THE GRAHAM SCHOOL
FRANKLIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2012

Dave Yost • Auditor of State

THE GRAHAM SCHOOL
FRANKLIN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board:

We have audited the accompanying basic financial statements of The Graham School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2012 as listed in the table of contents. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2012, and the changes in its financial position and its cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Graham School is experiencing certain financial difficulties. Those difficulties and Management's Plans are discussed in Note 19.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2013, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School's basic financial statements taken as a whole. The supplementary schedule for management company expenses provides additional analysis and is not a required part of the basic financial statements. The supplementary schedule for management company expenses is management's responsibility, and is derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dave Yost

Dave Yost
Auditor of State

May 23, 2013

THE GRAHAM SCHOOL
FRANKLIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)

Our discussion and analysis of The Graham School (TGS) financial performance provides an overall review of TGS' financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at TGS' 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 TGS' 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

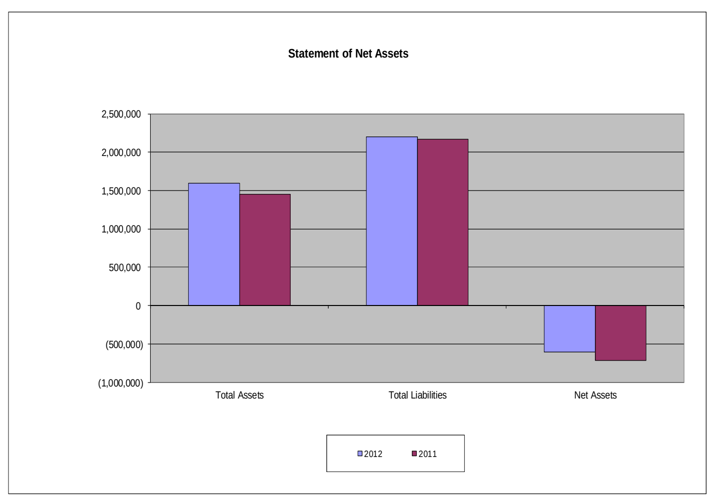
Key Financial Highlights for TGS for the fiscal year 2012 are as follows:

- In total, net assets increased $110,773 which represents a 15.4 percent increase from 2011. This increase is due to the forgiveness of debt.
- Total assets increased $146,113 which represents a 10.1 percent increase from 2011. This was primarily due to increases in cash and capital assets from the previous year.
- Liabilities increased $35,340 which represents a 1.6 percent increase from 2011. The increase in liabilities is due to increases in long term debt as a result of the debt restructure.

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 TGS did financially during fiscal year 2012. 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 TGS' net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of TGS has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include TGS' student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

TGS uses enterprise presentation for all of its activities.

Statement of Net Assets

The Statement of Net Assets answers the question of how TGS did financially during fiscal year 2012. 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 resource 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 TGS' net assets for fiscal years 2012 and 2011.

Table 1
Statement of Net Assets

	2012	2011
Assets		
Current Assets	$ 469,466	$ 447,417
Capital Assets, Net of Accumulated Depreciation	1,127,743	1,003,679
Total Assets	1,597,209	1,451,096
Liabilities		
Current Liabilities	780,463	1,455,442
Long Term Liabilities	1,424,516	714,197
Total Liabilities	2,204,979	2,169,639
Net Assets		
Investment in Capital Assets, Net of Related Debt	(316,620)	165,601
Unrestricted	(291,150)	(884,144)
Total Net Assets	$ (607,770)	$ (718,543)

Net assets decreased $110,773 from 2011. Total assets increased $146,113 from 2011, due to capital asset additions and increased receivables. Total liabilities increased to $2,204,979, an increase from 2011 of $35,340, due to increases in long term debt as a result of the debt restructure.

Statement of Revenues, Expenses and Changes in Net Assets

Table 2 shows the changes in net assets for fiscal years 2012 and 2011, as well as listing revenues and expenses. This change in net assets is important because it tells the reader that, for TGS as a whole, the financial position of TGS 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.

