The Graham School

Franklin County, Ohio

Financial Statements and
Independent Auditor's Reports

June 30, 2005

Auditor of State
Betty Montgomery

Board of Directors
The Graham School
3950 Indianola Ave.
Columbus, OH 43214

We have reviewed the *Independent Auditor's Report* of The Graham School, Franklin County, prepared by Kennedy Cottrell & Associates, LLC, for the audit period July 1, 2004 through June 30, 2005. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 9, 2006

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THE GRAHAM SCHOOL
FRANKLIN COUNTY

TABLE OF CONTENTS

Kennedy, Cottrell + Associates

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Graham School
Franklin County, Ohio
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, 2005, which collectively comprise Graham's basic financial statements as listed in the Table of Contents. 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 opinion.

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, 2005, 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 accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2006, 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.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist 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 + Associates LLC

Kennedy, Cottrell + Associates
March 31, 2006

THE GRAHAM SCHOOL
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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, 2005. 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 2004-2005 school year are as follows:

- Total assets increased by $495,736, while cash and cash equivalents decreased by $4,451 and capital assets, net of accumulated depreciation, increased by $502,679 due to additional land deeded to the school.
- Total net assets increased by $198,965.
- Total revenues were $2,022,606. Total expenses were $1,823,641.

USING THIS ANNUAL REPORT

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

REPORTING GRAHAM AS A WHOLE

The view of Graham as a whole looks at all financial transactions and asks, "How did we do financially during 2005?" The statement of net assets and the statement of revenues, expenses, and change in net assets answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

FINANCIAL ANALYSIS

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

Table 1 provides a summary of Graham's net assets for 2005 compared to 2004:

Table 1
Statement of Net Assets

	2005	2004
Assets		
Current Assets	$ 18,983	$ 25,926
Capital Assets, Net of Accumulated	2,042,429	1,539,750
Total Assets	2,061,412	1,565,676
Liabilities		
Current Liabilities	921,986	1,390,760
Due More than One Year	905,236	139,691
Total Liabilities	1,827,222	1,530,451
Net Assets		
Investment in Capital Assets, Net of Related	738,694	226,518
Unrestricted	(504,504)	(191,293)
Total Net Assets	$ 234,190	$ 35,225

Total assets increased by $495,736, while total liabilities increased by $296,771. Cash and cash equivalents decreased by $4,451. The increase of $198,965 in total net assets was primarily due to increased capital assets of land.

Table 2 shows the changes in net assets for fiscal year 2005 compared to 2004:

Table 2
Change in Net Assets

	2005	2004
Operating Revenue :		
Foundation Payments	$ 1,083,997	$ 1,038,150
Disadvantaged Pupil Impact Aid	89,466	-
Special Education		70,290
Classroom Materials & Fees	6,070	3,959
Other Operating Revenues	4,112	15,172
Total Operating Revenues	1,183,645	1,127,571
Operating Expenses :		
Salaries	1,039,857	861,258
Fringe Benefits	237,467	235,182
Purchased Services	179,718	178,125
Materials and Supplies	59,362	48,333
Depreciation Expense	177,294	167,299
Other Operating Expense	43,881	32,850
Total Operating Expenses	1,737,579	1,523,047
Operating Income (Loss)	(553,934)	(395,476)
Non-Operating Revenues and (Expenses)		
Operating Grants – State	7,925	8,174
Operating Grants – Federal	89,687	58,340
Interest Income	116	189
Contributions and Donations	741,233	159,379
Interest and Fiscal Charges	(86,062)	(101,703)
Total Non-Operating Revenues and (Expenses)	752,899	124,379
Increase (Decrease) in Net Assets	$ 198,965	$ (271,097)

Operating revenues increased $56,074, which represents a 5% increase from 2004. Operating expenses increased by $214,532, which represents a 14% increase from 2004. Operating expense increases are due to services delivered for the increased enrollment, annual increases in service costs and additional services paid with non-operating revenues.

