



**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

We have audited the accompanying Balance Sheet of the Graham School, Franklin County, Ohio, (the School) as of June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2003, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2003, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery  
Auditor of State**

November 24, 2003

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THE GRAHAM SCHOOL  
FRANKLIN COUNTY

BALANCE SHEET  
AS OF JUNE 30, 2003

**Assets**

**Current Assets**

Cash with Fiscal Agent	\$32,864
Accounts Receivable	10,368
Intergovernmental Receivable	35,687
Prepaid Items	8,292
	<hr/>
Total Current Assets	87,211

**Non-Current Assets**

Fixed Assets (Net of Accumulated Depreciation)	1,323,625
	<hr/>
Total Assets	<u><u>\$1,410,836</u></u>

**Liabilities and Equity**

**Current Liabilities**

Accounts Payable	\$2,282
Accrued Wages Payable	90,667
Intergovernmental Payable	7,754
State Pension Systems Payable	11,199
Accrued Interest Payable	6,176
Mortgage Notes Payable	13,367
	<hr/>
Total Current Liabilities	131,445

**Long-Term Liabilities**

Mortgage Notes Payable	911,854
	<hr/>
Total Liabilities	1,043,299

**Equity**

Retained Earnings	367,537
	<hr/>
Total Equity	367,537
	<hr/>
Total Liabilities and Equity	<u><u>\$1,410,836</u></u>

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Operating Revenues**

Foundation Payments	\$919,504
Disadvantaged Public Impact Aid	47,545
Classroom Materials & Fees	3,795
Miscellaneous	11,200
	<hr/>

Total Operating Revenues 982,044

**Operating Expenses**

Salaries	718,725
Fringe Benefits	213,012
Purchased Services	142,841
Materials and Supplies	39,229
Depreciation	86,631
Other	9,806
	<hr/>

Total Operating Expenses 

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1,210,244

Operating Loss (228,200)

**Non-Operating Revenues and (Expenses)**

Federal Grants	57,540
State Grants	6,383
Interest Income	1,185
Contributions and Donations	106,548
Interest and Fiscal Charges	(74,684)
	<hr/>

Total Non-Operating Revenues (Expenses) 

---

96,972

Net Income (131,228)

Retained Earnings at Beginning of Year	<hr/> 498,765
Retained Earnings at End of Year	<hr/> <hr/> <u>\$367,537</u>

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



**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003**

**Cash Flows from Operating Activities**

Cash received from Food Services	\$43
Cash received from Classroom Fees	3,795
Cash received from State Foundation and Disadvantaged Public Impact Aid	967,049
Cash received from Other Sources	1,383
Cash Payments to Suppliers for Goods and Services	(213,652)
Cash Payments to Employees for Services	(723,769)
Cash Payments for Employee Benefits	(213,836)
	(213,836)

Net Cash Used for Operating Activities (178,987)

**Cash Flows from NonCapital Financing Activities**

Restricted Grants Received	58,621
Contributions and Donations	106,848
Principal Payments	(12,859)
Interest Payments	(74,762)
	(74,762)

Net Cash Provided by Noncapital Financing Activities 77,848

**Cash Flows from Capital and Related Financing Activities**

Payments for Capital Acquisitions	(15,825)
	(15,825)

Net Cash Used for Capital and Related Financing Activities (15,825)

**Cash Flows from Investing Activities**

Cash Received from Interest on Investments	1,185
	1,185

Net Cash Provided by Investing Activities 1,185

Net Decrease in Cash and Cash Equivalents	(115,779)
Cash at the Beginning of the Year	148,643
	148,643

Cash at the End of the Year 32,864

**Reconciliation of Operating Loss to Net Cash**

Used for by Operating Activities

Operating Loss	(228,200)
----------------	-----------

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

Depreciation	86,631
Non-Operating Change in Accruals	5,002
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(9,350)
Increase in Prepaid Items	(2,927)
Increase in Intergovernmental Receivable	(13,163)
Decrease in Accounts Payable	(19,747)
Increase in Accrued Wages	5,630
Decrease in Intergovernmental Payable	(4,359)
Increase in State Pension System Payable	1,496
	1,496

Total Adjustments 49,213

Net Cash Used for Operating Activities (\$178,987)

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

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**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

**1. DESCRIPTION OF THE ENTITY**

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

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

Graham operates under the direction of a ten-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls Graham's one instructional/support facility staffed by 7 noncertified and 17 certificated full time teaching personnel who provide services to 179 students.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus/Basis of Accounting**

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

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

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

**C. Budgetary Process**

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

**D. Equity in Pooled Cash and Investments**

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

During fiscal year 2003, 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 Securities Exchange Commission 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, 2003.

