

The Graham School

Franklin County, Ohio

Audited Financial Statements

For The Fiscal Year Ended June 30, 2017



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, 2016 through June 30, 2017. 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 17, 2018

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**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

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April 12, 2018

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, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents. We also have audited the accompanying schedule of management company expenses presented as supplementary information for the year ended June 30, 2017.

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, 2017, 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. In addition, in our opinion, the supplemental information referred to above presents fairly, in all material respects, the management expenses incurred by the Graham School on behalf of other schools for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United State of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As disclosed in Note 22 to the financial statements, the School has suffered recurring losses from operations and has a net position deficit of \$12,501,107 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability and related accruals totaling \$11,487,290. 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 and the Schedule of the School's Proportionate Share of the Net Pension Liability, and the Schedule of the School Contributions on pages 3-7, 36, and 37, respectively, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2018, 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 the effectiveness of the School's 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.

Kea & Associates, Inc.

Dublin, Ohio

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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, 2017. 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 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

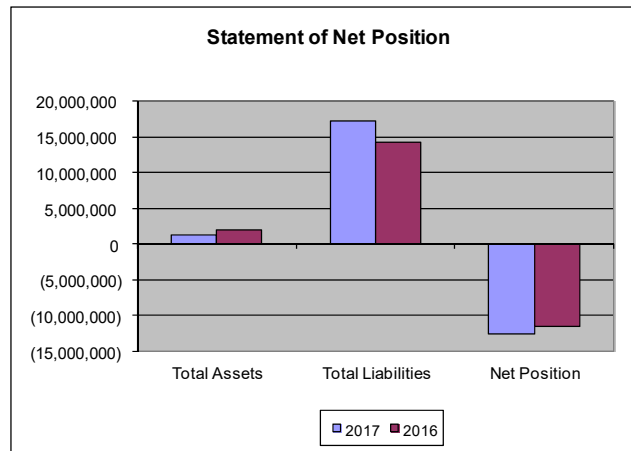
Key Financial Highlights for TGS for the fiscal year 2017 are as follows:

- In total, net position decreased \$930,471, which represents an 8.0 percent decrease from 2016. This is due to an increase in salaries and fringe benefit expenses related to pension requirements as well as an increase in Services to Schools, in which TGS serves as the management company.
- Total assets decreased \$610,860 which represents a 31.7 percent increase from 2016. This was primarily due to decreases in cash used in operations.
- Liabilities increased \$2,906,138 which represents a 20.3 percent increase from 2016. The increase in liabilities is due to increases in net pension liabilities and intergovernmental payables offset by decreases in accounts payable.

USING THIS ANNUAL REPORT

This report consists of three parts: required supplementary information, 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 2017. These statements include all assets, deferred outflows of resources, 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 net position. 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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

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 Position

The Statement of Net Position answers the question of how TGS did financially during fiscal year 2017. 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 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$ 408,121	\$ 950,151
Capital Assets, Net	907,616	976,446
Total Assets	<u>1,315,737</u>	<u>1,926,597</u>
Deferred Outflows		
Pension Requirements	<u>3,445,919</u>	<u>1,613,815</u>
Liabilities		
Current Liabilities	1,221,751	1,418,168
Long Term Liabilities	<u>15,981,416</u>	<u>12,878,861</u>
Total Liabilities	<u>17,203,167</u>	<u>14,297,029</u>
Deferred Inflows		
Pension Requirements	<u>59,596</u>	<u>814,019</u>
Net Position		
Net Investment in Capital Assets	(327,084)	(360,400)
Unrestricted	<u>(12,174,023)</u>	<u>(11,210,236)</u>
Total Net Position	<u>\$ (12,501,107)</u>	<u>\$ (11,570,636)</u>

Net Position decreased \$930,471, which represents an 8.0 percent decrease from 2016. This is due to increases in Salaries, fringe benefits related to GASB 68 adjustments, and Services to Schools. Total assets decreased \$610,860 which represents a 31.7 percent decrease from 2016. This was primarily due to decreases in cash from the previous year from operations. Liabilities increased \$2,906,138, which represents a 20.3 percent increase from 2016. The increase in liabilities is due to increases in net pension liabilities, and intergovernmental payables offset by decreases in accounts payable.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in net position for fiscal years 2017 and 2016, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader whether, 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 Position**

