



Rea & associates *a brighter way*

The Graham School Franklin County, Ohio

Audited Financial Statements

For the Fiscal Year Ended
June 30, 2014



Dave Yost • 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 Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 21, 2015

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**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

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February 23, 2015

To the Board of Directors
The Graham School
3950 Indianola Avenue
Columbus, OH 43214

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of The Graham School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 22 to the financial statements, the School is experiencing certain financial difficulties. Note 22 describes management's plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The supplementary schedule of management company expenses is presented for additional analysis and is not a required part of the basic financial statements.

The supplementary schedule of management company expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of management company expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2015 on our consideration of the School's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Hea & Associates, Inc.

Medina, Ohio

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(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, 2014. 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 the 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 2014 are as follows:

- In total, net position increased \$503,725 which represents a 42.9% increase from 2013. This increase is due to increased revenues from services to schools due to increased enrollment.
- Total assets increased \$451,410 which represents a 32.4% increase from 2013. This was primarily due to increases in cash and investments from the previous year.
- Liabilities increased \$143,930 which represents a 6.1% increase from 2013. The increase in liabilities is due to increases in accrued wages and benefits and line of credit.

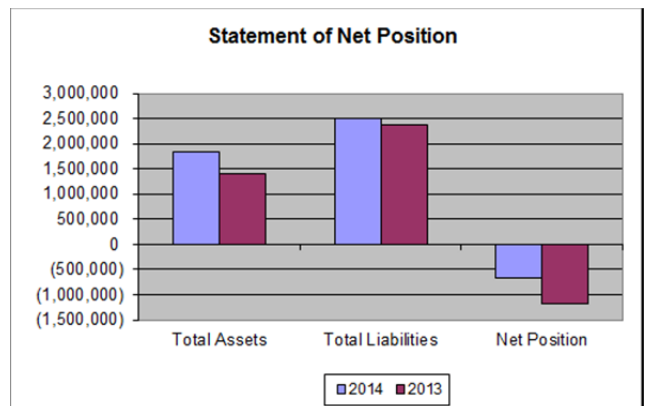
USING THIS ANNUAL REPORT

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 Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how TGS did financially during fiscal year 2014. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources 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 Position and changes in those assets. This change in Net Position 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.



**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Statement of Net Position

The Statement of Net Position answers the question of how TGS did financially during fiscal year 2014. This statement includes all assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 Position for fiscal years 2014 and 2013.

**Table 1
Statement of Net Position**

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets	\$ 793,713	\$ 321,928
Capital Assets, Net of Accumulated Depreciation	1,049,315	1,069,690
Total Assets	<u>1,843,028</u>	<u>1,391,618</u>
Liabilities		
Current Liabilities	1,158,708	985,136
Long Term Liabilities	1,354,199	1,428,265
Total Liabilities	<u>2,512,907</u>	<u>2,368,977</u>
Deferred Inflows – Grants	<u>-</u>	<u>151,821</u>
Net Position		
Net Investment in Capital Assets	(376,754)	(398,674)
Unrestricted	(293,125)	(774,930)
Total Net Position	<u>\$ (669,879)</u>	<u>\$ (1,173,604)</u>

Net Position increased \$503,725 from 2013. Total liabilities were \$2,512,907, an increase from 2013 of \$143,930. This is due to increases in accrued wages and benefits and line of credit. Total assets were \$1,843,028, an increase of \$451,410, due to increases in cash and investments offset by minor decreases in capital assets, net.

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in Net Position for fiscal years 2014 and 2013, as well as a listing of revenues and expenses. This change in Net Position 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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

**Table 2
Change in Net Position**

	<u>2014</u>	<u>2013</u>
Operating Revenue		
State Aid	\$2,028,427	\$1,840,719
Casino Aid	12,886	5,440
Facilities Aid	25,221	0
Classroom Materials & Fees	8,077	17,362
Services to Schools	4,712,642	3,469,250
Other Operating Revenues	19,767	17,973
Non-Operating Revenue		
Grants – State	519	459
Grants – Federal	217,981	283,900
Interest Income	874	424
Contributions and Donations	<u>263,296</u>	<u>150,656</u>
Total Revenues	<u>7,289,690</u>	<u>5,786,183</u>
Operating Expenses		
Salaries	4,518,740	4,155,404
Fringe Benefits	1,399,003	1,209,682
Purchased Services	546,251	612,267
Materials and Supplies	122,934	172,001
Depreciation Expense	77,824	72,227
Other Operating Expense	76,397	80,561
Non-Operating Expenses		
Interest and Fiscal Charges	<u>44,816</u>	<u>49,875</u>
Total Expenses	<u>6,785,965</u>	<u>6,352,017</u>
Increase (Decrease) in Net Position	<u>\$ 503,725</u>	<u>\$ (565,834)</u>

