



**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



THE GRAHAM SCHOOL  
FRANKLIN COUNTY

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## **REPORT OF INDEPENDENT ACCOUNTANTS**

The Graham School  
Franklin County  
3950 Indianola Ave.  
Columbus, Ohio 43214

We have audited the accompanying Balance Sheet of the Graham School, Franklin County, (the School) as of June 30, 2001, and the related Statement of Revenues, Expenses and Changes in Retained Earnings and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Graham School, Franklin County, Ohio, as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2001, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**JIM PETRO**  
Auditor of State

December 3, 2001

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**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**BALANCE SHEET  
JUNE 30, 2001**

**Assets**

**Current Assets**

Cash and Cash Equivalents with Fiscal Agent	\$ 12,478
Prepaid Items	<u>2,064</u>
Total Current Assets	14,542

**Non-Current Assets**

Fixed Assets (Net of Accumulated Depreciation)	<u>1,545,709</u>
Total Assets	<u><u>\$ 1,560,251</u></u>

**Liabilities and Fund Equity**

**Current Liabilities**

Accounts Payable	\$ 29,263
Accrued Wages and Benefits Payable	4,277
Intergovernmental Payable	16,750
Accrued Interest Payable	9,662
Mortgage Notes Payable - Current Portion	<u>154,534</u>
Total Current Liabilities	<u>214,486</u>

**Long-Term Liabilities**

Mortgage Notes Payable - Long-Term Portion	<u>795,365</u>
Total Liabilities	1,009,851

**Fund Equity**

Contributed Capital	418,000
Retained Earnings	<u>132,400</u>
Total Fund Equity	<u>550,400</u>
Total Liabilities and Fund Equity	<u><u>\$ 1,560,251</u></u>

The accompanying notes are an integral part of the financial statements

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN RETAINED EARNINGS  
JUNE 30, 2001**

**Operating Revenues**

Foundation Payments	\$ 350,484
Disadvantaged Public Impact Aid	17,148
Food Services	5,139
Classroom Materials and Fees	125
Miscellaneous Operating Revenue	59
	<hr/>
Total Operating Revenues	372,955

**Operating Expenses**

Salaries	407,377
Fringe Benefits	107,842
Purchased Services	130,030
Materials and Supplies	39,777
Depreciation	50,910
Other Operating Expenses	2,292
	<hr/>
Total Operating Expenses	738,228
	<hr/>
Operating Loss	(365,273)

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

State Restricted Grants	105,000
Federal Restricted Grants	1,861
Interest Income	1,424
Contributions and Donations	400,050
Interest and Fiscal Charges	(10,662)
	<hr/>
Total Non-Operating Revenues	497,673
	<hr/>
Net Income	132,400
	<hr/>
Retained Earnings at Beginning of Year	-
	<hr/>
Retained Earnings at End of Year	\$ 132,400

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



**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
JUNE 30, 2001**

**Increase (Decrease) in Cash and Cash Equivalents**

**Cash Flows from Operating Activities**

Cash received from State Foundation and Disadvantaged Public Impact Aid	\$ 367,632
Cash received from Food Services	5,139
Cash received from Classroom Materials and Fees	184
Cash Payments to Suppliers for Goods and Services	(158,637)
Cash Payments to Employees for Services	(379,701)
Cash Payments for Employee Benefits	(91,092)
Net Cash Used for Operating Activities	<u>(256,475)</u>

**Cash Flows from Noncapital Financing Activities**

State Restricted Grants	105,000
Federal Restricted Grants	1,861
Net Cash Provided by Noncapital Financing Activities	<u>106,861</u>

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

Principal Payments	(101)
Interest Payments	(1,000)
Contributions and Donations	400,050
Payments for Fixed Assets	(238,281)
Net Cash Provided by Capital and Related Financing Activities	<u>160,668</u>

**Cash Flows from Investing Activities**

Cash Received from Interest on Investments	<u>1,424</u>
Net Cash Provided by Investing Activities	<u>1,424</u>

Net Increase (Decrease) in Cash and Cash Equivalents 12,478

Cash and Cash Equivalents at Beginning of Year	<u>-</u>
Cash and Cash Equivalents at End of Year	<u>\$ 12,478</u>

**Reconciliation of Operating Loss to Net**

**Cash Used for Operating Activities**

Operating Loss	\$ (365,273)
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**Adjustments to Reconcile Operating Loss to Net**

**Cash Used for Operating Activities**

Depreciation	50,910
Changes in Assets and Liabilities:	
(Increase)/Decrease in Prepaid Items	(2,064)
Increase/(Decrease) in Accounts Payable	29,263
Increase/(Decrease) in Accrued Wages Payable	4,277
Increase/(Decrease) in Intergovernmental Payable	16,750
Increase/(Decrease) in Interest Payable	9,662
Total Adjustments	<u>108,798</u>
Net Cash Used for Operating Activities	<u>\$ (256,475)</u>