	<u>2017</u>	<u>2016</u>
Operating Revenue		
State Aid	\$ 2,379,745	\$ 2,391,651
Casino Aid	12,798	13,221
Facilities Aid	50,706	38,879
Classroom Materials & Fees	7,815	9,806
Services to Schools	4,975,819	4,821,002
Other Operating Revenues	14,460	3,057
Non-Operating Revenue		
Grants – State	72,418	732
Grants – Federal	262,140	257,381
Interest Income	1,240	-
Contributions and Donations	77,591	54,342
Gain on Sale of Assets	-	8,052
Total Revenues	<u>7,854,732</u>	<u>7,598,123</u>
Operating Expenses		
Salaries	5,442,327	4,938,615
Fringe Benefits	2,322,528	1,538,540
Purchased Services	751,004	617,126
Materials and Supplies	69,869	71,668
Depreciation Expense	77,378	85,598
Other Operating Expense	70,403	65,419
Non-Operating Expenses		
Investment Loss	-	676
Interest and Fiscal Charges	51,694	49,552
Total Expenses	<u>8,785,203</u>	<u>7,367,194</u>
 Increase (Decrease) in Net Position	 <u>\$ (930,471)</u>	 <u>\$ 230,929</u>

Total revenues increased \$256,609, which represents a 3.4% increase from 2016. Total expenses increased by \$1,418,009, which represents a 19.2% increase from 2016 primarily due to increased expenses for GASB 68 accruals and services to schools. Operating revenue increases are due primarily to increases in revenue for services provided to schools. (See Notes 18, 19, and 20).

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

During a prior year, the School adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the School's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows of resources.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

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-annually by the Board of Trustees and Sponsor. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

CAPITAL ASSETS

TGS has \$907,616 invested in capital assets, net of accumulated depreciation. Detailed information regarding capital asset activity is included in the Note 5 to the basic financial statements.

DEBT OBLIGATIONS

TGS has long-term debt obligation of \$1,234,700 at June 30, 2017, of which \$126,897 is current. Note 13 to the basic financial statements summarize all of the TGS' debt obligations at June 30, 2017.

OTHER INFORMATION

For the Future

In conclusion, TGS has committed itself to financial excellence. TGS has contracted with Delaware-Union Educational Service Center as its sponsor effective July 1, 2010, but merged with the Educational Service of Central Ohio, effective May 13, 2009. 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 fund 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 historic levels of enrollment at the school. Currently, TGS is experiencing financial difficulty. See Note 22 for further information.

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, OHIO**

**Statement of Net Position
June 30, 2017**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 224,815
Beneficial Interest in Assets Held By Others	20,446
Accounts Receivable	161,643
Intergovernmental Receivable	<u>1,217</u>

Total Current Assets 408,121

Noncurrent Assets:

Capital Assets:

Non-Depreciable Capital Assets	141,800
Depreciable Capital Assets, net	<u>765,816</u>

Total Noncurrent Assets 907,616

Total Assets 1,315,737

DEFERRED OUTFLOWS OF RESOURCES

Pension Requirements 3,445,919

Liabilities

Current Liabilities:

Accounts Payable	276,060
Accrued Wages and Benefits	802,079
Intergovernmental Payable	16,715
Capital Lease Payable	17,862
Notes Payable	<u>109,035</u>

Total Current Liabilities 1,221,751

Long-Term Liabilities:

Net Pension Liability	14,873,613
Notes Payable	1,047,333
Capital Lease Payable	<u>60,470</u>

Total Long-Term Liabilities 15,981,416

Total Liabilities 17,203,167

DEFERRED INFLOWS OF RESOURCES

Pension Requirements 59,596

Net Position

Net Investment in Capital Assets	(327,084)
Unrestricted	<u>(12,174,023)</u>

Total Net Position \$ (12,501,107)

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**Statement of Revenues,
Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017**

