

The Graham School

Franklin County, Ohio

Financial Statements and
Independent Auditor's Reports
June 30, 2006





Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of The Graham School, Franklin County, prepared by Kennedy Cottrell Richards LLC, for the audit period July 1, 2005 through June 30, 2006. 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

April 12, 2007

This Page is Intentionally Left Blank.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis.....	2
Statements of Net Assets.....	6
Statement of Revenues, Expenses and Changes in Fund Net Assets	7
Statement of Cash Flows	8
Notes to the Basic Financial Statements	10
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based Upon the Audit Performed in Accordance with <i>Government Auditing Standards</i>	23
Schedule of Findings.....	24
Schedule of Prior Year Findings	25

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, 2006, 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, 2006, 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 February 21, 2007, 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 Richards LLC
February 21, 2007

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
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, 2006. 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

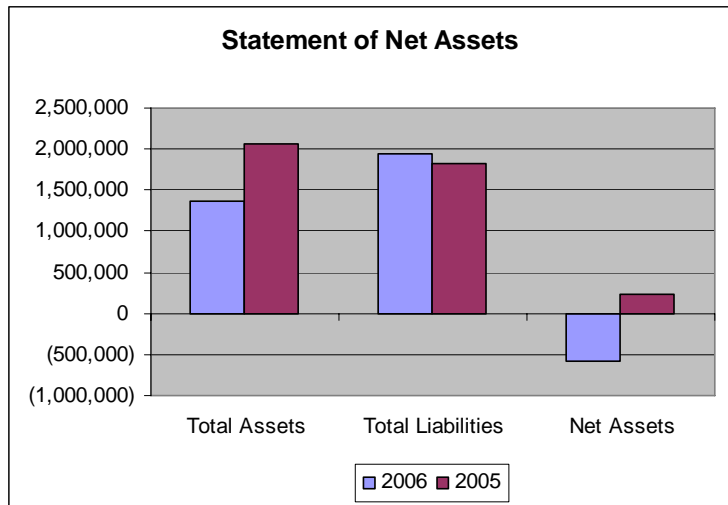
Key Financial Highlights for Graham for the 2005-2006 school year are as follows:

- Total assets decreased by \$687,560 (or 33%), while cash and cash equivalents increased by \$46,082 and capital assets, net of accumulated depreciation, decreased by \$733,642 due to sale of additional land deeded to the school and regular depreciation .
- Total net assets decreased by \$811,974 (or 347%).
- Total revenues were \$1,447,772. Total expenses were \$2,259,746.

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 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.



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

The School uses enterprise presentation for all of its activities.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

Statement of Net Assets

The Statement of Net Assets answers the question of how the School did financially during 2006. 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 2006 and 2005.

**Table 1
Statement of Net Assets**

	<u>2006</u>	<u>2005</u>
Assets		
Current Assets	\$ 65,065	\$ 18,983
Capital Assets, Net of Accumulated Depreciation	1,308,787	2,042,429
Total Assets	<u>1,373,852</u>	<u>2,061,412</u>
Liabilities		
Current Liabilities	1,050,732	921,986
Long Term Liabilities	900,904	905,236
Total Liabilities	<u>1,951,636</u>	<u>1,827,222</u>
Net Assets		
Investment in Capital Assets, Net of Related Debt	9,573	738,694
Unrestricted	(587,357)	(504,504)
Total Net Assets	<u>\$(577,784)</u>	<u>\$ 234,190</u>

Total assets decreased by \$687,560, while total liabilities decreased by \$ 124,414. Cash and cash equivalents increased by \$46,082 and capital assets, net of accumulated depreciation, decreased by \$733,642 due to sale of additional land deeded to the school and regular depreciation.