Operating revenues increased \$1,456,276, which represents a 27% increase from 2013. Operating expenses increased by \$439,007, which represents a 7% increase from 2013. Operating revenue and expense increases are due primarily to related activities with The Charles School (TCS), Graham Expeditionary Middle School (GEMS) and Graham Primary School (See notes 18 - 20). TGS received \$4,712,642 in revenue from all schools for services rendered and incurred expenses of \$3,745,181 for payroll, benefits, and allocated overhead. (See notes 18 - 20)

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 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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

CAPITAL ASSETS

TGS has \$1,049,315 invested in capital assets, net of accumulated depreciation. The decrease in asset carrying value of \$20,375 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 \$133,153 of short-term debt obligations at June 30, 2014, and long-term debt obligation of \$1,426,069, of which \$71,870 is current. Notes 12 and 13 to the basic financial statements summarize all of the TGS' debt obligations at June 30, 2014.

OTHER INFORMATION

For the Future

In conclusion, TGS has committed itself to financial excellence. TGS has contracted with Educational Service Center of Central Ohio, effective May 13, 2012 for a two year period ending June 30, 2014. See note 16 for further information.

TGS has extensive fundraising activities and receives donations to assist in financing its operations; this practice is expected to continue. The TGS is also continuing to found additional schools. In addition to the Charles School at Ohio Dominican University and Graham Expeditionary Middle School (GEMS), the school has started the Graham Primary School (GPS). 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 citizen's, 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.

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**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**Statement of Net Position
June 30, 2014**

Assets

Current Assets:

Cash and Investments	\$ 718,739
Beneficial Interest in Assets Held By Others	20,580
Accounts Receivable	<u>54,394</u>

Total Current Assets 793,713

Noncurrent Assets:

Capital Assets:

Non-Depreciable Capital Assets	141,800
Depreciable Capital Assets, net	<u>907,515</u>

Total Noncurrent Assets 1,049,315

Total Assets 1,843,028

Liabilities

Current Liabilities:

Accounts Payable	108,984
Accrued Wages and Benefits	798,519
Line of Credit	133,153
Intergovernmental Payable	46,182
Capital Lease Payable, Due within one year	15,245
Long Term Notes Payable, Due within one year	<u>56,625</u>

Total Current Liabilities 1,158,708

Long-Term Liabilities:

Notes Payable, Due in more than one year	1,325,020
Capital Lease Payable, Due in more than one year	<u>29,179</u>

Total Long-Term Liabilities 1,354,199

Total Liabilities 2,512,907

Net Position

Net Investment in Capital Assets	(376,754)
Unrestricted	<u>(293,125)</u>

Total Net Position \$ (669,879)

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**Statement of Revenues,
Expenses and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2014**

Operating Revenues	
State Aid	\$ 2,028,427
Casino Aid	12,886
Facilities Aid	25,221
Classroom Fees	8,077
Services to Schools	4,712,642
Other Operating	<u>19,767</u>
Total Operating Revenues	<u>6,807,020</u>
Operating Expenses	
Salaries	4,518,740
Fringe Benefits	1,399,003
Purchased Services	546,251
Materials and Supplies	122,934
Depreciation	77,824
Other	<u>76,397</u>
Total Operating Expenses	<u>6,741,149</u>
Operating Income	65,871
Non-Operating Revenues (Expenses)	
Grants	218,500
Contributions & Donations	263,296
Investment Income	874
Interest and Fiscal Charges	<u>(44,816)</u>
Total Non-Operating Revenues (Expenses)	<u>437,854</u>
Change in Net Position	503,725
Net Position Beginning of Year	<u>(1,173,604)</u>
Net Position End of Year	<u>\$ (669,879)</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, 2014**