Operating Revenues	
State Aid	\$ 2,379,745
Casino Aid	12,798
Facilities Aid	50,706
Classroom Fees	7,815
Services to Schools	4,975,819
Other Operating	14,460
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Total Operating Revenues	7,441,343
Operating Expenses	
Salaries	5,442,327
Fringe Benefits	2,322,528
Purchased Services	751,004
Materials and Supplies	69,869
Depreciation	77,378
Other	70,403
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Total Operating Expenses	8,733,509
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Operating Loss	(1,292,166)
Non-Operating Revenues (Expenses)	
Grants	334,558
Contributions & Donations	77,591
Investment Income/(Loss)	1,240
Interest and Fiscal Charges	(51,694)
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Total Non-Operating Revenues (Expenses)	361,695
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Change in Net Position	(930,471)
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Net Position Beginning of Year	(11,570,636)
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Net Position End of Year	\$ (12,501,107)
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See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$ 2,443,249
Cash Received from Other Operating Sources	4,836,451
Cash Payments to Suppliers for Goods and Services	(1,058,502)
Cash Payments to Employees for Services	(5,428,003)
Cash Payments for Employee Benefits	(1,677,466)
Other Cash Payments	<u>(70,403)</u>
Net Cash Used for Operating Activities	<u>(954,674)</u>
Cash Flows from Noncapital Financing Activities	
Cash Received from Operating Grants	340,890
Cash Received from Contributions and Donations	<u>77,591</u>
Net Cash Provided by Noncapital Financing Activities	<u>418,481</u>
Cash Flows from Capital and Related Financing Activities	
Cash Payments for Capital Assets	(8,548)
Cash Payments for Interest and Fiscal Charges	(51,694)
Cash Payments for Principal	<u>(102,146)</u>
Net Cash Used for Capital Financing Activities	<u>(162,388)</u>
Cash Flows from Investing Activities	
Interest Income	<u>1,240</u>
Net Cash Provided by Investing Activities	<u>1,240</u>
Net Decrease in Cash and Cash Equivalents	(697,341)
Cash and Cash Equivalents Beginning of Year	<u>922,156</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 224,815</u></u>
Reconciliation of Operating Gain (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating Gain (Loss)	\$ (1,292,166)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	77,378
Changes in Assets and Liabilities, Deferred Inflows/Outflows of Resources	
Accounts Receivable	(161,643)
Accounts Payable	(237,629)
Accrued Wages and Benefits	14,324
Intergovernmental Payable	6,509
Net Pension Liability	3,225,080
Deferred Outflows of Resources	(1,832,104)
Deferred Inflows of Resources	<u>(754,423)</u>
Net Cash Used in Operating Activities	<u><u>\$ (954,674)</u></u>

See accompanying notes to the basic financial statements

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**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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. The contract ran through July 2014 and was renewed for an additional three year period through June 2017. The contract was renewed for an additional 2 year period through June 2019.

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). 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 TCS instructional/support facilities staffed by non-certified and certificated full time personnel who provide services to students at TGS, 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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 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 position. 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 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 Cash Equivalents

All cash received by the TGS is deposited in accounts in the TGS' name and reflected as Cash and Cash Equivalents on the Statement of Net Position. The TGS has investments during fiscal year 2017 (see Note 3).

E. Prepaid Items

TGS records payments made to vendors for services that will benefit periods beyond June 30, 2017, 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 recorded for fiscal year 2017.

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 acquisition 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.

All capital assets are depreciated except for land. 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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

TGS currently participates in the state's foundation, casino, facilities funding, 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 "Operating Revenues" 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 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 2017 school year totaled \$2,777,807.

H. Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net Position, 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 is 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 at June 30, 2017, but the Statement of Net Position reports \$(327,084) in Net Investment in Capital Assets.

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the TGS, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 7.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the statement of net position (see Note 7).

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

Deposits: The carrying value of the TGS' deposits totaled \$216,780, and the bank balance totaled \$271,655. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$18,788 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.

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3. DEPOSITS AND INVESTMENTS (Continued)

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, 2017 is \$8,035, of which \$1,046 is in cash. Due to current market risk and its effect on the equity stocks, TGS has gained \$1,240 in fiscal 2017 on these holdings.

The carrying value of the equity stock is recorded at its fair market value at June 30, 2017.

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.

Rating	Investment	Measurement Amount	Investment Maturities	Percent of Total
			in Months 0-12	
N/A	Morgan Stanley securities	\$ 8,035	\$ 8,035	100%
		<u>\$ 8,035</u>	<u>\$ 8,035</u>	<u>100%</u>

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. These securities, held by the counterparty and not in the School's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The School's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the School's recurring fair value measurements as of June 30, 2017. All investments of the School are valued using quoted market prices (Level 1 inputs).