**E. Fixed Assets and Depreciation**

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

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

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Intergovernmental Revenues (Nonexchange Transactions)**

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

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

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

Amounts awarded under federal grants and entitlements for the 2003 school year totaled \$57,540.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**H. Estimates**

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

**I. Other Contributions/Donations**

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

**3. CASH WITH FISCAL AGENT**

**A. Cash**

Graham's cash is maintained in a separate account with its fiscal agent. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at June 30, 2003 was as follows:

Demand Deposits	\$15,800
Petty Cash	<u>1,907</u>
Total Deposits	<u>\$ 17,707</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation and collateralized by the financial institution's public entity deposit pool. While Graham's carrying amount for deposits was \$17,707, the bank balance was \$38,304.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**3. CASH WITH FISCAL AGENT (Continued)**

**B. Investments (Continued)**

Graham's only investment at year end was STAR Ohio, which is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The balance in STAR Ohio at year end was \$15,157.

**4. RECEIVABLES**

Receivables at June 30, 2003, consisted of a \$10,368 accounts receivable and \$35,687 of intergovernmental receivable for grants. Accounts receivables are considered collectible in full. All intergovernmental receivables are considered collectible in full.

**5. FIXED ASSETS**

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

<u>Classification</u>	<u>Balance 6/30/03</u>
Buildings	\$1,108,200
Furniture and Equipment	96,792
Leasehold Improvements	<u>197,840</u>
Total	1,402,832
Accumulated Depreciation	<u>(221,007)</u>
Net Fixed Assets	1,181,825
Land	<u>141,800</u>
Total Net Fixed Assets	<u>\$1,323,625</u>

**6. RISK MANAGEMENT**

**A. Property and Liability:**

Graham is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, Graham contracted with Hartford Casualty Insurance Company for property and general liability insurance. This policy is protected by Hartford Casualty Insurance Company with a \$1,000,000 single occurrence limit and a \$2,000,000 aggregate with no deductible.

Graham also has an umbrella policy with Hartford Casualty Insurance Company covering \$5,000,000 in both single occurrence and aggregate amounts.

The Automobile Liability policy covers damage to hired and non-owned vehicles. This policy is protected by Hartford Casualty Insurance Company with a \$1,000,000 combined single limit and no deductible.

The Commercial Property policy covers business income and business personal property for \$105,000 and \$20,000, respectively. This policy is protected by Hartford Casualty Insurance Company with a \$1,000 deductible.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**A. Property and Liability: (Continued)**

Graham has established an Excess Volunteer Liability Policy with Employers Insurance of Wausau covering \$1,000,000 per each occurrence and a \$3,000,000 annual aggregate limit.

**B. Worker's Compensation:**

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

**C. Employees Medical, Dental and Vision Benefits:**

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

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

Graham contributes to the School Employees Retirement System (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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and Graham is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. 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 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 a statutory maximum amount, by the SERS' Retirement Board. Graham's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$15,900, \$4,273 and \$2,490 respectively, 83 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for the year ended June 30, 2003, in the amount of \$2,722 is recorded as a State Pension Systems payable.

**8. DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

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. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (Continued)**

**A. State Teachers Retirement System (Continued)**

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 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 the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. Graham was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% 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 the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$70,064, \$ 46,285, and \$34,032 respectively; 88 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for the year ended June 30, 2003, in the amount of \$8,477 has been recorded as State Pension Systems payable.

**9. POST EMPLOYMENT BENEFITS**

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



**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**9. POST EMPLOYMENT BENEFITS (Continued)**

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For Graham, this amount equaled \$5,389 for the fiscal year ended June 30, 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 % contribution is allocated to providing health care benefits. For this fiscal period, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay had been established at \$14,500. For Graham, the amount to fund health care benefits, including surcharge, was \$16,053 for the fiscal year ended June 30, 2003.

Health Care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits as \$335.2 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000 (the latest information available).

**10. STATE SCHOOL FUNDING DECISION**

On 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.

**11. CONTINGENCIES**

**A. Grants**

Graham received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the school. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Graham at June 30, 2003.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**11. CONTINGENCIES (Continued)**

**B. Pending Litigation (Continued)**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the State Constitution and State Law. 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 for oral argument on November 18<sup>th</sup>, 2003. The effect of this suit, if any, on Graham school is not presently determinable.

**12. FULL-TIME EQUIVALENCY REVIEWS**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by Graham. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of the review sometimes results in state funding being adjusted. This information was not available as of the date of this report. Graham does not anticipate any material adjustments to state funding for fiscal year 2003, as a result of such review.

**13. FISCAL AGENT**

The service agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of The Graham School. As part of this agreement, Graham shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to Graham from the State of Ohio. The total contract payment of \$19,341 was paid during the year in full.

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

- A. Maintain custody of all funds received by Graham in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- B. Maintain all books and accounts of Graham;
- C. Maintain all financial records of all state funds of Graham and follow State Auditor procedures for receiving and expending state funds;
- D. Assist Graham in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. Invest funds of Graham in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- F. Pay obligations incurred by Graham within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of Graham so long as the proposed expenditure is within the approved budget and funds are available.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**14. PURCHASED SERVICES**

For the period July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 63,061
Property Services	7,565
Travel Mileage/Meeting Expense	21,052
Communications	28,525
Utilities	21,809
Tuition	<u>829</u>
Total Purchased Services	<u>\$142,841</u>

**15. OPERATING LEASES**

Graham entered into an operating lease commencing September 27, 2000 for a term of 36 months for a copier. The copier is owned by Modern Leasing. This lease was renewed on May 16, 2003 for a term of 60 months for a payment of \$926 per month.

