The Graham School

Franklin County, Ohio

Basic Financial Statements
and Independent Auditor's Reports

June 30, 2007

Kennedy
Cottrell
Richards

Accountants & Consultants for Business & Government

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

We have reviewed the *Independent Auditor's Report* of The Graham School, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2006 through June 30, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 28, 2008

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THE GRAHAM SCHOOL
FRANKLIN COUNTY

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the enterprise fund of The Graham School, Franklin County, Ohio (Graham), as of and for the year ended June 30, 2007, 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, 2007, 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 Standard*s, we have also issued our report dated January 14, 2008, on our consideration of Graham's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

KENNEDY COTTRELL RICHARDS LLC

Kennedy Cottrell Richards LLC

January 14, 2008

THE GRAHAM SCHOOL
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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, 2007. 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 2006-2007 school year are as follows:

- Total assets decreased by $114,564 (or 8%), while cash and cash equivalents increased by $26,001 and capital assets, net of accumulated depreciation, decreased by $129,200 due to regular depreciation .
- Total net assets decreased by $123,500 (or 21%).
- Total revenues were $2,054,403. Total expenses were $2,177,903.

USING THIS ANNUAL REPORT

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

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how the School did financially during fiscal year 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

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

The School uses enterprise presentation for all of its activities.

Statement of Net Assets

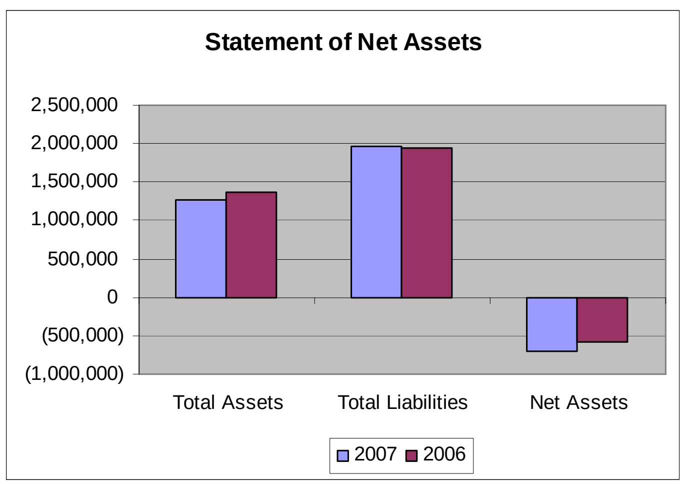
The Statement of Net Assets answers the question of how the School did financially during 2007. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's net assets for fiscal years 2007 and 2006.

Table 1
Statement of Net Assets

	2007	2006
Assets		
Current Assets	$ 79,701	$ 65,065
Capital Assets, Net of Accumulated Depreciation	1,179,587	1,308,787
Total Assets	1,259,288	1,373,852
Liabilities		
Current Liabilities	1,085,404	1,050,731
Long Term Liabilities	875,168	900,904
Total Liabilities	1,960,572	1,951,635
Net Assets		
Investment in Capital Assets, Net of Related Debt	50,992	9,573
Unrestricted	(752,276)	(587,357)
Total Net Assets	$ (701,284)	$(577,784)

Total assets decreased by $114,564, while total liabilities increased by $8,937. Cash and cash equivalents increased by $26,001 and capital assets, net of accumulated depreciation, decreased by $129,200 due to regular depreciation.



Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2007 and 2006, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

Table 2
Change in Net Assets

	2007	2006
Operating Revenue :		
State Aid	$1,362,143	$ 1,208,895
Classroom Materials & Fees	4,747	8,493
Services to Schools	143,828	0
Other Operating Revenues	11,051	2,928
Total Operating Revenues	1,521,769	1,220,316
Operating Expenses :		
Salaries	1,112,735	1,254,566
Fringe Benefits	302,775	324,146
Purchased Services	346,351	264,465
Materials and Supplies	102,965	73,452
Depreciation Expense	129,200	141,986
Other Operating Expense	66,869	85,459
Total Operating Expenses	2,060,895	2,144,074
Operating Income (Loss)	(539,126)	(923,758)
Non-Operating Revenues and (Expenses)		
Grants – State	14,002	10,675
Grants – Federal	105,470	100,111
Interest Income	(182)	3,931
Contributions and Donations	113,162	112,739
Interest and Fiscal Charges	(116,826)	(115,672)
Debt Forgiveness	300,000	0
Total Non-Operating Revenues and (Expenses)	415,626	111,784
Increase (Decrease) in Net Assets	$ (123,500)	$ (811,974)