CAPITAL ASSETS

Graham has $2,042,429 invested in capital assets, net of accumulated depreciation. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

DEBT

At June 30, 2005, Graham had $630,696 in short-term liabilities. Note 14 summarizes all of Graham's short-term liabilities. In addition, Graham had $905,236 in long-term notes payable, of which $139,691 is due within one year. Note 15 summarizes all of Graham's long-term liabilities.

BUDGET

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

OTHER INFORMATION

For the Future

In conclusion, Graham has committed itself to financial excellence. In addition, Graham's financial relationship with the Lucas County Educational Service Center ended at June 30, 2005. Graham has contracted with a new sponsor effective July 1, 2005. See Note 18 for further information. 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, 2005

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 16,293
Receivables:	
Intergovernmental	2,690
Total Current Assets	18,983
Noncurrent Assets:	
Capital Assets:	
Depreciable Capital Assets, net	2,042,429
Total Noncurrent Assets	2,042,429
Total Assets	2,061,412
Liabilities	
Current Liabilities:	
Accounts Payable	25,313
Accrued Wages and Benefits	150,691
Line of Credit	135,000
Intergovernmental Payable	1,762
State Pension Payable	17,186
Accrued Interest Payable	96,338
Loans Payable	97,386
Notes Payable	398,310
Total Current Liabilities	921,986
Long-Term Liabilities:	
Due within One Year	139,691
Due within More Than One Year	765,545
Total Long-Term Liabilities	905,236
Total Liabilities	1,827,222
Net Assets	
Investment in Capital Assets, Net of Related Debt	738,694
Unrestricted	(504,504)
Total Net Assets	$ 234,190

See accompanying notes to the basic financial statements

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
JUNE 30, 2005

Operating Revenues:	
Foundation	$ 1,083,997
Disadvantaged Pupil Impact Aid	89,466
Classroom Fees	6,070
Other Operating	4,112
Total Operating Revenues	1,183,645
Operating Expenses:	
Salaries	1,039,857
Fringe Benefits	237,467
Purchased Services	179,718
Materials and Supplies	59,362
Depreciation	177,294
Other	43,881
Total Operating Expenses	1,737,579
Operating Loss	(553,934)
Non-Operating Revenues (Expenses):	
Operating Grants	97,612
Contributions & Donations	741,233
Interest Income	116
Interest and Fiscal Charges	(86,062)
Total Non-Operating Revenues (Expenses)	752,899
Change in Net Assets	198,965
Net Assets Beginning of Year	35,225
Net Assets End of Year	$ 234,190

See accompanying notes to the basic financial statements

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
JUNE 30, 2005

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 1,173,272
Cash Received from Other Operating Sources	$9,492
Cash Payments to Suppliers for Goods and Services	($228,533)
Cash Payments to Employees for Services	(980,738)
Cash Payments for Employee Benefits	(251,200)
Other Cash Payments	(43,286)
Net Cash Used for Operating Activities	(320,993)
Cash Flows from Noncapital Financing Activities	
Cash Received from Operating Grants	95,017
Cash Received from Contributions and Donations	346,775
Net Cash Provided by Noncapital Financing Activities	441,792
Cash Flows from Capital and Related Financing Activities	
Cash Payments for Capital Acquisitions	(49,973)
Cash Payments for Interest and Fiscal Charges	(65,697)
Cash Payments for Principal Payments	(9,696)
Net Cash Used for Capital Financing Activities	(125,366)
Cash Flows from Investing Activities	
Cash Received from Interest on Investments	116
Net Cash Provided by Investing Activitities	116
Net Decrease in Cash and Cash Equivalents	(4,451)
Cash and Cash Equivalents Beginning of Year	20,744
Cash and Cash Equivalents End of Year	$ 16,293

See accompanying notes to the basic financial statements

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
JUNE 30, 2005
(CONTINUED)

Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Gain (Loss)	$ (553,934)
Adjustments:	
Depreciation	177,294
(Increase) Decrease in Assets:	
Prepaids	1,930
Increase (Decrease) in Liabilities:	
Accounts Payable	9,666
Accrued Wages	49,803
Intergovernmental Payable	(300)
State Pension Payable	(5,452)
Net Cash Provided by (Used in) Operating Activities	$ (320,993)

See accompanying notes to the basic financial statements

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 2006.