4. RECEIVABLES

At June 30, 2017, TGS had intergovernmental receivables in the amount of \$1,217. Intergovernmental receivables are amounts due from ODE related to federal grants and state aid.

5. CAPITAL ASSETS

At June 30, 2017, the following table represents TGS' changes in capital assets. Capital assets are considered depreciable, except for land.

**THE GRAHAM SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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5. CAPITAL ASSETS (Continued)

	Balance <u>06/30/16</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>06/30/17</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>345,641</u>	<u>8,548</u>	-	<u>354,189</u>
Total Capital Assets Being Depreciated	<u>2,224,518</u>	<u>8,548</u>	-	<u>2,233,066</u>
Less Accumulated Depreciation:				
Building	(415,165)	(27,705)	-	(442,870)
Improvements	(765,193)	(9,521)	-	(774,714)
Furniture and Equipment	<u>(209,514)</u>	<u>(40,152)</u>	-	<u>(249,666)</u>
Total Accumulated Depreciation	<u>(1,389,872)</u>	<u>(77,378)</u>	-	<u>(1,467,250)</u>
Net Total Capital Assets	<u>\$ 976,446</u>	<u>\$ (68,830)</u>	<u>\$ -</u>	<u>\$ 907,616</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 2017, 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

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.

**THE GRAHAM SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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6. RISK MANAGEMENT (Continued)

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 . Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School's obligation for this liability to annually required payments. The Academy cannot control benefit terms or the manner in which pensions are financed; however, the Academy does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on the accrual basis of accounting.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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7. DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description - School Employees Retirement System (SERS)

Plan Description – The School's non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

*Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School 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 statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2017. The School's contractually required contribution to SERS was \$144,390 for fiscal year 2017.

**THE GRAHAM SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

7. DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing, multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site 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. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

7. DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description - State Teachers Retirement System (STRS)(continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$616,667 for fiscal year 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 12,795,324	\$ 2,078,289	\$ 14,873,613
Proportion of the Net Pension Liability:			
Current Measurement Date	0.03822579%	0.02839550%	
Prior Measurement Date	0.03655546%	0.02708810%	
Change in Proportionate Share	0.00167033%	0.00130740%	
Pension Expense	\$ 1,198,329	\$ 201,281	\$ 1,399,610

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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7. DEFINED BENEFIT PENSION PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 516,994	\$ 28,031	\$ 545,025
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,062,356	171,428	1,233,784
Changes of Assumptions	0	138,737	138,737
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	699,102	68,214	767,316
School Contributions Subsequent to the Measurement Date	616,667	144,390	761,057
Total Deferred Outflows of Resources	\$ 2,895,119	\$ 550,800	\$ 3,445,919
Deferred Inflows of Resources			
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	\$ 0	\$ 59,596	\$ 59,596

\$761,057 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	\$ 451,749	\$ 81,729	\$ 533,478
2019	451,751	81,606	533,357
2020	859,404	134,202	993,606
2021	515,548	49,277	564,825
	\$ 2,278,452	\$ 346,814	\$ 2,625,266

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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7. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – SERS (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

7. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – SERS (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School's Proportionate Share of the Net Pension Liability	\$ 2,751,525	\$ 2,078,289	\$ 1,514,762

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

7. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – STRS (continued)

Inflation	2.75 percent
Projected Salary Increase	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on the fifth anniversary of the retirement date

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	<u>3.00</u>
Total	<u>100.00 %</u>	<u>7.61 %</u>

*10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

**THE GRAHAM SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

7. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – STRS (continued)

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School's Proportionate Share of the Net Pension Liability	\$ 17,003,946	\$ 12,795,324	\$ 9,245,103

Changes Between Measurement Date and Report Date: In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the School's net pension liability is expected to be significant.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The School contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status. Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

8. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employees Retirement System (continued)

Health Care Fund. For fiscal year 2017, SERS did not allocate any employer contributions to the Health Care fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide 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 fiscal year 2017, the School's surcharge obligation was \$2,399.

For fiscal years 2016 and 2017, SERS did not allocate employer contributions to the Health Care fund.