**Noncash Investing, Capital, and Financing Activities:**

Fixed Assets (Land & Building)	\$1,368,000
Mortgage Payable	(\$800,000)
Notes Payable	(\$150,000)
Contributed Capital	(418,000)
Total	<u>(\$1,368,000)</u>

The accompanying notes are an integral part of the financial statements

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**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

**1. DESCRIPTION OF THE ENTITY**

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

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

Graham operates under the direction of a ten-member Governing Board. The Governing Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Governing Board controls Graham's one instructional/support facility staffed by 2 noncertified and 10 certificated full time teaching personnel who provide services to 76 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 a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Graham also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of Graham's accounting policies are described below:

**A. Basis of Presentation**

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

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

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

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

**C. Budgetary Process**

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

**D. 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 a demand deposit account.

**E. Fixed Assets And Depreciation**

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

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

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

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

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

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which 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 fiscal year use is first permitted, matching requirements, in which Graham must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to Graham on a reimbursement basis.

Graham also participated in the Federal Charter School Grant Program Phase III through the Ohio Department of Education. Under this program, Graham was awarded \$ 50,000 to offset start-up cost of the school and an additional \$50,000 charter school sub-grant. Revenues from these programs were recognized as non-operating grants in the accompanying financial statements.

Amounts awarded under the above named programs for 2001 school year totaled \$106,861.

**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**H. Estimates**

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

**I. Contributed Capital**

Contributed capital represents a donation of land for \$100,700 and building for \$317,300, for a total of \$418,000. These assets are recorded at their fair market value on the date contributed and are not subjected to repayment. These fixed assets were contributed capital items in fund equity on the balance sheet. See also footnotes 14 "Subsequent Event" and 15 "Related Party Transactions".

**J. Other Contributions/donations**

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At June 30, 2001, the carrying amount of Graham's demand deposits was \$12,478 and the bank balance was \$27,794. The bank balance was covered by federal depository insurance

**4. FIXED ASSETS**

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

	<b>Balance <u>6/30/01</u></b>
Buildings	1,125,500
Furniture & Equipment	35,645
Leasehold Improvements	<u>192,974</u>
Total Depreciable Assets	1,354,119
Less Accum. Depreciation	<u>(50,910)</u>
Net	1,303,209
Land	242,500
Total Fixed Assets	<u><u>\$1,545,709</u></u>

**5. RISK MANAGEMENT**

**A. Property and Liability:**

Graham is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2001, Graham contracted with Westfield Insurance Company for property and general liability insurance.

The Education Liability policy covers errors and omissions, directors and officers, professional, products completed operations and premises operations subject to the general aggregate. This policy is protected by Nationwide Agribusiness Insurance Company with a \$2,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible.

The Commercial Property policy covers the building and its contents for \$450,000 and \$15,000, respectively. This policy is protected by Westfield Insurance Company with a \$250 deductible.

**B. Worker's Compensation:**

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**5. RISK MANAGEMENT (Continued)**

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

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

**6. 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 public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and Graham is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.55 percent 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 obligations to SERS for the year ended June 30, 2001 was \$6,825; 92.04 percent has been contributed for fiscal year 2001. The unpaid contribution for fiscal year 2001 in the amount of \$543 has recorded as a liability.

**B. State Teachers Retirement System**

Graham contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a public available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio, 43215-3771, or by calling (614)-227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and Graham is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. 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. Graham's required contributions for pension obligations to STRS for the year ended June 30, 2001 was \$50,750; 72.45 percent has been contributed for fiscal year 2001. The unpaid contribution for fiscal year 2001 in the amount of \$13,980 has been recorded as a liability.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**7. POST-EMPLOYMENT BENEFITS**

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

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For Graham, this amount equaled \$16,120 for the fiscal year ended June 30, 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

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

For this fiscal period, employer contributions to fund health care benefits were 8.45 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay had been established at \$12,400. For Graham, the amount to fund health care benefits, including surcharge, was \$543 for the fiscal year ended June 30, 2001.

**8. STATE SCHOOL FUNDING DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.



**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**8. STATE SCHOOL FUNDING DECISION (Continued)**

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of November 2, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may reexamine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, Graham is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**9. CONTINGENCIES**

**Grants**

Graham received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the school. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Graham at June 30, 2001.

**Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state constitution and state laws. The effect of this suit, if any, on Graham is not presently determinable.

**State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of this review could result in state funding being adjusted. Graham does not anticipate any material adjustments to state funding for fiscal year 2001, as a result of such a review.

**10. FISCAL AGENT**

The service agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of The Graham School. As part of this agreement, Graham shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to Graham from the State of Ohio. The total contract payment of \$7,403 was paid during the year in full.