Graham operates under the direction of a eleven-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 5 non-certified and 13 certificated full time teaching personnel who provide services to 194 students.

Graham has entered into a service agreement with the Lucas County Educational Service Center, Lucas County, Ohio to provide certain financial and accounting services and the Treasurer of Lucas County ESC serves as the Chief Fiscal Officer of Graham, (See Note 11).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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 not prescribe an annual budget requirement. Graham prepares a five-year forecast, which is to be updated annually.

D. Cash and Cash Equivalents

All monies received by Graham are accounted for by Graham's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate bank accounts in Graham's name. Monies for Graham are maintained in these accounts or are temporarily used to purchase short-term investments. Investments of the cash management pool and with original maturities of three months or less at the time they are purchased by Graham are considered to be cash equivalents.

E. Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Graham revised its capitalization threshold from five hundred to one thousand hundred dollars. Graham does not possess any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

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

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

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

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Graham or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Graham presently has no restricted net assets.

H. 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.

I. 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.

3. DEPOSITS AND INVESTMENTS

Deposits: The carrying value of the School's deposits totaled $16,293, and the bank balance totaled $45,273, all of which was covered by federal depository insurance.

4. RECEIVABLES

At June 30, 2005, Graham had an intergovernmental receivable from the Improving Teacher Quality Title II-A grant. This receivable of $2,689 is considered collectable in full and has been reflected on the Statement of Net Assets.

5. CAPITAL ASSETS

At June 30, 2005, the following table represents Graham's changes in capital assets. Capital assets are considered depreciable except for land:

	Balance 6/30/2004	Additions	Retirements	Balance 6/30/2005
Non-Depreciable Capital Assets				
Land	$ 141,800	$ 630,000	$ -	$ 771,800
Depreciable Capital Assets				
Buildings	1,108,200	-	-	1,108,200
Improvements	597,314	49,973	-	647,287
Furniture and Equipment	100,656	-	-	100,656
Total Capital Assets	1,947,970	679,973	-	2,627,943
Less: Acc Depreciation	(408,220)	(177,294)	-	(585,514)
Net Capital Assets	$ 1,539,750	$ 502,679	$ -	$ 2,042,429

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 2005, 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)	23,200
Excess Volunteer Liability per occurrence	1,000,000
Excess Volunteer Liability aggregate	3,000,000

Graham owns real property located at 3950 Indianola Avenue, Columbus, Ohio. For the year ended 2005, Graham contracted with the Westfield Group and had the following insurance coverage:

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

6. RISK MANAGEMENT (Continued)

B. Workers' Compensation

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

C. Employee Medical, Dental and Vision Benefits

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Graham contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer defined benefit pension administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

For the fiscal year ended June 30, 2005, plan members are required to contribute 10 percent of their annual covered salary and Graham was required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of Graham's contribution is used to fund pension obligations with the remainder being used to fund health care benefits: for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. Graham's required contribution for pension obligation to SERS for fiscal years June 30, 2005, 2004, 2003 were $23,109 $14,179, and $15,900, respectively. For 2005, Graham contributed $19,343 and the remainder has been recorded as a payable to State Pension Systems.

B. State Teachers Retirement Systems (STRS)

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

7. DEFINED BENEFIT PENSION PLANS (Continued)

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

B. State Teachers Retirement Systems (STRS)

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

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

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, 2005, members were required to contribute 9.3 percent of their annual covered salary and Graham is required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Graham's required contributions for pension obligations to STRS for the years ended June 30, 2005, 2004, and 2003 were $121,205, $96,714, and $70,064, respectively. For 2005, Graham contributed $107,786 and the remainder has been recorded as a payable to State Pension Systems.

8. POSTEMPLOYMENT BENEFITS

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

The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For Graham, this amount equaled to $8,291 during fiscal year 2005.