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2006 and 2005, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for the School as a whole, the financial position of the School has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

**Table 2
Change in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating Revenue :		
State Aid	\$1,208,895	\$1,173,463
Classroom Materials & Fees	\$8,493	6,070
Other Operating Revenues	<u>\$2,928</u>	<u>4,112</u>
Total Operating Revenues	<u>1,220,316</u>	<u>1,183,645</u>
 Operating Expenses :		
Salaries	1,254,566	1,039,857
Fringe Benefits	324,146	237,467
Purchased Services	264,465	179,718
Materials and Supplies	73,452	59,362
Depreciation Expense	141,986	177,294
Other Operating Expense	<u>85,459</u>	<u>43,881</u>
Total Operating Expenses	<u>2,144,074</u>	<u>1,737,579</u>
 Operating Income (Loss)	 (923,758)	 (553,934)
 Non-Operating Revenues and (Expenses)		
Operating Grants – State	10,675	7,925
Operating Grants – Federal	100,111	89,687
Interest Income	3,931	116
Contributions and Donations	112,739	741,233
Interest and Fiscal Charges	(115,672)	(86,062)
Total Non-Operating Revenues and (Expenses)	<u>111,784</u>	<u>752,899</u>
 Increase (Decrease) in Net Assets	 <u>\$ (811,974)</u>	 <u>\$ 198,965</u>

Operating revenues increased \$36,671, which represents a 3% increase from 2005. Operating expenses increased by \$406,495, which represents a 23% increase from 2006. 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.

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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

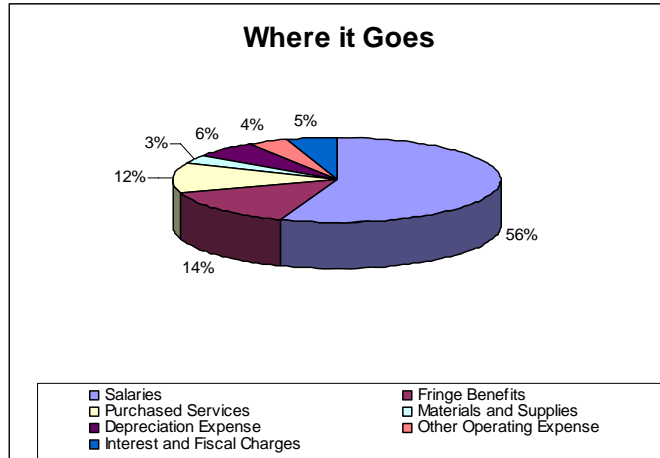
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
UNAUDITED**

CAPITAL ASSETS

Graham has \$ 1,308,787 invested in capital assets, net of accumulated depreciation. This decrease of \$733,642 is due to sale of additional land deeded to the school and regular depreciation. Detailed information regarding capital asset activity is included in the notes to the basic financial statements (Note 5).

DEBT

At June 30, 2006, Graham had \$683,310 in short-term liabilities. Note 13 summarizes all of Graham's short-term liabilities. In addition, Graham had \$ 900,904 in long-term notes payable, of which \$16,349 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, 2006**

Assets

Current Assets:

Cash and Cash Equivalents	\$27,079
Investments	<u>37,986</u>
 Total Current Assets	 65,065

Noncurrent Assets:

Capital Assets:

Non-Depreciable Capital Assets	141,800
Depreciable Capital Assets, net	<u>1,166,987</u>

<i>Total Noncurrent Assets</i>	<u>1,308,787</u>
--------------------------------	------------------

Total Assets	<u>1,373,852</u>
--------------	------------------

Liabilities

Current Liabilities:

Accounts Payable	10,575
Accrued Wages and Benefits	206,001
Line of Credit	285,000
Intergovernmental Payable	17,875
Accrued Interest Payable	132,971
Notes Payable	<u>398,310</u>
Total Current Liabilities	1,050,732

Long-Term Liabilities:

Due within one year	12,347
Due within more than one year	<u>888,557</u>

<i>Total Long-Term Liabilities</i>	900,904
------------------------------------	---------

Total Liabilities	<u>1,951,636</u>
-------------------	------------------

Net Assets

Investment in Capital Assets, Net of Related Debt	9,573
Unrestricted	(587,357)
 Total Net Assets	 <u><u>(\$577,784)</u></u>

