee) in the amount of \$75,000 to be repaid with interest at a rate of 8%. The entire unpaid principal balance together with accrued interest shall be due and payable upon the demand of the payee. On October 10, 2007, the note was amended to increase the principal amount to \$875,000. At June 30, 2008, Graham had an outstanding principal balance of \$846,000 that has been recorded as line of credit payable with accrued interest for fiscal year 2008 of \$39,087. Total accrued interest payable is \$89,728.

In April 2003, Graham executed a promissory note in the amount of \$398,310 to Dantomka, Ltd for leasehold improvements that were completed on behalf of Graham during fiscal year 2002. The note has accrued interest payable of \$143,450 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. At June 30, 2008, the principal balance was \$98,010. Accrued interest of \$9,801 has been recorded for fiscal year 2008.

13. LONG TERM LIABILITIES

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

	<u>Principal</u>			<u>Principal</u>	<u>Amounts</u>
	<u>Outstanding</u>			<u>Outstanding</u>	<u>Due Within</u>
	<u>06/30/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/08</u>	<u>one year</u>
Dantomka, Lt. Note-b	\$ 143,692	\$ -	\$ -	\$ 143,692	\$ -
Modern Leasing	-	34,949	(4,333)	30,616	6,230
<u>Meers/Graham</u>	<u>744,793</u>	<u>-</u>	<u>(13,168)</u>	<u>731,625</u>	<u>20,427</u>
Total Long-Term Liabilities	\$ 888,485	\$ 34,949	\$ (17,501)	\$ 905,933	\$ 26,657

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. Also, the monthly interest payments of \$958 were suspended as of December 2007. The principal of the note is reflected in the amortization schedule below as a balloon payment in the final year of the note, 2022. The proceeds from the note were used to purchase Graham's new facility (Note-b).

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

13. LONG TERM LIABILITIES (continued)

On September 1st, 2007 the school entered into a capital lease for a Lanier copier with Modern Leasing. The terms of the lease are for 60 months with a lease payment of \$719.60 per month. The interest rate of the lease is 8.65%. Total payments for fiscal year 2008 were \$6,476.

On September 1st 2005, the school refinanced its previous mortgage with the dean of academics and a board member (the mortgage is held jointly in their names). Terms of the mortgage are for 25 years at a rate of 7%, with monthly payments of \$5,413.38. Total payments for fiscal year 2008 were \$64,961.

The annual requirements to amortize all outstanding long-term debt as of June 30, 2008, including interest are as follows:

	Principal	Interest	Total
2009	\$ 20,427	\$ 64,665	\$ 85,092
2010	\$ 22,014	\$ 63,078	\$ 85,092
2011	\$ 23,725	\$ 61,367	\$ 85,092
2012	\$ 25,571	\$ 59,521	\$ 85,092
2013	\$ 20,894	\$ 57,720	\$ 78,614
2014-2018	\$ 116,266	\$266,017	\$ 382,283
2019-2023	\$ 308,513	\$205,965	\$ 514,478
2024-2028	\$ 233,655	\$ 91,148	\$ 324,803
2029-2031	\$ 134,868	\$ 11,293	\$ 146,161
Total	\$ 905,933	\$880,774	\$1,786,707

Effective April 8, 2003, Ohio Revised Code Section 3314.08 (J) was amended, in part, to permit facilities acquisition debt with a maturity not exceeding fifteen years. Neither the Dantomka, Ltd. Promissory Note-b nor the Meers/Graham notes comply with the fifteen year maturity requirement.

14. RELATED PARTY TRANSACTION

Dantomka, Ltd. is a limited liability corporation, which is a general partner of DK Services. Eileen Meers, who serves as the Dean of Academics and is the 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 fiscal year 2008, Graham paid \$5,748 in interest to Dantomka, Ltd. towards the service of this note (see note 13) with a balance due of \$143,692 at June 30, 2008.. In addition, in April 2003, Graham executed a promissory note in the amount of \$398,310 to Dantomka, Ltd. for leasehold improvements that were completed on behalf of Graham during fiscal year 2002. At June 30, 2008, \$98,310 is remaining and payable on demand (see note 13).