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

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

After the allocation for basic benefits, the reminder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2005, the healthcare allocation is 3.43 percent. 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 2005, the minimum pay was established at $27,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

For Graham, the amount to fund health care benefits, including surcharges, during 2005 was $14,381.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2005 were $178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was $267.5 million, which is about 168% of next year's projected net health care costs of $158,766,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has 58,123 participants eligible to receive benefits.

9. STATE SCHOOL FUNDING DECISION

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

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

10. CONTINGENCIES

A. Grants

Graham receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2005.

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. To date, a review of the fiscal year 2005 has not been conducted.

11. FISCAL AGENT

Graham entered into the service agreement with the Treasurer of the Lucas County Educational Service Center to serve as the Chief Fiscal Officer of the School. As part of this agreement, Graham compensated the Lucas County Educational Service Center two percent (2%) of the per pupil allotment paid to Graham from the State of Ohio. A total contract payment of $25,260 was paid during the year, and a liability in the amount of $1,817 was recorded as accounts payable on the Statement of Net Asset as of June 30, 2005.

11. FISCAL AGENT (Continued)

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

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

12. PURCHASED SERVICES

For the period July 1, 2004 through June 30, 2005, purchased service expenses were payments for services rendered by various vendors, as follows:

	Amount
Professional and Technical Services	$ 95,795
Property Services	(15,511)
Travel Mileage/Meeting Expense	33,837
Communications	18,682
Utilities	32,627
Pupil Transportation Services	14,288
Total Purchased Services	$ 179,718

13. OPERATING LEASES – LESSEE DISCLOSURE

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

The following is a schedule of the future minimum payments required under the operating lease as of June 30, 2005.

Year Ending June 30,	Copier
2006	$11,112
2007	11,112
2008	10,186
Total	$32,410

14. SHORT- TERM DEBT

At June 30, 2005, the following table represents Graham's short-term debt issuances:

	Principal Outstanding 6/30/2004	Additions	Reductions	Principal Outstanding 6/30/2005
Chuck Graham - Line of Credit	$ -	$ 135,000	$ -	$ 135,000
Dantomka, Lt. Note-A	398,310	-	-	398,310
Chuck Graham - Loan	-	97,386	-	97,386
Total Short-Term Liabilities	$ 398,310	$ 232,386	$ -	$ 630,696

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 11, 2004, the note was amended to increase the principal amount to $150,000. At June 30, 2005, Graham had an outstanding principal balance of $135,000 that has been recorded as line of credit payable with accrued interest of $8,535.

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 of $41,301 and has an interest rate of prime plus 2.5% indexed each year on April 7. The note also is callable within thirty days by Dantomka, Ltd. Both the leasehold improvement, net of depreciation and accompanying liabilities have been adjusted as of 6/30/03.

In fiscal year 2005, a loan was issued to the school in the amount of $97,386 for current operating expenditures from Chuck Graham. The proceeds of the loan were used for current operating expenses. The loan was to be repaid within one year and has been recorded as a payable at June 30, 2005.

15. LONG TERM LIABILTIES

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

	Principal Outstanding 6/30/2004	Additions	Reductions	Principal Outstanding 6/30/2005	Amounts Due Within more than one year
R.Born/N. Edwards Mortgage	$ 144,893	$ -	$ 1,464	$ 143,429	$ 143,429
K. Born Mortgage	626,337	-	8,232	618,105	618,105
Dantomka, Lt. Note-B	143,692	-	-	143,692	4,011
Total Long-Term Liabilities	$ 914,922	$ -	$ 9,696	$ 905,226	$ 765,545

During the year ended 2001 two mortgages were issued through Richard W. Born, Nancy B. Edwards, and Kathryn W. Born. The proceeds from the mortgage notes were used to purchase Graham's new facility. The monthly payments of $1,101 and $4,899 commenced in June 2001 and concluded in June 2005. Balloon payments of the remaining balances on the mortgages were due June 30, 2005. However, in July 2006, Graham negotiated with two of its board of directors, Eileen Meers and Chuck Graham, to pay off the balloon amounts. Thus, Graham will now re-pay Eileen Meers and Chuck Graham according to the approved amortization schedule.