Increase (Decrease) in Cash and Cash Equivalents

Cash Provided By Operating Activities

Cash Received from State of Ohio	\$ 2,062,422
Cash Received from Other Operating Sources	4,774,301
Cash Payments to Suppliers for Goods and Services	(790,627)
Cash Payments to Employees for Services	(4,330,720)
Cash Payments for Employee Benefits	(1,318,876)
Other Cash Payments	<u>(76,397)</u>

Net Cash Provided By Operating Activities 320,103

Cash Flows Provided By Noncapital Financing Activities

Cash Received from Operating Grants	257,371
Proceeds from Line of Credit	100,000
Cash Payments for Principal – Line of Credit	(66,847)
Cash Payments for Interest – Line of Credit	(2,153)
Cash Received from Contributions and Donations	<u>110,684</u>

Net Cash Provided by Noncapital Financing Activities 399,055

Cash Flows Used For Capital and Related Financing Activities

Cash Payments for Capital Assets	(57,449)
Cash Payments for Interest and Fiscal Charges	(40,841)
Cash Payments for Principal Payments	<u>(43,001)</u>

Net Cash Used For Capital Financing Activities (141,291)

Cash Flows Provided By Investing Activities

Interest Income	<u>633</u>
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Net Cash Provided by Investing Activities 633

Net Increase in Cash and Investments 578,500

Cash and Investments Beginning of Year 140,239

Cash and Investments End of Year \$ 718,739

(Continued)

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(CONTINUED)

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating Income \$ 65,871

**ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Depreciation 77,824

Changes in Assets and Liabilities:

Accounts Receivable 33,815

Accounts Payable (121,442)

Prepays 33,945

Accrued Wages and Benefits 188,020

Intergovernmental Payable 42,070

Net Cash Provided By Operating Activities \$ 320,103

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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 TGS, and expects to honor provisions contained therein, as documented in the Memorandum of Understanding dated January 3, 2009. The Contract ran through June 30, 2014 and was subsequently renewed on July 1, 2014 for a three year period ending June 2017.

TGS operates under the direction of a seven-member governing board. The governing board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The governing board controls TGS and TGS instructional/support facilities staffed by non-certified and certificated full time personnel who provide services to students at TGS, The Charles School at Ohio Dominican University (TCS), Graham Primary School (GPS), and Graham Expeditionary Middle School (GEMS).

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. Following are the more significant of Graham's accounting policies.

A. Basis of Presentation

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 Position, 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, 2014
(Continued)**

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 deferred outflows of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. 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 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.

D. Cash and Investments

All cash received by the TGS is deposited in accounts in the TGS' name and reflected as Cash and Investments on the Statement of Net Position. The TGS has investments during fiscal year 2014 (See note 3).

E. Prepaid Items

TGS records payments made to vendors for services that will benefit periods beyond June 30, 2014, 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. There are no prepaid items for fiscal year ending June 30, 2014.

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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

TGS currently participates in the state's foundation and special education programs. Revenues received from these programs are recognized as operating revenues (foundation and special education payments) in the accounting period in which they are earned and become measurable. Funding from these programs is listed as "State Aid" on the Statement of Revenues, Expenses, and Changes in Net Position.

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.

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 2014 school year totaled \$2,246,927.

H. Net Position

Net Position represent the difference between assets and liabilities. Net investment in capital assets, 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 Position 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 presently has no restricted Net Position.

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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

Deposits: The carrying value of the TGS' deposits totaled \$714,069, and the bank balance totaled \$744,574. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$494,574 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.

B. Investments

TGS has received donations in the form of equity stock. The investment banker, Morgan Stanley Smith Barney, LLC holds the investment. The carrying value of various equity shares of this stock at June 30, 2014 is \$4,670. Due to current market risk and its affect on the equity stocks, the TGS has gained \$874 in fiscal 2014 on these holdings.

The carrying value of the equity stock is recorded at its fair market value at June 30, 2014.

TCS 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. ACCOUNTS RECEIVABLES

At June 30, 2014, TGS had accounts receivable in the amount of \$54,394. Accounts receivable are amounts due from affiliated schools (TGS, GPS, and GEMS).