Graham also entered into an operating lease commencing December 21, 2000 for a term of 36 months with payments of \$241 per month for a computer system. The computer is owned by Dell Financial Services. The lease may be renewed continuously for consecutive months after the end of the term.

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2003:

<u>Fiscal Year Ending</u>	Copier	Computer
2004	\$11,112	\$1,209
2005	11,112	-
2006	11,112	-
2007	11,112	-
2008	11,112	-

**16. LONG-TERM OBLIGATIONS**

Long-term obligations of Graham as of June 30, 2003 were as follows:

R. Born/N. Edwards Mortgage 8.00%; Matures 6/1/2005	\$146,872
K. Born Mortgage 8.00%; Matures 6/1/2005	634,657
Dantomka, Ltd. Note 8.00%; Matures 7/01/2021	<u>143,692</u>
Totals	<u>\$ 925,221</u>

During Fiscal Year 2001 two mortgages were issued through Richard W. Born, Nancy B. Edwards, and Kathryn W. Born. The monthly payments of \$1,101 and \$4,899, respectively, 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.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**16. LONG-TERM OBLIGATIONS (Continued)**

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

The annual requirements to amortize all outstanding note debt as of June 30, 2003, 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</u>
2004	\$ 13,208	\$ 58,792	15,056
2005	156,036	671,998	15,056
2006	-	-	15,056
2007	-	-	15,056
2008	-	-	15,056
2009-13	-	-	75,280
2014-18	-	-	75,280
2019-22	<u>-</u>	<u>-</u>	<u>46,421</u>
 Total	 169,244	 730,790	 272,261
Less: Amount representing Interest	<u>(22,372)</u>	<u>(96,133)</u>	<u>(128,569)</u>
 TOTALS	 <u>\$ 146,872</u>	 <u>\$ 634,657</u>	 <u>\$ 143,692</u>

Graham entered into debt agreements with maturities extending beyond the end of the fiscal year which is not in compliance with Ohio Revised Code Section 3314.08 (J). Effective April 8, 2003 this section was amended, in part, to permit facilities acquisition debt with a maturity not exceeding 15 years. The Dantomka, Ltd, Promissory Note does not comply with the 15 year maturity requirement.

**17. RELATED PARTY TRANSACTION**

Dantomka, Ltd. is a limited liability corporation, which is a general partner of DK Services. The individual who serves as Dean of Academics, Board member and Developer of Graham, also serves as the president of DK Services and general partner of Dantomka, Ltd. During fiscal year 2001, Dantomka, Ltd. issued a \$150,000 promissory note at 8% to Graham for the purchase of a new facility. During fiscal year 2003, Graham paid \$15,056, principal and interest, to Dantomka Ltd. towards redemption of this debt issued.



**Auditor of State  
Betty Montgomery**

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

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

We have audited the financial statements of the Graham School, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2003, and have issued our report thereon dated November 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the schedule of findings as item 2003-001.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated November 24, 2003.

The Graham School  
Franklin County  
Independent Accountants' Report on Compliance and Internal  
Control Required By *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
**Auditor of State**

November 24, 2003

THE GRAHAM SCHOOL  
FRANKLIN COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2003

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

<b>Finding Number</b>	2003-001
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DEBT

Ohio Rev. Code Section 3314.08 (J) effective through April 7, 2003, allows community schools to borrow money to pay any necessary and actual expenses in anticipation of receiving state funding, however, such debt must mature no later than the end of the fiscal year. In order to acquire facilities, the School entered into debt agreements in fiscal year 2001 with maturities extending to fiscal year 2005 and 2022, which is not compliance with the aforementioned section.

Effective April 8, 2003, House Bill 364 changed Section 3314.08 (J). Under the amended section, maturity of debt is no longer limited to the fiscal year-end, and a community school may also borrow money for a term not to exceed fifteen years for the purpose of acquiring facilities. Under this section as amended, one of the 2001 debt issues remains in noncompliance with the fifteen year term limit. A facilities acquisition promissory note maturing on July 1, 2021, has an outstanding principal balance of \$143,692 at June 30, 2003.

We recommend the School review the amended section and consider how it might achieve compliance. We also recommend the School 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**

<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; <b><i>Explain:</i></b>
2002-10625-001	Ohio Rev. Code Section 3314.08(J) – debt maturities exceeded on fiscal year	No	Partially Corrected due to change in the House Bill 364. Repeat finding in the audit report as item 2003-001.
2002-10625-002	No fixed asset policy or inventory tracking system	Yes	Fully corrected





**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  
JANUARY 6, 2004**