The School's contributions for health care for the fiscal year ended June 30, 2015, was \$11,537. The full amount has been contributed for fiscal year 2015.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2017, 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care; therefore, the School did not contribute to health care in the last three 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, 2017.

B. Full-Time Equivalency Reviews

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

9. CONTINGENCIES (Continued)

B. Full-Time Equivalency Reviews (continued)

updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the School for fiscal year 2017.

In September and December 2017, additional ODE adjustments for fiscal year 2017 have been finalized. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements have been determined and reflected on the face of the financials as a payable in the amount of \$16,175. As of the date of this report, ODE adjustments through fiscal year 2017 have been completed.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2017 have been completed. A reconciliation between payments previously made and the FTE adjustments have taken place with these contracts.

C. Loan Guarantor

The Graham Expeditionary Middle School entered into a loan with Huntington Bank for the purchase of a school building and land. The total amount of the loan is \$1,080,000 with an annual interest rate of 4.55% to be paid over a 10-year period and amortized over 20 years, with a balloon payment scheduled in year ten. TGS acts as a guarantor on this loan in addition to The Charles School at Ohio Dominican University.

10. PURCHASED SERVICES

For the period July 1, 2016 through June 30, 2017, purchased service expenses were payments for services rendered by various vendors, as follows:

Description	Amount
Professional and Technical Services	\$356,877
Property Services	140,423
Travel Mileage/Meeting Expense	53,097
Communications	8,255
Utilities	34,719
Contracted Trade Services	71,179
Tuition Payments	14,951
Pupil Transportation Services	<u>71,503</u>
Total Purchased Services	<u>\$751,004</u>

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

11. CAPITAL LEASES – LESSEE DISCLOSURE

In December 2011, TGS entered into a lease agreement with Modern Leasing for a copier. TGS' lease obligations met the criteria for a capital lease as defined by the Standards, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$70,094 were recorded, which represents the present value of the minimum lease payments at time of acquisition. There were no payments made on this lease for Fiscal year 2017.

In October of 2015, TGS terminated the prior lease agreement and entered into a new lease agreement with Modern Leasing for a copier. TGS' lease obligations meets the criteria for a capital lease as defined by the Standards, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$100,670 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. Accumulated depreciation totaled \$35,235 for fiscal year 2017. Principal payments for fiscal year 2017 totaled \$14,362 and interest payments totaled \$21,252. Net book value of the copier is \$65,435 at June 30, 2017.

The following is a schedule of the future minimum payments required under the capital lease as of June 30, 2017.

<u>Fiscal Year</u>	<u>Copier</u>
2018	\$ 33,365
2019	33,365
2020	33,365
2021	<u>11,122</u>
Total minimum Lease Payments	\$ 111,217
Less: amount representing interest	<u>(32,885)</u>
Present value of minimum lease payments	<u>\$ 78,332</u>

12. ACCOUNTS PAYABLE

Accounts payable consists of obligations at June 30, 2017 incurred during the normal course of conducting operations.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

13. DEBT AND LONG-TERM OBLIGATIONS

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

	Principal Outstanding			Principal Outstanding		Amounts Due Within
	<u>6/30/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2017</u>	<u>one year</u>	
Dantomka, Lt. Note-c	\$ 498,747	\$ -	\$ (29,625)	\$ 469,122	\$ 43,872	
Dantomka, Lt. Note-d	745,405	-	(58,159)	687,246	65,163	
Modern Leasing	92,694	-	(14,362)	78,332	17,862	
Net Pension Liability - SERS	1,545,673	532,616	-	2,078,289	-	
Net Pension Liability - STRS	<u>10,102,860</u>	<u>2,692,464</u>	<u>-</u>	<u>12,795,324</u>	<u>-</u>	
Total Long-Term Liabilities	<u>\$ 12,985,379</u>	<u>\$ 3,225,080</u>	<u>\$ (102,146)</u>	<u>\$ 16,108,313</u>	<u>\$ 126,897</u>	

In December of 2011, TGS entered into a capital lease for copiers with Modern Leasing. The terms of the lease were for 60 months with a lease payment of \$2,055 per month and an interest rate of 25%. In October of 2015, TGS terminated the lease agreement and entered into a new capital lease for 3 Lanier copiers with Modern Leasing. The terms of the new lease are for 60 months with a lease payment of \$2,780 per month. The interest rate of the lease is 22%. Total payments for the copiers during fiscal year 2017 were \$35,614 (see Note 11). The school also returned the old copier prior to the termination date, receiving a credit of \$23,182.