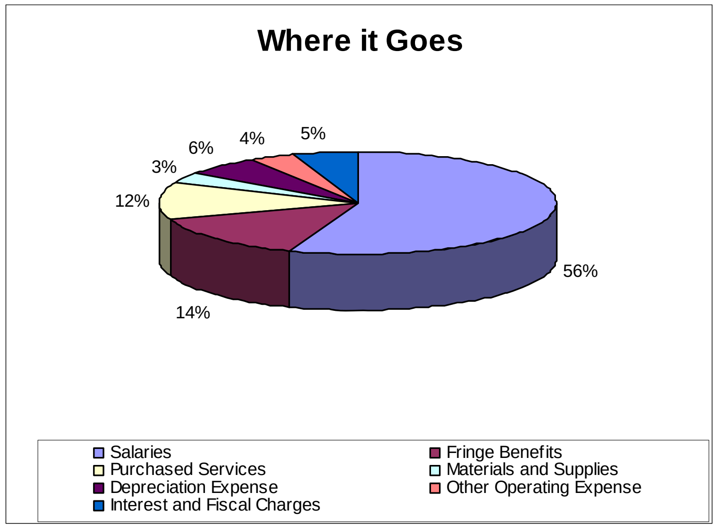
Operating revenues increased $301,453, which represents a 24.7% increase from 2006. Operating expenses decreased by $83,179, which represents a 3.88% decrease from 2006. Operating expense decreases are due primarily to decreased salaries and benefits, depreciation, and other operating expenses, while purchased services increased for an overall net effect of operating expenses.

Budgeting Highlights

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

CAPITAL ASSETS

Graham has $ 1,179,587 invested in capital assets, net of accumulated depreciation. This decrease of $129,200 is due to regular depreciation. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).



DEBT

At June 30, 2007, Graham had $697,310 in short-term liabilities. Note 13 summarizes all of Graham's short-term liabilities. In addition, Graham had $888,485 in long-term notes payable, of which $13,317 is due within one year. Note 14 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. Graham has contracted with Delaware Union Educational Service Center as its new sponsor effective July 1, 2005. See Note 17 for further information. Graham has utilities donations to help offset its operating deficits and this practice is expected to continue. The school has an annual giving program and has a hired funding raising specialist to help with this effort. All of Graham's financial abilities will be needed to meet the challenges of the future.

CONTACTING GRAHAM'S FINANCIAL MANAGEMENT

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

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 53,080
Prepaids	18,207
Intergovernmental Receivables	8,414
Total Current Assets	79,701
Noncurrent Assets:	
Capital Assets:	
Non-Depreciable Capital Assets	141,800
Depreciable Capital Assets, net	1,037,787
Total Noncurrent Assets	1,179,587
Total Assets	$1,259,288
Liabilities	
Current Liabilities:	
Accounts Payable	$ 43,760
Accrued Wages and Benefits	138,079
Line of Credit	599,000
Accrued Interest Payable	186,718
Unearned Revenue	6,220
Notes Payable	98,310
Total Current Liabilities	1,072,087
Long-Term Liabilities:	
Due within one year	13,317
Due within more than one year	875,168
Total Long-Term Liabilities	888,485
Total Liabilities	$1,960,572
Net Assets	
Investment in Capital Assets, Net of Related Debt	$ 50,992
Unrestricted	(752,276)
Total Net Assets	$ (701,284)