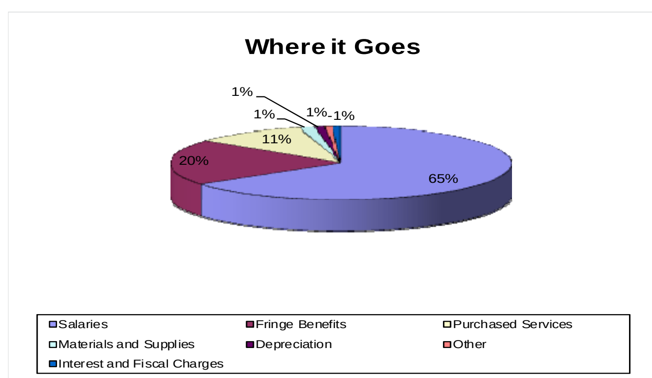


Table 2
Change in Net Assets

	2012	2011
Operating Revenues		
State Aid	$1,895,190	$ 1,542,079
Classroom Materials & Fees	12,306	13,852
Services to Schools	2,784,965	2,469,831
Other Operating Revenues	14,702	11,360
Total Operating Revenues	4,707,163	4,037,122
Non-Operating Revenues		
Grants - State	424	5,339
Grants – Federal	294,603	414,961
Interest Income	325	201
Gain on Debt Forgiveness	240,000	0
Contributions and Donations	100,557	85,080
Total Non-Operating Revenues	635,909	505,581
Total Revenues	5,343,072	4,542,703
Operating Expenses		
Salaries	3,419,388	2,811,461
Fringe Benefits	1,055,620	798,152
Purchased Services	558,746	343,477
Materials and Supplies	76,052	44,610
Depreciation Expense	46,625	41,287
Other Operating Expense	45,082	29,148
Total Operating Expenses	5,201,513	4,068,135
Non-Operating Expenses		
Interest and Fiscal Charges	30,786	49,870
Loss on Sale of Asset	0	500
Contribution to Charles School	0	84,000
Total Non-Operating Expenses	30,786	134,370
Total Expenses	5,232,299	4,202,505
Increase (Decrease) in Net Assets	$ (110,773)	$ 340,198

Operating revenues increased $670,041, which represents a 16.6% increase from 2011. Operating expenses increased by $1,133,378, which represents a 27.9% increase from 2011. Operating revenue and expense increases are due primarily to related activities with The Charles School (TCS) and The Graham Expeditionary Middle School (GEMS) (See notes 17 and 18). TGS received $2,784,965 in revenue from both schools for services rendered and incurred expenses of $2,762,393 for payroll, benefits, and allocated overhead. (See notes 17 and 18)

BUDGETING HIGHLIGHTS

Unlike traditional 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 TGS and its Sponsor does prescribe a budgetary process. TGS has developed a one year spending plan and a five-year forecast that is reviewed semi-annual by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

CAPITAL ASSETS

TGS has $1,127,743 invested in capital assets, net of accumulated depreciation. The increase in asset carrying value of $124,064 is the net effect of asset purchases and annual depreciation. Detailed information regarding capital asset activity is included in the note 5 to the basic financial statements.

DEBT OBLIGATIONS

TGS has no short-term debt obligations at June 30, 2012, and long-term debt obligations of $1,499,258, of which $74,742 is current. Note 12 to the basic financial statements summarizes all of TGS' debt obligations at June 30, 2012.

OTHER INFORMATION

For the Future
In conclusion, TGS has committed itself to financial excellence. TGS has contracted with the Educational Service of Central Ohio as its sponsor, effective May 13, 2009. See note 15 for further information.

TGS has extensive fundraising activities and receives donations to assist in financing its operations; this practice is expected to continue. TGS is also continuing to found additional schools. In addition to The Charles School at Ohio Dominican University, the school has started The Graham Expeditionary Middle School (GEMS). It is planned that income derived from running both schools will be used to reduce the debt of TGS. Also, the financial outlook over the next several years shows continued growth in enrollment at TGS as well. But, future revenue increases are cautious due to Ohio's weak economic recovery.