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**10. FISCAL AGENT (Continued)**

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

**11. PURCHASED SERVICES**

For the period July 1, 2000 through June 30, 2001, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 58,277
Property Services	22,410
Travel Mileage/Meeting Expense	12,995
Communications	25,345
Utilities	7,398
Contracted Craft or Trade Services	3,150
Tuition	<u>455</u>
Total Purchased Services	<u>\$ 130,030</u>

**12. OPERATING LEASES**

Graham entered into an operating lease commencing September 27, 2000 for a term of 36 months for a copier. The copier is owned by Modern Leasing.

Graham also entered into an operating lease commencing December 21, 2000 for a term of 36 months for a computer system. The computer is owned by Dell Financial Services.

The following is a schedule of the future minimum payments required under the operating leases as of June 30, 2001.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

**12. OPERATING LEASES (Continued)**

<u>Fiscal Year Ending</u>	<u>Copier</u>	<u>Computer</u>
2002	\$4,041	2,899
2003	4,041	2,899
2004	<u>1,012</u>	<u>1,209</u>
Total Minimum Payments	<u>\$ 9,094</u>	<u>\$ 7,007</u>

**13. LONG-TERM OBLIGATIONS**

Long-term obligations of Graham as of June 30, 2001 were as follows:

	<b><u>Outstanding 06/30/01</u></b>
R. Born/N. Edwards Mortgage 8.00%; Matures 06/01/2005	\$149,899
K. Born Mortgage 8.00%; Matures 06/01/2005	<u>650,000</u>
Totals	\$799,899
Dantomka, Ltd. Note 8.00%; Matures 06/07/2002	<u>150,000</u>
Totals	<u>\$949,899</u>

During Fiscal Year 2001 two mortgages were issued through Richard W. Born, Nancy B. Edwards, and Kathryn W. Born. The monthly payments of \$1,101 and \$4,899, commenced in June 2001 will conclude no later than June 2005. The proceeds from the mortgage notes were used to purchase Graham's new facility.

A promissory note was issued in Fiscal Year 2001 through Dantomka, Ltd. The monthly payments of \$1,433 commenced in July 2001 and will conclude no later than June, 2002. The proceeds from the note were used to purchase Graham's new facility.

The annual requirements to amortize all outstanding debt as of June 30, 2001, including interest is as follows:

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001  
(Continued)**

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

<u>Fiscal Year Ending June 30</u>	<u>R. Born/N. Edwards Mortgage</u>	<u>K. Born Mortgage</u>	<u>Dantomka, Ltd. Promissory Note</u>
2002	\$13,199	\$59,311	\$162,000
2003	13,199	58,741	-
2004	13,198	58,736	-
2005	<u>156,564</u>	<u>672,722</u>	<u>-</u>
Total	196,160	849,510	162,000
Less: Amount Representing Interest	<u>(46,261)</u>	<u>(199,510)</u>	<u>(12,000)</u>
<b>TOTALS</b>	<b><u>\$149,899</u></b>	<b><u>\$650,000</u></b>	<b><u>\$150,000</u></b>

**14. SUBSEQUENT EVENT**

On October 21, 2001, Graham sold land and a building for \$418,000. These fixed assets were contributed capital items in fund equity on the balance sheet and were removed at that time.

**15. RELATED PARTY TRANSACTIONS**

Dantomka, Ltd. is a limited partnership corporation, which is a general partner of DK Services. The individual who serves as Dean of Academics, Board member and Developer of Graham, also serves as the president of DK Services and general partner of Dantomka, Ltd. During fiscal year 2001, Dantomka, Ltd. issued a \$150,000 promissory note at 8% to Graham for the purchase of a new facility. In addition, Dantomka, Ltd. contributed \$418,000 in Land and Buildings to Graham school during fiscal year 2001.

**16. LEGAL NONCOMPLIANCE**

Graham entered into debt agreements with maturities extending beyond the end of the fiscal year which is not in compliance with Ohio Revised Code Section 3314.08(J).



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

The Graham School  
Franklin County  
3950 Indianola Ave.  
Columbus, Ohio 43214

We have audited the financial statements of The Graham School, Franklin County, Ohio, (the School) as of and for the year ended June 30, 2001, and have issued our report thereon dated December 3, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the schedule of findings as item 2001-10625-001.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated December 3, 2001.

The Graham School  
Franklin County  
Report on Compliance And on Internal Control Required by  
*Government Auditing Standards*  
Page 2

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

**JIM PETRO**  
Auditor of State

December 3, 2001

**GRAHAM SCHOOL  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2001**

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

**FINDING NUMBER 2001-10625-001**

**DEBT**

Ohio Rev. Code Section 3314.08(J) allows community schools to borrow money to pay any necessary and actual expenses in anticipation of receiving state funding, however, such debt must mature no later than the end of the fiscal year. The School entered into debt agreements with maturities beyond the fiscal year end, which is not compliance with the aforementioned code section.

We recommend that if the School intends to issue debt that matures beyond the fiscal year, the School should clearly establish the debt is secured with funds other than state funding and the School should set forth how payments will be funded in the future.







STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**THE GRAHAM SCHOOL**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 7, 2002**