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

The annual requirements to amortize all outstanding long-term debt as of June 30, 2005, including interest are as follows:

Fiscal Year	Dantomka, LTD Promissory Note b	Meers/ Graham	Total
2006	$ 11,495	$ 48,720	$ 60,215
2007	11,495	64,961	76,456
2008	11,495	64,961	76,456
2009	11,495	64,961	76,456
2010	11,495	64,961	76,456
2011-2015	57,477	324,803	382,280
2016-2020	57,477	324,803	382,280
2021-2025	22,991	324,803	347,794
2026-2030	-	324,803	324,803
2031	-	16,240	16,240
	195,420	1,624,016	1,819,436
Less: Amount Representing Interest	(51,730)	(858,092)	(909,822)
TOTALS	$ 143,690	$ 765,924	$ 909,614

Effective April 8, 2003, this Ohio Revised Code Section 3314.08 (J) was amended, in part, to permit facilities acquisition debt with a maturity not exceeding fifteen years. The Dantomka, Ltd. Promissory Note-b does not comply with the fifteen year maturity requirement.

16. RELATED PARTY TRANSACTION

Dantomka, Ltd. is a limited liability corporation, which is a general partner of DK Services. The individual who serves as the Dean of Academics, who is a member of the Board of Directors 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 2005, Graham paid $11,017 in interest to Dantomka, Ltd. towards the service of this note. In addition, in April 2003, Graham executed a promissory note in the amount of $398,310 to Dantomka, Ltd. for leasehold improvements that were completed on behalf of Graham during fiscal year 2002. These payments are payable on demand.

17. 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.

18. SUBSEQUENT EVENTS

Effective July 1, 2005 Graham ended its contract with Lucas County Educational Service Center (see Note 11) and entered into a sponsorship contract with Delaware-Union Educational Service Center effective July 1, 2005 for a period of five years, ending June 30, 2010.

In July 2006, Graham negotiated a plan to payoff the R. Born/N. Edwards and K. Born mortgages and notes. Two of Graham's board of directors, Eileen Meers and Chuck Graham, issued notes to payoff these outstanding debt issuances. Graham will now pay Meers and Graham over an extended period of time according to the approved amortization schedule.

During fiscal year 2005, Graham received a donation for ½ a deed of land that was currently under contract to be sold. In July 2006, the land was purchased and Graham received approximately $579,000 from the sale.

Kennedy, Cottrell + Associates

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
Franklin County, Ohio
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, 2005, and have issued our report thereon dated March 31, 2006. 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 G*overnment 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Graham's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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 2005-2.

We also noted certain other matters that do not require inclusion in this report, that we have reported to management of Graham in a separate letter dated March 31, 2006.

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

Kennedy, Cottrell + Associates LLC

Kennedy, Cottrell + Associates
March 31, 2006

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005

2005-1 REPORTABLE CONDITION: FIXED ASSET RECORDS

Sound internal control practices require that the Graham maintain a fixed asset accounting system that incorporates sufficient information to enable the school to prepare financial statements in accordance with generally accepted accounting principles. A fixed asset accounting system should include such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number.

During our testing we noted that, although underlying documentation is available for fixed asset purchases, Graham does not have in place a fixed asset system to track individual fixed asset data such as, original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. In addition, we noted that Graham has not tagged existing fixed assets with an identifying number. Neither has Graham performed a physical inventory of fixed assets since inception of the school.

The lack of a unique fixed asset tag and identifying number inhibits the school's tracking capabilities in the event of asset relocation. More importantly, the lack of detailed records of asset cost and accumulated depreciation limits management's assurance that amounts reported in the school's financial statements are accurate and complete.