CONTACTING THE GRAHAM SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of TGS' finances and to demonstrate 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, 2012

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 304,469
Beneficial Interest in Assets Held By Others	20,748
Accounts Receivable	60,752
Intergovernmental Receivable	39,818
Prepaids	43,679
Total Current Assets	469,466
Noncurrent Assets:	
Capital Assets:	
Non-Depreciable Capital Assets	141,800
Depreciable Capital Assets, net	985,943
Total Noncurrent Assets	1,127,743
Total Assets	1,597,209
Liabilities	
Current Liabilities:	
Accounts Payable	20,708
Accrued Wages and Benefits	498,031
Intergovernmental Payable	38,145
Capital Lease Payable, Due within one year	9,304
Long Term Notes Payable, Due within one year	65,438
Unearned Revenue	148,837
Total Current Liabilities	780,463
Long-Term Liabilities:	
Notes Payable, Due within more than one year	1,368,182
Capital Lease Payable, Due within more than one year	56,334
Total Long-Term Liabilities	1,424,516
Total Liabilities	2,204,979
Net Assets	
Investment in Capital Assets, Net of Related Debt	(316,620)
Unrestricted	(291,150)
Total Net Assets	$ (607,770)

See accompanying notes to the basic financial statements

THE GRAHAM SCHOOL
FRANKLIN COUNTY

Statement of Revenues,
Expenses and Change in Net Assets
For the Fiscal Year Ended June 30, 2012

Operating Revenues	
State Aid	$1,895,190
Classroom Fees	12,306
Services to Schools	2,784,965
Other Operating	14,702
Total Operating Revenues	$4,707,163
Operating Expenses	
Salaries	3,419,388
Fringe Benefits	1,055,620
Purchased Services	558,746
Materials and Supplies	76,052
Depreciation	46,625
Other	45,082
Total Operating Expenses	5,201,513
Operating Loss	(494,350)
Non-Operating Revenues (Expenses)	
Grants	295,027
Contributions & Donations	100,557
Investment Income	325
Gain on Debt Forgiveness	240,000
Interest and Fiscal Charges	(30,786)
Total Non-Operating Revenues (Expenses)	605,123
Change in Net Assets	110,773
Net Assets Beginning of Year	(718,543)
Net Assets End of Year	$ (607,770)

See accompanying notes to the basic financial statements

THE GRAHAM SCHOOL
FRANKLIN COUNTY

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$1,933,335
Cash Received from Other Operating Sources	3,002,491
Cash Payments to Suppliers for Goods and Services	(653,724)
Cash Payments to Employees for Services	(3,286,545)
Cash Payments for Employee Benefits	(1,093,720)
Other Cash Payments	(45,082)
Net Cash Used for Operating Activities	(143,245)
Cash Flows from Noncapital Financing Activities	
Cash Received from Operating Grants	278,527
Cash Received from Debt Proceeds	70,000
Cash Payments for Principal Payments	(916,845)
Cash Payments for Interest and Fiscal Charges	(1,057)
Cash Received from Contributions and Donations	87,984
Net Cash Used for Noncapital Financing Activities	(481,391)
Cash Flows from Capital and Related Financing Activities	
Cash Payments for Capital Assets	(157,918)
Cash Received from Debt Proceeds	1,719,717
Cash Payments for Interest and Fiscal Charges	(29,729)
Cash Payments for Principal Payments	(873,432)
Net Cash Provided by Capital Financing Activities	658,638
Cash Flows from Investing Activities	
Interest Income	209
Net Cash Provided by Investing Activities	209
Net Increase in Cash and Cash Equivalents	34,211
Cash and Cash Equivalents Beginning of Year	270,258
Cash and Cash Equivalents End of Year	$ 304,469

Non-Cash Transaction for Capital Financing Activates
During Fiscal Year 2012, the creditor Dantomka forgave $240,000 of principal owed by the School. See Note 12 of the Notes to the Basic Financial Statements for more information.

See accompanying notes to the basic financial statements.

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(CONTINUED)

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES

Operating Loss	$ (494,350)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	46,625
Changes in Assets and Liabilities:	
Accounts Receivable	66,681
Accounts Payable	(18,926)
Prepaids	(38,100)
Accrued Wages and Benefits	132,843
Intergovernmental Payable	38,145
Unearned Revenue	123,837
Net Cash Used for Operating Activities	$ (143,245)

See accompanying notes to the basic financial statements

1. DESCRIPTION OF THE REPORTING ENTITY

The Graham School (TGS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. TGS 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 TGS' tax-exempt status. TGS' objective is to use the Columbus community to form partnerships for student learning. Individualized programs are used to meet students' needs. Parents and students are included in all decision-making. TGS, 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. TGS may acquire facilities as needed and contract for any services necessary for its operation.