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, 2006**

<u>Operating Revenues:</u>	
State Aid	\$1,208,895
Classroom Fees	8,493
Other Operating	<u>2,928</u>
 Total Operating Revenues	 <u>1,220,316</u>
<u>Operating Expenses:</u>	
Salaries	1,254,566
Fringe Benefits	324,146
Purchased Services	264,465
Materials and Supplies	73,452
Depreciation	141,986
Other	<u>85,459</u>
 Total Operating Expenses	 <u>2,144,074</u>
 Operating Income	 <u>(923,758)</u>
<u>Non-Operating Revenues (Expenses):</u>	
Grants	110,786
Contributions & Donations	112,739
Investment Income	3,931
 Interest and Fiscal Charges	 <u>(115,672)</u>
 Total Non-Operating Revenues (Expenses)	 <u>111,784</u>
 Change in Net Assets	 <u>(811,974)</u>
 Net Assets Beginning of Year	 <u>234,190</u>
 Net Assets End of Year	 <u><u>\$(577,784)</u></u>

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$1,211,585
Cash Received from Other Operating Sources	11,421
Cash Payments to Suppliers for Goods and Services	(352,655)
Cash Payments to Employees for Services	(1,200,329)
Cash Payments for Employee Benefits	(324,146)
Other Cash Payments	<u>(85,459)</u>

Net Cash Used for Operating Activities (739,583)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Cash Received from Operating Grants	110,786
Cash Received from Contributions and Donations	<u>102,739</u>

Net Cash Provided by Non-capital Financing Activities 213,525

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

Cash Received from Mortgage Refinancing, Net	77,739
Cash Payments for Interest and Fiscal Charges	(74,259)
Cash Payments for Capital Asset Additions	(38,344)
Cash Payments for Principal Payments	<u>(8,710)</u>

Net Cash Provided by (Used in) Capital Financing Activities (43,574)

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received from Land Sale	579,480
Interest Income	<u>938</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 580,418

NET DECREASE IN CASH AND CASH EQUIVALENTS 10,786

CASH AND CASH EQUIVALENTS BEGINNING OF YEAR 16,293

CASH AND CASH EQUIVALENTS END OF YEAR \$27,079

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating Gain (Loss) (\$923,758)

**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Depreciation Expense 141,986

(Increase) Decrease in Assets:

Intergovernmental Receivable 2,690

Increase (Decrease) in Liabilities:

Accounts Payable (14,738)

Intergovernmental Payable (1,073)

Accrued Wages & Benefits 55,310

Net Cash Provided by (Used in) Operating Activities (\$739,583)

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 Investments

All cash received by the School is deposited in accounts in the School's name. The School did have investments during fiscal year 2006. Investment monies for Graham are maintained in a brokerage account and 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. Investments are recorded at fair market value.

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's capitalization threshold is one thousand dollars.

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

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

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

Deposits: The carrying value of the School's deposits totaled \$27,079, and the bank balance totaled \$57,651, 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, 2006, all of the School's bank balance of \$57,651 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

As of June 30, 2006, the School had the following equity investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent to Total</u>
Huntington Bank Shares	\$28,413	75.00
Wachovia Corp	\$9,573	25.00

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, 2006, Graham had no intergovernmental receivables.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

5. CAPITAL ASSETS

At June 30, 2006, the following table represents Graham's changes in capital assets. Capital assets are considered depreciable except for land:

	Balance <u>06/30/05</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>06/30/06</u>
Non-Depreciable Capital Assets				
Land	\$ 771,800	-	(630,000)	\$141,800
Capital Assets Being Depreciated:				
Building	1,108,200	-	-	1,108,200
Improvements	647,287	35,107	-	682,394
Furniture and Equipment	<u>100,656</u>	<u>3,237</u>	<u>-</u>	<u>103,893</u>
Total Capital Assets Being Depreciated	1,856,143	38,344	-	1,894,487
Less Accumulated Depreciation:	<u>(585,514)</u>	<u>(141,986)</u>	<u>-</u>	<u>(727,500)</u>
Net Total Capital Assets	<u>\$2,042,429</u>	<u>(\$103,642)</u>	<u>(\$630,000)</u>	<u>\$1,308,787</u>

6. RISK MANAGEMENT

A. Insurance Coverage

Graham is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2006, 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)	24,400
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 2006, Graham contracted with the Westfield Group and had the following insurance coverage:

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

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

6. RISK MANAGEMENT (Continued)

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, 2006, 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 2006, 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, 2006, 2005, and 2004 were \$47,424 \$23,109, and \$14,179, respectively. For 2006, Graham contributed \$43,378 and the remainder has been recorded as accrued wages and benefits.