Charles E. Graham is a Board member who is the maker on the schools line of credit (see note 13). Mr. Graham also jointly holds the mortgage with the Dean of Academics (see above). Balances due on each of these notes at June 30, 2008 are \$846,000 and \$731,625, respectively.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008
(Continued)**

15. 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.

16. SPONSOR

The school contracted with Delaware Union as its sponsor effective July 1, 2005. The school pays the Sponsor one and a half (1.5%) of total State Aid. Total fees for fiscal 2008 were \$21,404. The contract is for five years ending on June 30, 2010. The sponsor is to provide oversight, monitoring, and technical assistance for the school.

17. COLUMBUS FOUNDATION

The Columbus Foundation holds in trust for the school \$18,260. This money is set up in a designated fund which is to be used for the renovation of the School's property. In the event all of the fund's assets are not required for the renovation of the School's property, any remaining assets may be used for the operating needs of the School. The School did not receive any distributions from the fund during fiscal year 2008.

18. THE CHARLES SCHOOL

Effective July 1, 2007, the School entered into a two year Management Agreement (Agreement) with The Charles School (TCS). The Agreement's term runs through June 30, 2008. Substantially all functions of the Charles School have been contracted to The Graham School (TGS). TGS is responsible and accountable to the School's Board of Directors for the administration and day-to-day operations. TCS and TGS have common board members as of June 30, 2008. Per the contract, TGS receives up to 95 percent all federal, state, and local grants received by TCS. During fiscal year 2008, TGS received \$728,463 in fees due to services rendered.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**SUPPLEMENTARY SCHEDULE
MANAGEMENT COMPANY EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

The Graham School incurred the following management expenses on behalf of The Charles School at Ohio Dominican (Charles):

Expenses	<u>2008</u>
Direct Expenses:	
Salaries & wages	\$ 428,586
Employees' benefits	121,856
Professional & technical services	7,400
Property services	502
Travel	2,823
Communications	1,006
Other supplies	13,033
Indirect Expenses:	
Overhead	<u>176,594</u>
Total Expenses	\$ 751,800

Management uses the accrual basis of accounting to maintain its financial records during the fiscal year. Overhead charges are assigned to Charles based on a percentage of full-time equivalent student enrollment. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
The Graham School
3950 Indianola Avenue
Columbus, Ohio 43214

We have audited the financial statements of the enterprise fund of The Graham School, Franklin County, Ohio (Graham), as of and for the year ended June 30, 2008, as well as the accompanying supplemental schedule of management company expenses presented as supplementary information for the year ended June 30, 2008 and have issued our report thereon dated March 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Graham'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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2008-1.

Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*
Page 2

We also noted certain other matters that we reported to management of Graham in a separate letter dated March 6, 2009.

Graham's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit Graham's response and, accordingly, we express no opinion on it.

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

KENNEDY COTTRELL RICHARDS LLC

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

March 6, 2009

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2008**

2008-1 NONCOMPLIANCE: DEBT

Ohio Rev. Code Section 3314.08(J)(1)(b) states that a community school may borrow money for a term not to exceed fifteen years to acquire facilities.

During testing we noted Graham has entered into two debt agreements that exceed fifteen years for the acquisition of facilities. The debt agreements include Meers/Graham (\$765,922.56) for a period of 25 years and Dantomka, Lt. (\$150,000) for a period of 20 years.

We recommend that Graham amend the debt agreements so the terms do not exceed fifteen years and, in the future, only issue debt that is in compliance with State laws and the terms of any applicable contract or grant agreements.

Views of Responsible Officials

The Graham School concurs with the finding, but does not plan to correct the noncompliance.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2008**

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Status</u>
2007	2007-1	Not corrected. Repeated as finding 2008-1.



Mary Taylor, CPA
Auditor of State

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
MAY 14, 2009