TGS was approved for operation under a contract with the Delaware-Union Educational Service Center (the Sponsor) for a period of one year commencing July 1, 2008. A new one year contract was approved commencing July 1, 2009. The Sponsor is responsible for evaluating the performance of TGS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

On January 1, 2009, the Sponsor merged with the Franklin County Service Center. The surviving organization, the Educational Service Center of Central Ohio, acknowledges its obligations under the existing contract between the Sponsor and TCS, and expects to honor provisions contained therein, as documented in the Memorandum of Understanding dated January 3, 2009.

TGS operates under the direction of a seven-member governing board. Most of the members who sit on the TGS board also serve on the Board of the Charles School at Ohio Dominican University, (TCS),(see Note 17). 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 TGS instructional/support facilities staffed by 43 non-certified and 43 certificated full time teaching personnel who provide services to students at TGS, TCS, and The Graham Expeditionary Middle School (GEMS).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of TGS 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. TGS 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 TGS's accounting policies. However, TGS has elected not to apply FASB statements and interpretations issued after November 30, 1989.

A. Basis of Presentation

TGS's basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. TGS 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. The operating statement presents 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 traditional 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 by its sponsor in the sponsorship agreement. The contract between TGS and its Sponsor does not prescribe for an annual budget requirement. TGS does prepare a five-year forecast, which is to be updated semi-annually, and shared with the Governing Board, Ohio Department of Education and its Sponsor, as required by the sponsorship agreement.

D. Cash and Cash Equivalents

All cash received by TGS is deposited in accounts in TGS' name and reflected as Cash and Cash Equivalents on the Statement of Net Assets.

E. Prepaid Items

TGS records payments made to vendors for services that will benefit periods beyond June 30, 2012, 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. TGS had prepaids during fiscal year 2012 (See Note 4).

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. TGS' 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

TGS currently participates in the state's foundation program. Revenue received from this program is recognized as operating revenue (foundation payments) in the accounting period in which it is earned and becomes measurable. Funding from this program 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 TGS must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to TGS on a reimbursement basis.

Resources where the timing requirement is not met are recorded as a liability to the funding source, and reported as a non-operating expense. Resources received prior to the period of use are deferred.

Amounts awarded under the above programs for the 2012 school year totaled $2,190,217.

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 TGS or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. TGS has no restricted net assets at June 30, 2012, but the Statements of Net Assets reports ($316,620) in invested in capital assets. TGS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of TGS. Operating expenses are necessary costs incurred to provide the service that is the primary activity of TGS. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accounts Payable

Accounts Payable consists of obligations at June 30, 2012 incurred during the normal course of conducting operations.

L. Intergovernmental Payable

Intergovernmental Payable consists of payments owed as a result of the ODE FTE audit at year end for overpayment of Foundation monies.

M. Unearned Revenue

Unearned Revenue consists of overpayments of management fees received from TCS, GEMS and GPS that have not been earned as of June 30, 2012 and private grant monies received for fiscal year 2013.

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

Deposits: The carrying value of TGS' deposits totaled $302,682, and the bank balance totaled 408,595. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, $158,595 of TGS' bank balance was not covered by Federal Deposit Insurance.

Custodial credit risk is the risk that, in the event of bank failure, the TGS' 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 TGS' name.

In fiscal 2008, TGS received a donation in the form of equity stock in Wells Fargo. The investment banker, Morgan Stanley Smith Barney, LLC holds the investment in the Citigroup Global Markets, Inc. Morgan Stanley received a credit rating of Baa1 as of June 30, 2012. This is a downgrade from A2 in the previous year. The carrying value of forty-one equity shares of this stock at June 30, 2012 is $1,787, of which $417 is in cash. Due to current market risk and its affect on the equity stocks, TGS has gained $198 in fiscal 2012 on these holdings.

The carrying value of the equity stock is recorded at its fair market value at June 30, 2012.