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

5. CAPITAL ASSETS

At June 30, 2014, the following table represents TGS' changes in capital assets. Capital assets are considered depreciable, except for land.

	Balance <u>06/30/13</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>06/30/14</u>
Non-Depreciable Capital Assets				
Land	\$ 141,800	\$ -	\$ -	\$ 141,800
Capital Assets Being Depreciated:				
Building	1,108,200	-	-	1,108,200
Improvements	770,677	-	-	770,677
Furniture and Equipment	<u>245,857</u>	<u>57,449</u>	-	<u>303,306</u>
Total Capital Assets Being Depreciated	<u>2,124,734</u>	<u>57,449</u>	-	<u>2,182,183</u>
Less Accumulated Depreciation:				
Building	(332,050)	(27,705)	-	(359,755)
Improvements	(709,801)	(18,464)	-	(728,265)
Furniture and Equipment	<u>(154,993)</u>	<u>(31,655)</u>	-	<u>(186,648)</u>
Total Accumulated Depreciation	<u>(1,196,844)</u>	<u>(77,824)</u>	-	<u>(1,274,668)</u>
Net Total Capital Assets	<u>\$1,069,690</u>	<u>\$ (20,375)</u>	<u>\$ -</u>	<u>\$ 1,049,315</u>

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 2014, TGS contracted with the Philadelphia Insurance Co.:

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

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

6. RISK MANAGEMENT (continued)

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 the 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, 2014, 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, 2014, 2013 and 2012 were \$107,869, \$123,713, and \$118,032, respectively, of which 100% has been contributed.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement Systems (STRS)

Plan Description - The 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, 2014, plan members were required to contribute 11 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2014, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11 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, 2014, 2013 and 2012 were \$495,482, \$415,519, and \$260,618, respectively, of which 100% has been contributed.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

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, 2014, 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

Medicare B plan reimburse 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 premium or the current premium. The Medicare Part B premium for calendar year 2014 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 2014, the actuarial required allocation is .75 percent. TGS contributions for the years ended June 30, 2014, 2013 and 2012 were \$6,370, \$7,015, and \$6,970, respectively.

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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

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, 2014, 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, 2014, 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, 2014, 2013 and 2012 were \$6,499, \$12,574, and \$14,645, respectively.

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 - The 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 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The TGS' contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$39,014, \$32,718, and \$20,521, respectively all of which has been contributed for all fiscal years.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

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, 2014.

B. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2014 are immaterial and will be included in the financial activity for fiscal year 2015

10. PURCHASED SERVICES

For the period July 1, 2013 through June 30, 2014, purchased service expenses were payments for services rendered by various vendors, as follows:

Description	Amount
Professional and Technical Services	\$298,086
Property Services	55,388
Travel Mileage/Meeting Expense	21,438
Communications	12,019
Utilities	39,561
Contracted Trade Services	23,943
Pupil Transportation Services	<u>95,816</u>
Total Purchased Services	<u>\$546,251</u>

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

11. CAPITAL LEASES – LESSEE DISCLOSURE

In December of 2011, Graham 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 2014 totaled \$11,910. Interest payments totaled \$12,752 for fiscal year 2014.

The following is a schedule of the future minimum payments required under the capital lease as of June 30, 2014.

<u>Fiscal Year</u>	<u>Copier</u>
2015	\$ 24,662
2016	24,662
2017	<u>10,276</u>
Total minimum Lease Payments	<u>\$ 59,600</u>
Less: amount representing interest	<u>(15,176)</u>
Present value of minimum lease payments	<u>\$ 44,424</u>

12. DEBT OBLIGATIONS- SHORT-TERM

At June 30, 2014, the following table represents TGS' short-term debt issuances:

	<u>Principal Outstanding</u>	<u>6/30/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding</u>	<u>6/30/2014</u>		
Meers - Line of Credit	\$	100,000	\$	100,000	\$	(66,847)	\$	133,153

On June 3, 2013, TGS entered into an open-end promissory Note with Eileen Meers (Payee) in the amount of \$200,000 to be repaid with interest at a rate of 2.5%. The entire unpaid principal balance together with accrued interest shall be due and payable upon the demand of the payee. The proceeds are to be used for operating expenses. On July 11, 2013 the final drawdown was received for \$100,000. Payments totaled \$69,000 for fiscal year 2014. Principal was \$66,847, while interest was \$2,153. Payments began according to the agreement in January 2014.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