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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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.

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, 2006, 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 2005, 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, 2006, 2005, and 2004, were \$145,202, \$121,205, and \$96,714, respectively. For 2006, Graham contributed \$131,783 and the remainder has been recorded as as accrued wages and benefits.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 \$10,137 during fiscal year 2006.

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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, the School paid \$17,278 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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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, 2006.

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 2006 has not been conducted.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

11. PURCHASED SERVICES

For the period July 1, 2005 through June 30, 2006, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$73,856
Property Services	87,590
Travel Mileage/Meeting Expense	1,552
Communications	16,168
Utilities	34,683
Contract Labor	3,222
Pupil Transportation Services	47,394
Total Purchased Services	<u>\$264,465</u>

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, 2006.

<u>Fiscal Year</u>	<u>Copier</u>
2007	\$ 11,112
<u>2008</u>	<u>10,186</u>
Total	<u>\$ 21,298</u>

13. SHORT- TERM DEBT

At June 30, 2006, the following table represents Graham's short-term debt issuances:

	Principal Outstanding 6/30/2005	Additions	Reductions	Principal Outstanding 6/30/2006
Chuck Graham - Line of Credit	\$ 135,000	\$ 150,000	\$ -	\$ 285,000
Dantomka, Lt. Note-a	398,310	-	-	398,310
Chuck Graham	97,386	-	(97,386)	-
Total Short-Term Liabilities	<u>\$ 630,696</u>	<u>\$ 150,000</u>	<u>\$ (97,386)</u>	<u>\$ 683,310</u>

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

13. SHORT- TERM DEBT (Continued)

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 June 12, 2006, the note was amended to increase the principal amount to \$500,000. At June 30, 2006, Graham had an outstanding principal balance of \$285,000 that has been recorded as line of credit payable with accrued interest of \$6,080.

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 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 repaid at June 30, 2006.

14. LONG TERM LIABILITIES

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

	Principal Outstanding 6/30/2005	Additions	Reductions	Principal Outstanding 6/30/2006	Amounts Due Within one year
R.Born/N. Edwards Mortgage	\$ 143,429	\$ -	\$(143,429)	\$ -	\$ -
K. Born Mortgage	618,105	-	(618,105)	-	-
Dantomka, Lt. Note-b	143,692	-	-	143,692	-
<u>Meers/Graham</u>	<u>-</u>	<u>765,922</u>	<u>(8,710)</u>	<u>757,212</u>	<u>12,347</u>
Total Long-Term Liabilities	<u>\$ 905,226</u>	<u>\$ 765,922</u>	<u>\$(770,244)</u>	<u>\$ 900,904</u>	<u>\$12,347</u>

In July 2005, Graham negotiated with Eileen Meers (School Superintendent) and Chuck Graham (Board Member) to pay off the Born and Edwards mortgages. Thus, the school 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 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)

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

14. LONG TERM LIABILITIES (Continued)

The annual requirements to amortize all outstanding long-term debt as of June 30, 2006, including interest are as follows:

Fiscal Year	Principal	Interest
2007	\$ 12,347	\$ 64,109
2008	13,239	63,216
2009	14,197	62,259
2010	15,223	61,233
2011	16,323	60,132
2012-2016	101,117	281,161
2017-2021	143,347	192,932
2022-2026	346,904	122,548
2027-2031	238,207	37,847
TOTALS	<u>\$ 900,904</u>	<u>\$ 945,437</u>

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. The Dantomka, Ltd. Promissory Note-b does not 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 2006, Graham paid \$8,535 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.

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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2006**

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 2006 were \$29,938. 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. SUBSEQUENT EVENTS

In September of 2006, Dantomka forgave \$300,000 of the loan that was owed to the school.

**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, 2006, and have issued our report thereon dated February 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 2006-1.

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 Richards LLC
February 21, 2007

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

2006-1 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 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
FRANKLIN COUNTY
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2006**

<u>Fiscal Year</u>	<u>Finding Number</u>	<u>Status</u>
2005	2005-1	Corrected.
2005	2005-2	Not corrected. Repeated as finding 2006-1.



Mary Taylor, CPA
Auditor of State

THE GRAHAM SCHOOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 10, 2007