TGS is exposed to market and custodial risk on this investment to the extent of the value of the equity stock, and any undistributed earnings.

4. RECEIVABLES AND PREPAID EXPENSES

At June 30, 2012, TGS had intergovernmental receivables in the amount of $39,818, accounts receivable in the amount of $60,752, and prepaid expenses in the amount of $43,679. Intergovernmental Receivables consist of federal assistance earned at year end but not received at June 30, 2012. Accounts Receivable consists of management fees earned from TCS and GEMS, but not received at June 30, 2012. The Prepaids consist of over withheld STRS/SERS for fiscal 2012.

5. CAPITAL ASSETS

At June 30, 2012, the following table represents TGS' changes in capital assets. Capital assets are considered depreciable, except for land.

	Balance 06/30/11	Additions	Retirements	Balance 06/30/12
Non-Depreciable Capital Assets				
Land	$ 141,800	-	-	$ 141,800
Capital Assets Being Depreciated:				
Building	1,108,200	-	-	1,108,200
Improvements	682,394	88,283	-	770,677
Furniture and Equipment	167,055	99,577	(34,949)	231,683
Total Capital Assets Being Depreciated	1,957,649	187,860	(34,949)	2,110,560
Less Accumulated Depreciation:				
Building	(276,640)	(27,705)	-	(304,345)
Improvements	(682,394)	(8,943)	-	(691,337)
Furniture and Equipment	(136,736)	(9,977)	17,778	(128,935)
Total Accumulated Depreciation	(1,095,770)	(46,625)	17,778	(1,124,617)
Net Total Capital Assets	$1,003,679	$ 141,235	$ (17,171)	$ 1,127,743

6. RISK MANAGEMENT

A. Insurance Coverage

TGS 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 2012, TGS contracted with the Philadelphia Insurance Co.:

Commercial General Liability per occurrence	$1,000,000
Commercial General Liability aggregate	2,000,000

6. RISK MANAGEMENT (Continued)

A. Insurance Coverage

Umbrella Liability per occurrence	6,000,000
Umbrella Liability aggregate	6,000,000
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

Settled Claims have not exceeded this coverage in any of the past three years, nor has there been any significant reduction in insurance coverage from the prior year.

B. Workers' Compensation

TGS 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

TGS 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

Plan Description - TGS contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plans. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by contacting School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling toll free 1-800-878-5853. It is also posted at the SERS' website at www.ohsers.org under Employer/ Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and TGS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. TGS contributions to SERS for the year ended June 30, 2012, 2011 and 2010 were $118,032, $66,184, and $98,707, respectively, of which 100% has been contributed.

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement Systems (STRS)

Plan Description - TGS contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service that 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.

Funding Policy - For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

TGS' required contribution for pension obligations to STRS for the fiscal years ended June 30, 2012, 2011 and 2010 were $260,618, $285,926, and $200,224, respectively, of which 100% has been contributed.

7. DEFINED BENEFIT PENSION PLANS (continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2012, there were no members that elected Social Security.

8. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement Systems

In addition to a cost-sharing multiple-employer defined pension plan the School Employees Retirement System of Ohio (SERS) administers two post employment benefit plans.

Medicare Part B

The Medicare B plan reimburses Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was $99.90; SERS' reimbursement for retirees was $45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2012, the actuarial required allocation is .75 percent. TGS contributions for the years ended June 30, 2012, 2011 and 2010 were $6,970, $4,274, and $5,870, respectively, of which 100% has been contributed by TGS.

Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions.

8. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement Systems (Continued)

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year June 30, 2012, the minimum compensation level was established at $35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. TGS contributions assigned to health care for the years ended June 30, 2012, 2011 and 2010 were $14,645, $17,575, and $11,716, respectively, of which 100% has been contributed by TGS.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can 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 the SERS' website www.ohsers.org under Employers/Audit Resources

B. State Teachers Retirement System

Plan Description - TGS contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. TGS' contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were $20,521, $21,994, and $15,402, respectively, all of which has been contributed for all fiscal years.

9. CONTINGENCIES

A. Grants

TGS 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 TGS at June 30, 2012.

B. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by TGS. These reviews are conducted to ensure TGS is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review has been conducted for the 2011-2012 school year. The school posted an intergovernmental payable in the amount of $38,145 on the accompanying financial statements presented.

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School received financial assistance from federal and State agencies in the form of grants. The expenditure 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 General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2012, if applicable, cannot be determined at this time.

10. PURCHASED SERVICES

For the period July 1, 2011 through June 30, 2012, purchased service expenses were payments for services rendered by various vendors, as follows:

Description	Amount
Professional and Technical Services	$328,169
Property Services	7,646
Travel Mileage/Meeting Expense	48,074
Communications	15,166
Utilities	31,428
Contracted Trade Services	21,608
Post Secondary Tuition	1,382
Insurance	23,555
Pupil Transportation Services	81,718
Total Purchased Services	$558,746

11. CAPITAL LEASES – LESSEE DISCLOSURE

In December of 2011, TGS entered into a lease agreement with Modern Leasing for a copier. TGS' lease obligations meets the criteria for a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of $70,094 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. Principal payments for fiscal year 2012 totaled $4,456.
The following is a schedule of the future minimum payments required under the capital lease as of June 30, 2012.

Fiscal Year	Copier
2013	$ 24,662
2014	24,662
2015	24,662
2016	24,662
2017	10,234
Total minimum Lease Payments	$ 108,882
Less: amount representing interest	43,244
Present value of minimum lease payments	$ 65,638

12. DEBT OBLIGATIONS – LONG-TERM

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

	Principal Outstanding 6/30/2011	Additions	Debt Forgiveness	Reductions	Principal Outstanding 6/30/2012	Due Within One Year
Line of Credit (Chuck Graham)	901,739	-		(901,739)	-	-
Line of Credit (Meers/Graham)	685,883	-		(685,883)	-	-
Note A (Dantomka Lt.)	98,310	-		(98,310)	-	-
Note B (Dantomka Lt.)	43,692	-		(43,692)	-	-
Note C (Dantomka Lt.)	-	544,375		(8,983)	535,392	12,570
Note D (Dantomka Lt.)	-	1,105,248	(240,000)	(21,915)	843,333	31,683
Charles E. Graham	-	70,000		(15,105)	54,895	21,185
Modern Leasing A	10,193	-		(10,193)	-	-
Modern Leasing B	-	70,094		(4,456)	65,638	9,304
Total Long-Term Liabilities	1,739,817	1,789,717	(240,000)	(1,790,276)	1,499,258	74,742

At the beginning of Fiscal year 2012, TGS had an open-end line of credit with Charles Graham, a former Board member, for operating expenses, a mortgage with Charles Graham and Eileen Meers, CEO of Students, a loan with Dantomka, Ltd. for leasehold improvements, and another loan with Dantomka for operating expenses.

12. DEBT OBLIGATIONS – LONG-TERM (Continued)

In Fiscal Year 2012, TGS restructured its debt. The lines of credit to Chuck Graham and Eileen Meers, and Dantomka notes A and B were retired by issuing new Dantomka loans and a new Charles Graham line of credit.

In November 2011, TGS entered into a new loan with Dantomka, Ltd. in the amount of $544,375 (Note C). The note has a 15 year term at an interest rate of 2.5% annually. Monthly payments on the note are $2,151. Total payments made at June 30, 2012 were $8,983.

In November 2011, TGS entered into a new loan with Eileen Meers, CEO of Students, which was subsequently assigned to Dantomka, Ltd. in the amount of $1,105,248 (Note D). Dantomka forgave $240,000 of this note at the beginning of the new restructure. The note has a 15 year term at an interest rate of 2.5% annually. Monthly payments on the note are $4,367. Total payments made at June 30, 2012 were $21,915.

In November 2011, TGS entered into a new line of credit with Charles Graham in the amount of $70,000. The debt has a 3 year term at an interest rate of 2.5% annually. Monthly payments on the line of credit are $2,020. Total payments made at June 30, 2012 were $15,105.