13. DEBT OBLIGATIONS- LONG-TERM

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

	<u>Outstanding</u>			<u>Outstanding</u>	
	<u>6/30/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2014</u>	<u>Due Within one year</u>
Dantomka, Lt. Note-c	\$ 535,766	\$ 706	\$ -	\$ 536,472	\$ 12,543
Dantomka, Lt. Note-d	842,484	-	(9,450)	833,034	31,943
Charles E Graham	33,780	-	(21,641)	12,139	12,139
Modern Leasing	<u>56,334</u>	<u>-</u>	<u>(11,910)</u>	<u>44,424</u>	<u>15,245</u>
Total Long-Term Liabilities	<u>\$1,468,364</u>	<u>\$ 706</u>	<u>\$ (43,001)</u>	<u>\$1,426,069</u>	<u>\$ 71,870</u>

In December of 2011, TGS modified its capital lease for 3 Lanier copiers with Modern Leasing. The terms of the lease are for 60 months with a lease payment of \$2,055 per month. The interest rate of the lease is 25%. Total payments for fiscal year 2014 were \$24,662.

In November 2011, TGS entered into a new loan with Charles Graham in the amount of \$65,960 for a 3 year term at an interest rate of 2.5% annually. Monthly payments on the note are \$2,020. Total payments made at June 30, 2014 were \$22,223. Principal totaled \$21,641 and interest totaled \$582.

In November 2011, TGS entered into a new loan with Dantomka, Ltd. in the amount of \$542,224 (Note – C) for a 15 year term at an interest rate of 2.5% annually. Monthly payments on the note are \$3,630. Total payments made at June 30, 2014 were \$10,755, all representing interest. Dantomka, Ltd adopted a formal letter dated December 12, 2014, suspending principal payments during July 2013 through November 2013, until the School has better cash flows, and payments will be added to the end of the loan.

In November 2011, TGS entered into a new loan with Eileen Meers (Note – D) which was subsequently assigned to Dantomka, Ltd. in the amount of \$1,100,881 for a 15 year term at an interest rate of 2.5% annually. Monthly payments on the note are \$4,367 for years 1 and 2. Payments escalate up to \$7,370 beginning in year 4 with a balloon payment of \$210,933 due at the end of the term. Total payments made at June 30, 2014 were \$26,202. Dantomka, Ltd adopted a formal letter dated December 12, 2014, suspending principal payments during July 2013 through November 2013, until the School has better cash flows, and payments will be added to the end of the loan. Principal totaled \$9,450 and interest totaled \$16,752 during fiscal year 2014.

Effective April 8, 2003, Ohio Revised Code Section 3314.08 (J) (1) (b) was amended, in part, to permit facilities acquisition debt with a maturity not exceeding fifteen years. All current notes comply with this provision of the revised code

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

13. DEBT OBLIGATIONS LONG -TERM (Continued)

The annual requirements to amortize all outstanding long-term debt as of June 30, 2014, including interest are as follows:

	Principal	Interest	Total
2015	\$ 71,870	\$ 43,236	\$ 115,106
2016	65,232	37,753	102,985
2017	56,429	32,063	88,492
2018	47,947	30,269	78,216
2019	49,159	29,057	78,216
2020-2024	265,085	125,995	391,080
2025-2026	870,347	44,781	915,128
Total	\$1,426,069	\$ 343,154	\$1,769,223

14. RELATED PARTY TRANSACTION

Dantomka, Ltd. is a limited liability corporation, which is a general partner of DK Services. Eileen Meers, who serves as the Dean of Academics and is the developer of TGS, also serves as the president of DK Services and a general partner of Dantomka, Ltd. Note disclosures 12 and 13 detail the terms and payment arrangements of the loans.

Charles E. Graham is a former board member and cousin to Eileen Meers who also has loans disclosed in notes 12 and 13.

15. 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.