See accompanying notes to the basic financial statements

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Operating Revenues:	
State Aid	$1,362,143
Classroom Fees	4,747
Services to Schools	143,828
Other Operating	11,051
Total Operating Revenues	1,521,769
Operating Expenses:	
Salaries	1,112,735
Fringe Benefits	302,775
Purchased Services	346,351
Materials and Supplies	102,965
Depreciation	129,200
Other	66,869
Total Operating Expenses	2,060,895
Operating Loss	(539,126)
Non-Operating Revenues (Expenses):	
Grants	119,472
Contributions & Donations	113,162
Debt Forgiveness	300,000
Investment Income	(182)
Interest and Fiscal Charges	(116,826)
Total Non-Operating Revenues (Expenses)	415,626
Change in Net Assets	(123,500)
Net Assets Beginning of Year	(577,784)
Net Assets End of Year	$ (701,284)

See accompanying notes to the basic financial statements

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$1,357,949
Cash Received from Other Operating Sources	161,985
Cash Payments to Suppliers for Goods and Services	(369,290)
Cash Payments to Employees for Services	(1,155,738)
Cash Payments for Employee Benefits	(379,747)
Other Cash Payments	(66,869)
Net Cash Used for Operating Activities	(451,710)
Cash Flows from Noncapital Financing Activities	
Cash Received from Operating Grants	121,472
Cash Received from Contributions and Donations	113,162
Net Cash Provided by Noncapital Financing Activities	234,634
Cash Flows from Capital and Related Financing Activities	
Cash Received from Line of Credit	314,000
Cash Payments for Interest and Fiscal Charges	(58,667)
Cash Payments for Principal Payments	(11,417)
Net Cash Provided by Capital Financing Activities	243,916
Cash Flows from Investing Activities	
Interest Income	1,201
Cash Payment from Securities Account	(839)
Net Cash Provided by Investing Activities	362
Net Increase in Cash and Cash Equivalents	26,001
Cash and Cash Equivalents Beginning of Year	27,079
Cash and Cash Equivalents End of Year	$ 53,080

See accompanying notes to the basic financial statements

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities

Operating Loss	$ (539,126)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	129,200
(Increase) Decrease in Assets:	
Intergovernmental Receivable	(4,194)
Increase (Decrease) in Liabilities:	
Accounts Payable	33,186
Intergovernmental Payable	(17,875)
Accrued Wages & Benefits	(52,901)
Net Cash Used in Operating Activities	$ (451,710)

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 year 2006.

Graham operates under the direction of a seven-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 17 certificated full time teaching personnel who provide services to 218 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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 cash received by the School is deposited in accounts in the School's name and reflected as Cash and Cash Equivalents on the Statement of Net Assets. The School did not have investments during fiscal year 2007.

E. Prepaid Items

Graham records payments made to vendors for services that will benefit periods beyond June 30, 2007, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Graham's capitalization threshold is one thousand dollars.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

Graham currently participates in the State Foundation Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues (foundation payments and special education) in the accounting period in which they are earned and become measurable. Funding from these programs is listed as “State Aid” on the Statement of Revenues, Expenses, and Changes in Net Assets.

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

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

H. Net Assets

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

I. Operating Revenues and Expenses

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

J. Estimates

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

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

Deposits: The carrying value of the School's deposits totaled $53,080, and the bank balance totaled $82,934, all of which was covered by federal depository insurance. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, all of the School's bank balance of $82,934 was covered by Federal Deposit Insurance.

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

B. Investments

During fiscal 2007, the School had equity investments In Huntington Bank Shares and Wachovia Corp. At June 30, 2007, the school had liquidated its investments in these companies and transferred the money to the School's Parent Group to fund scholarships for students.

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

4. RECEIVABLES

At June 30, 2007, Graham had intergovernmental receivables in the amount of $8,414. The receivables are expected to be collected within one year.

Grant	***Amount***
State Aid FTE Adjustment	$4,194
Core Implementation	4,220
Total Intergovernmental Receivables	$8,414

5. CAPITAL ASSETS

At June 30, 2007, the following table represents Graham's changes in capital assets. Capital assets are considered depreciable except for land.