The annual requirements to amortize all outstanding long-term debt as of June 30, 2012, including interest, are as follows:

	Principal	Interest	Total
2013	$ 65,438	$ 35,001	$ 100,439
2014	69,043	33,417	102,460
2015	72,156	31,651	103,807
2016	72,613	29,846	102,459
2017	110,683	27,758	138,441
2018-2022	705,695	88,008	793,703
2023-2027	337,992	14,154	352,146
Total	1,433,620	259,835	1,693,455

13. RELATED PARTY TRANSACTION

Dantomka, Ltd. is a limited liability corporation, which is a general partner of DK Services. Eileen Meers, who serves as the CEO of Students and is the developer of TGS, also serves as the president of DK Services and a general partner of Dantomka, Ltd. Note disclosure 12 details the terms and payment arrangements of the loans.

Charles E. Graham is a former board member and cousin to Eileen Meers who also has debt disclosed in note 12.

14. TAX EXEMPT STATUS

TGS 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.

15. SPONSOR

On May 13, 2009, a sponsorship agreement was executed between TGS and the Educational Service Center of Central Ohio for a five (5) year period beginning July 1, 2009. Under this agreement, TGS pays the Sponsor “up to” 3% of State Aid (see Note 2G). TGS’ sponsor fee expense at June 30, 2012 totaled $41,677.

16. COLUMBUS FOUNDATION – DISCRETE COMPONENT UNIT

The Columbus Foundation holds in trust a money market account valued at $20,748 at June 30 2012. The account is a designated fund which is to be used for the renovation of TGS’ property. The investment is not held in TGS’ name. Since the Columbus Foundation is legally separate and it would be misleading to exclude these funds from TGS’ financial statements, they will be presented as a component unit on the financial statements. In the event all assets are not required to renovate the property, any remaining assets may be used for its operating needs. TGS did not receive any principal or interest earnings from the fund in fiscal year 2012. Separate financial statements for the Columbus Foundation can be obtained from its website at columbusfoundation.org/. The Foundation maintains cash and money market funds in various financial institutions and certain deposits exceed federally insured limits. The foundation has not experienced any losses on such accounts as of June 30, 2012.

17. MANAGEMENT AGREEMENT WITH THE CHARLES SCHOOL (TCS)

Effective July 1, 2007, TCS entered into a two year Management Agreement (the Agreement) with TGS. The Agreement’s term ran through December 31, 2009. Between January 1, 2010 and June 30, 2011, the boards continued their existing agreement and signed a new contract ending on December 20, 2011. On December 19, 2011, the boards approved a continuing agreement through June 30, 2012. Per the contract, TGS receives up to ninety-five (95) percent of TCS’ federal and state awards, after a minimum of five (5) percent is spent by TCS to pay its direct expenses. TGS management fee revenue for the fiscal year total $1,999,302, as reported in the Statement of Revenues, Expenses and Changes in Net Assets. Of this fee, $1,650,492 was for general fund related fees and $348,810 was for grant related reimbursements

18. MANAGEMENT AGREEMENT WITH GRAHAM EXPEDITIONARY MIDDLE SCHOOL (GEMS)

Effective July 1, 2010, TGS entered into a two year Management Agreement (the Agreement) with The Graham Expeditionary Middle School (GEMS). The Agreement term ran through December 20, 2011. On December 19, 2011, the boards approved a continuing agreement through June 30, 2012. Per the contract, TGS receives up to ninety-five (95) percent of GEMS’ federal and state awards, after a minimum of five (5) percent is spent by GEMS to pay its direct expenses. TGS management fee revenue for the fiscal year total $734,904, as reported in the Statement of Revenues, Expenses and Changes in Net Assets. Of this fee, $588,338 was for general fund related fees and $146,566 was for grant related reimbursements

19. MANAGEMENT'S PLAN

At June 30, 2012, TGS had ending net assets of ($607,770), with an operating loss of $494,350. As of February 28, 2013, the School had a cash balance of $244,727. To address the issue of the deficit in net assets, the school is engaged in a variety of activities. There are weekly meetings held with the dean of the school to review expenses and reduce spending. The School is also hiring a part time budget analyst to assist with financial planning. Enrollment sessions are held throughout the year at TGS and its affiliate schools to actively recruit and enroll students throughout the year. The increased enrollment from the affiliate schools will increase revenues to TGS to reduce the deficit. Lastly, TGS is active in fundraising and grant writing to help supplement their programs.