16. SPONSOR

On May 13, 2012, a sponsorship agreement was executed between TGS and the Educational Service Center of Central Ohio for a two year period ending July 1, 2014. Under this agreement, TGS pays the Sponsor "up to" 3% of State Aid (see Note 3 G.). TGS sponsor fee expense at June 30, 2014 totaled \$61,047. In July, 2014 the contract was renewed for an additional three year period ending June 2017.

17. COLUMBUS FOUNDATION

The Columbus Foundation holds in trust a money market account valued at \$20,580 at June 30, 2014. 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. 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 2014.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)**

18. 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 June 30, 2009 and was subsequently renewed on July 8, 2009 and modified on August 12, 2009 to cover the periods ending January 31, 2010 and December 31, 2010 respectively. On July 21, 2010, the TCS Board approved a modified agreement with TGS to commence July 1, 2010 through December 31, 2012, which further defined the roles of TGS and TCS in the agreement. In December 2012, the board approved to contract to continue to June 30, 2014. 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. TCS management fee expense for the fiscal year total \$2,481,568, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$2,059,804 was for general fund related fees and \$421,764 was for grant related reimbursements.

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

Effective July 1, 2013, GEMS entered into one year Management Agreement (the Agreement) with TGS. The Agreement's terms ran through June 30, 2014. 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. GEMS management fee expense for the fiscal year total \$987,407, as reported in the Statement of Revenues, Expenses and Changes in Fund Net Position. Of this fee, \$866,340 was for general fund related fees and \$121,067 was for grant related reimbursements.

20. MANAGEMENT AGREEMENT WITH GRAHAM PRIMARY SCHOOL (GPS)

Effective July 1, 2013, GPS entered into a one year Management Agreement (the Agreement) with TGS. The Agreement's terms ran through June 30, 2014. Per the contract, TGS receives up to ninety-five (95) percent of GPS' federal and state awards, after a minimum of five (5) percent is spent by GPS to pay its direct expenses. GPS management fee expense for the fiscal year total \$861,915, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$590,470 was for general fund related fees and \$271,445 was for grant related reimbursements

21. SUBSEQUENT EVENTS

Effective August 18, 2014 management contracts with TCS, GPS, and GEMS schools were renewed an additional one year period ending June 30, 2015.

22. MANAGEMENT PLAN

At June 30, 2014, TGS had ending net position of \$(669,879), with a change in net position of \$502,725. To address the issue of the deficit in net position, 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 fund raising and grant writing to help supplement its programs.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**SUPPLEMENTARY SCHEDULE
MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2014, TGS incurred the following expenses on-behalf of TCS, GPS and GEMS:

Expenses	TCS	GEMS	GPS
Direct Expenses:			
Salaries & wages	\$1,306,099	\$649,784	\$520,763
Employees' benefits	382,744	180,658	141,129
Indirect Expenses:			
Overhead	307,384	156,584	99,736
Total Expenses	<u>\$1,996,227</u>	<u>\$987,026</u>	<u>\$761,928</u>

Management uses enterprise accounting to maintain its financial records during the fiscal year. Overhead charges are assigned to TCS, GPS 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.

February 23, 2015

To the Board of Directors
The Graham School
3950 Indianola Avenue
Columbus, OH 43214

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

We have audited, in accordance with the 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, the financial statements of The Graham School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated February 23, 2015, wherein we noted the School is experiencing financial difficulties.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Medina, Ohio

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001 Debt Covenants	School not making required annual payments, no formal agreement	Yes	Corrected, Formal agreement adopted for lender.
2013-002 Financial Reporting	Material Weakness for audit adjustments and unadjusted differences noted	Yes	Corrected, no material audit adjustments or unadjusted balances

February 23, 2015

To the Board of Directors
The Graham School
Franklin County, Ohio
3950 Indianola Avenue
Columbus, OH 43214

Independent Accountant's Report on Applying Agreed-Upon Procedures

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 procedures 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 adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures 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. In the prior report dated April 23, 2014, we noted the Board adopted an anti-harassment policy on September 17, 2012. However, this policy did not include all matters required by Ohio Rev. Code Section 3313.666.
2. The Board amended the policy on October 21, 2013. We read the amended policy, noting it now includes all the requirements listed in Ohio Rev. Code Section 3313.666.

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 of Directors and Sponsor, and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.

Medina, Ohio



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
JUNE 2, 2015**