	Balance 06/30/06	Additions	Retirements	Balance 06/30/07
Non-Depreciable Capital Assets				
Land	$ 141,800	-	-	$ 141,800
Capital Assets Being Depreciated:				
Building	1,108,200	-	-	1,108,200
Improvements	682,394	-	-	682,394
Furniture and Equipment	103,893	-	-	103,893
Total Capital Assets Being Depreciated	1,894,487	-	-	1,894,487
Less Accumulated Depreciation:				
Building	(146,458)	(27,705)	-	(174,163)
Improvements	(484,704)	(97,950)	-	(582,654)
Furniture and Equipment	(96,338)	(3,545)	-	(99,883)
Total Accumulated Depreciation	(727,500)	(129,200)	-	(856,700)
Net Total Capital Assets	$1,308,787	$(129,200)	$ -	$ 1,179,587

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 2007, Graham contracted with the Hartford Casualty Insurance Company and Employers Insurance of Wausau to have the following insurance coverage:

Commercial General Liability per occurrence	$1,000,000
Commercial General Liability aggregate	2,000,000
Umbrella Liability per occurrence	5,000,000
Umbrella Liability aggregate	5,000,000
Automobile Liability combined single limit	1,000,000
Commercial Property Liability – Personal Property ($1,000 Deductible)	25,600
Excess Volunteer Liability per occurrence	1,000,000
Excess Volunteer Liability aggregate	3,000,000

6. RISK MANAGEMENT (continued)

A. Insurance Coverage (continued)

Graham owns real property located at 3950 Indianola Avenue, Columbus, Ohio. For the year ended 2006, Graham contracted with the Westfield Group and had the following insurance coverage:

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

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

B. Workers' Compensation

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

C. Employee Medical, Dental and Vision Benefits

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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, 2007, 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 2007, 10.58 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, 2007, 2006, and 2005 were $30,546, $47,424 and $23,109, respectively. For 2007, Graham contributed all of its required contribution.

7. DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement Systems (STRS)

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

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

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

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

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, 2007, members were required to contribute 10 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 2006, 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, 2007, 2006, and 2005, were $105,821, $145,202, and $121,205, respectively. For 2007, Graham contributed all of its required contribution.

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, 2006, 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 $8,140 during fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the School paid $17,689 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were $178,221,113 and the target level was $335.2 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of $267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

9. STATE SCHOOL FUNDING DECISION

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

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

10. CONTINGENCIES

A. Grants

Graham receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2007.

B. Litigation

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

C. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by Graham. These reviews are conducted to ensure Graham is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review was conducted over the 2006-2007 school year which resulted in an overpayment that has been recorded as an intergovernmental receivable.

11. PURCHASED SERVICES

For the period July 1, 2006 through June 30, 2007, purchased service expenses were payments for services rendered by various vendors, as follows:

Description	Amount
Professional and Technical Services	$203,165
Property Services	51,651
Travel Mileage/Meeting Expense	10,904
Communications	12,286
Utilities	35,014
Pupil Transportation Services	33,331
Total Purchased Services	$346,351

12. 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, 2007.

Fiscal Year	Copier
2008	10,186
Total	$ 10,186

13. SHORT- TERM DEBT

At June 30, 2007, the following table represents Graham's short-term debt issuances:

	Principal Outstanding 6/30/2006	Additions	Reductions	Principal Outstanding 6/30/2007
Chuck Graham - Line of Credit	$ 285,000	$ 314,000	$ -	$ 599,000
Dantomka, Lt. Note-a	398,310	-	(300,000)	98,310
Total Short-Term Liabilities	$ 683,310	$ 314,000	$ (300,000)	$ 697,310

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 March 19, 2007, the note was amended to increase the principal amount to $750,000. At June 30, 2007, Graham had an outstanding principal balance of $599,000 that has been recorded as line of credit payable with accrued interest for fiscal year 2007of $38,453.

13. SHORT- TERM DEBT (Continued)

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. In fiscal year 2007, $300,000 was forgiven leaving the principal balance of $98,010. The accrued interest of $15,294 has been recorded for fiscal year 2007.