20. SUBSEQUENT EVENT

On January 5, 2013, TGS paid off the Dantomka Note C which had a principal amount outstanding of $531,481 on that date. Also on January 5, 2013, TGS paid off the Dantomka Note D which had a principal amount outstanding of $833,243 on that date.

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SUPPLEMENTARY SCHEDULE
MANAGEMENT COMPANY EXPENSES

MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2012, TGS incurred the following expenses on-behalf of TCS and GEMS:

Expenses	TCS	GEMS
Direct Expenses:		
Salaries & wages	1,135,092	699,929
Employees' benefits	327,889	181,448
Indirect Expenses:		
Overhead	304,307	113,728
Total Expenses	1,767,288	995,105

Management uses enterprise accounting to maintain its financial records during the fiscal year. Overhead charges are assigned to TCS and GEMS based on a percentage of full-time equivalent student enrollment. These charges represent the indirect cost of services provided in the operation of the School. Such services include, but are not limited to facilities management, equipment, operational support services, management and management consulting, board relations, human resources management, training and orientation, financial reporting and compliance, purchasing and procurement, education services, technology support and marketing and communications.

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INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board:

We have audited the financial statements of The Graham School, Franklin County, Ohio (the School) as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 23, 2013, wherein we noted the School is experiencing certain financial difficulties. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and timely corrected. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated May 23, 2013.

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of the audit committee, management, the Board, the School's sponsor (the Educational Service Center of Central Ohio), and others within the School. We intend it for no one other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

May 23, 2013

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2012

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

Finding 2012-001

Financial Reporting – Material Weakness

Sound financial reporting is the responsibility of the Fiscal Agent of the School and the Board of Directors and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The School utilizes the Quickbooks accounting system and currently has monitoring controls over daily cash-basis transactions entered into the system. At year-end, the cash basis information from the accounting system is converted into the financial statements reported under Accounting Principles Generally Accepted in the United States of America by the School.

The following errors were material to the June 30, 2012 basic financial statements, and were posted to the financial statements, and the School's accounting system, if applicable:

1. Reclassification on Statement of Net Assets of Invested in Capital Assets of $52,033 from Unrestricted Net Assets.
2. Adjustment on Statement of Net Assets of Long-Term Liabilities to decrease due in more than one year by $229,454 and decrease due within one year by $13,751.
3. Gross-Up and reclassification on Statement of Cash Flows for debt restructuring proceeds of $1,789,717 (Capital) and $70,000 (Non-Capital); principal payments of $827,243 (Capital) and $916,845 (Non-Capital); interest payments of $7,124 (Capital) and $1,056 (Non-Capital); and offset by $51,697 to Payments for Capital Assets.

The following difference was immaterial to the overall June 30, 2012 basic financial statements and an adjustment was not posted:

1. Reclassification on Statement of Cash Flows to increase Cash from Other Operating Sources and decrease Cash from Contributions and Donations in the amount of $15,437.

Lack or failure of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of the financial data throughout the year.

We recommend the School continue to develop and enhance its policies and procedures to further enhance its controls over recording of financial transactions and financial reporting to help ensure the information accurately reflects the activity of the School and thereby increases the reliability of the financial data throughout the year. Such procedures may include review of the financial ledgers and financial statements by a member of management with analytical comparisons of the current year annual report to the prior year reports for obvious errors and omissions.

Official's Response: The School has a complex financial structure. The QuickBooks System calculates the financial statements based on FASB (general corporation) standards. But, our Treasurer has to reformat financial statements to be in conformance with GASB governmental standards. This was a human error in the reformatting of the statements. We will make every attempt not to have this error in the future.

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2011-001	ORC 3314.08(J)(1)(b) – Debt maturity exceeding 15 years	Yes	

Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Trustees:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether The Graham School, Franklin County, Ohio (the School) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. The Board approved an anti-harassment policy on September 9, 2009; however, we noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

   Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and School's Sponsor (the Educational Service Center of Central Ohio), and is not intended to be and should not be used by anyone other than these specified parties.

Dave Yost

Dave Yost
Auditor of State

May 23, 2013

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-3402 or 800-443-9275 Fax: 614-728-7199
www.ohioauditor.gov

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Dave Yost • 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
JULY 11, 2013