We recommend Graham implement a fixed asset tracking system to maintain fixed asset inventory and implement procedures to track fixed asset additions and disposals. Additionally, we recommend Graham take a periodic physical inventory of fixed assets and compare the physical inventory to the fixed asset system to ensure the accuracy of the records.

Views of Responsible Officials

Please see the school's views and the auditor's response on the following page.

2005-2 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 our testing we noted in fiscal year 2001 Graham entered into a debt agreement with Dantomka, LTD for the acquisition of facilities. The agreement states the debt is to be paid over a period of twenty years.

We recommend that Graham amend the debt agreement so the term does 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

Encounter the World, Engage the Mind

3950 Indianola Ave.
Columbus, Ohio, 43214
(614) 262-1111

March 31, 2006

To: The Honorable Betty Montgomery, Ohio Auditor of State

The following represents The Graham School's response to the current audit's citing of a process deemed inappropriate now that was deemed appropriate in past audits. The current audit, conducted by auditors Kennedy, Cottrell and Associates, LLC on behalf of the Ohio Auditor of State, deemed the below noted process as inappropriate, while the Ohio Auditor of State deemed the identical practice as appropriate in all past audits, which were conducted by its office.

As this finding represents a discrepancy between past and current audits, we object to being cited for inappropriate practice and request that the finding be removed from the audit. Further, we ask that the Ohio Auditor of State, in writing to us, reconcile with her representative to our school (Kennedy, Cottrell and Associates, LLC) their differing opinions as to what is appropriate practice in this matter so that we can proceed in the future with what the State of Ohio intends for us to perform as appropriate practice. This clarity is essential to efficient procedures regarding public assets.

Specifically, from the released audit report at June 30, 2002, the Auditor of State reported finding #2002-10625-002 for lack of a fixed asset policy and inventory tracking system. Thereafter, this same finding was reported in the audit report at June 30, 2003 as being fully corrected.

It is our understanding that the more material portion of our capital assets is buildings and building improvements. It is apparent that the Auditor of States' office accepted this fact in that tagging of the buildings and improvements are not necessary and that adequate support documentation exists to support these material assets. Furthermore, we do engage in an inventory system of our equipment which the majority of the assets are less than the threshold of $1,000.

In addition, the current compilation prepared for the audit has identified those capital assets over the threshold which could stand as our current inventory system tracking system. Although the current tracking system report does not include previous assets, our position is that the previous compiler as well as the Auditor of States' office accepted the method of calculating fixed assets and that proper support documentation existed to support the financial statements.

Because of this previous acceptance by the Ohio Auditor of State we deemed it appropriate and correct to continue this process. While we are willing to take the recommendation to modify to a new system, if that be the written directive of the Ohio Auditor of State, this condition is not material to the financial statements as presented. Any old assets would be depreciated away at this point. Furthermore, we did update fiscal year 05 to have the requested format. Thus any new assets will be documented as requested.

Considerable consideration should be given to our school based on the previous released audit reports, the majority of the capital assets include buildings and improvements which cannot be tagged, yet identified, and the fact that for FY 05, a current log of capital assets has been identified.

It is our opinion that the reportable condition be removed from the audit report and placed in the management letter. In addition, we respectively request that the entire recommendation be altered to reflect that we are currently tracking assets in detail and tagging would be our only weakness at this time.

The different interpretations between the Ohio Auditor of State and Kennedy, Cottrell and Associates, LLC of what is appropriate process in this matter creates confusion we seek to avoid in the future, and thus look forward to our request for a response to this matter.

Response from Kennedy, Cottrell + Associates:

We respectfully disagree with The Graham School and believe that the reportable condition is correct as stated in our report. The Graham School has not in the past and does not currently maintain a fixed asset accounting system that includes such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Furniture and equipment have not been tagged. In addition, the school has not performed a physical inventory of fixed assets since inception of the school. Even the smallest component of the school's fixed assets, "furniture and equipment," is in our judgment material to the financial statements; thus, the finding will remain as a reportable condition.

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2005

Fiscal Year	Finding Number	Status
2004	2004-1	Not Corrected.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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 23, 2006