14. LONG TERM LIABILTIES

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

	Principal Outstanding 06/30/06	Additions	Reductions	Principal Outstanding 06/30/07	Amounts Due Within one year
Dantomka, Lt. Note-b	$ 143,692	$ -	$ -	$ 143,692	$ -
Meers/Graham	756,210	-	(11,417)	744,793	13,317
Total Long-Term Liabilities	$ 899,902	$ -	$ (11,417)	$ 888,485	$ 13,317

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

14. LONG TERM LIABILTIES (Continued)

The annual requirements to amortize all outstanding long-term debt as of June 30, 2007, including interest are as follows:

	Principal	Interest	Total
2008	$ 13,317	$ 63,140	$ 76,457
2009	$ 14,279	$ 62,177	$ 76,456
2010	$ 15,312	$ 61,145	$ 76,457
2011	$ 16,418	$ 60,038	$ 76,456
2012	$ 17,605	$ 58,851	$ 76,456
2013-2017	$ 109,060	$273,223	$ 382,283
2018-2022	$ 298,298	$227,677	$ 525,975
2023-2027	$ 219,174	$105,629	$ 324,803
2028-2031	$ 185,022	$ 27,065	$ 212,087
Total	$ 888,485	$938,945	$1,827,430

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

15. 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 2007, Graham paid $10,537 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. During fiscal year 2007, $300,000 was forgiven. However, the remaining $98,310 is still payable on demand.

16. 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.

17. SPONSOR

The school contracted with Delaware Union as its sponsor effective July 1, 2005. The school pays the Sponsor a per pupil fee of 155 per student. Total fees for fiscal 2007 were $33,811. The contract is for five years ending on June 30, 2010. The sponsor is to provide oversight, monitoring, and technical assistance for the school.

18. COLUMBUS FOUNDATION

The Columbus Foundation holds in trust for the school $20,308. This money is set up in a designated fund which is to be used for the renovation of the School's property. In the event all of the fund's assets are not required for the renovation of the School's property, any remaining assets may be used for the operating needs of the School. The School did not receive any distributions from the fund during fiscal year 2007.

19. THE CHARLES SCHOOL

Effective July 1, 2007, the School entered into a two year Management Agreement (Agreement) with The Charles School (TCS). The Agreement's term runs through June 30, 2008. Substantially all functions of the Charles School have been contracted to The Graham School (TGS). TGS is responsible and accountable to the School's Board of Directors for the administration and day-to-day operations. TCS and TGS have common board members as of June 30, 2007. Per the contract, TGS receives 95 percent all federal, state, and local grants received by TCS. During fiscal year 2007, TGS received $143,828 in fees due to services rendered for startup activities relative to TCS.

20. SUBSEQUENT EVENTS

In September of 2007, Graham entered into a lease agreement with Modern Office Methods for equipment. Graham's lease obligations met the criteria for a capitalize lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases".

In December of 2007, the Board announced plans to merge its line of credit with Charles Graham ($599,000 as of June 30, 2007) with the mortgage co held with Mr. Graham and Ms Meers ($744,793 as of June 30, 2007). In addition, all accrued interest on the line of credit and Dantonka-a ($186,718 as of June 30, 2007) will be forgiven.

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

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

We have audited the financial statements of the enterprise fund of The Graham School, Franklin County, Ohio (Graham), as of and for the year ended June 30, 2007, and have issued our report thereon dated January 14, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Graham's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Graham's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Graham's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* which is described in the accompanying schedule of findings as item 2007-1.

We also noted certain other matters that we reported to management of Graham in a separate letter dated January 14, 2008.

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

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

KENNEDY COTTRELL RICHARDS LLC

Kennedy Cottrell Richards LLC

January 14, 2008

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2007

2007-1 NONCOMPLIANCE: DEBT

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

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

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

Views of Responsible Officials

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

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2007

Fiscal Year	Finding Number	Status
2006	2006-1	Not corrected. Repeated as finding 2007-1.

Mary Taylor, CPA
Auditor of State

THE GRAHAM SCHOOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION
This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 11, 2008

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