In November 2011, TGS entered into a new mortgage loan agreement 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 \$4,610. Total payments made at June 30, 2017, were \$42,056, with principal of \$29,625 and interest of \$12,431.

In November 2011, TGS entered into a new mortgage loan agreement with Eileen Meers (Note – D) in the amount of \$1,100,881 for a 15 year term at an interest rate of 2.5% annually. The loan was subsequently assigned to Dantomka, Ltd. Monthly payments on the note are \$4,367 for years 1 and 2. Payments escalate up to \$5,714 beginning in year 3 with a balloon payment of \$210,933 due at the end of the term. Total payments made at June 30, 2017, were \$76,170, of which \$58,159 was principal and \$18,011 was interest.

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 annual requirements to amortize all outstanding long-term debt (including capital leases) as of June 30, 2017, including interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 126,897	\$ 43,392	\$ 170,289
2019	134,029	36,261	170,290
2020	142,290	27,999	170,289
2021	129,440	18,606	148,046
2022	120,586	16,338	136,924
2023-2027	<u>581,458</u>	<u>50,658</u>	<u>632,116</u>
Total	<u>\$ 1,234,700</u>	<u>\$ 193,254</u>	<u>\$ 1,427,954</u>

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 disclosure 13 details the terms and payment arrangements of the loans.

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, 2014, a sponsorship agreement was executed between TGS and the Educational Service Center of Central Ohio for a two (2) year period beginning July 1, 2014. In July 2014, the contract was extended for three years through June 2017. An additional extension through June 2019 was granted in April 2017. Under this agreement, TGS pays the Sponsor "up to" 3% of State Aid (see Note 2 G.). TGS sponsor fee expense at June 30, 2017 totaled \$71,309.

17. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Columbus Foundation holds in trust a money market account valued at \$20,446 at June 30, 2017. 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 2017.

18. MANAGEMENT AGREEMENT WITH THE CHARLES SCHOOL (TCS)

Effective July 1, 2007, TGS entered into a two-year Management Agreement (the Agreement) with TCS. 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 TGS Board approved a modified agreement with TCS 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 the contract to continue to June 30, 2014. Since June of 2014, the Board has approved another one year renewal annually. Per the contract, TGS receives a base fee of three (3) percent up of TCS' federal and state awards. TGS also 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 \$2,329,871, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$1,908,098 was for general fund related fees and \$421,773 was for grant related reimbursements. Accounts payable due to TGS in the amount of \$79,601 is listed on the Statement of Net Position as a result of underpayments made by the School.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

Effective July 1, 2015, GEMS entered into a one-year Management Agreement (the Agreement) with TGS. The Agreement's terms ran through June 30, 2016, and was subsequently renewed for an additional one-year term. Per the contract, TGS receives a base fee of three (3) percent of GEMS' federal and state awards. TGS also receives ninety-five (95) percent of GEMS' remaining revenues after GEMS pays its direct expenses. GEMS management fee expense for the fiscal year total \$885,197, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$795,725 was for general fund related fees and \$93,472 was for grant related reimbursements. Accounts Receivable due from TGS in the amount of \$189,584 is listed on the Statement of Net Position as a result of overpayment made by the school.

20. MANAGEMENT AGREEMENT WITH GRAHAM PRIMARY SCHOOL (GPS)

Effective July 1, 2015, TGS entered into a one year Management Agreement (the Agreement) with GPS, reviewed annually. The Agreement's terms ran through June 30, 2017. Per the contract, TGS receives a base fee of three (3) percent up of GEMS' federal and state awards. TGS also receives ninety-five (95) percent of GPS' remaining revenues after GPS pays its direct expenses. Per the contract, TGS receives a base fee of three (3) percent of GPS' federal and state awards. TGS also receives ninety-five (95) percent of GPS' remaining revenues after GPS pays its direct expenses. GPS management fee expense for the fiscal year total \$1,687,259, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$1,473,368 was for general fund related fees and \$154,772 was for grant related reimbursements. Other fees totaled \$59,119. Accounts Payable owed to TGS in the amount of \$84,042 is listed on the Statement of Net Position as a result of underpayments made by the school.

21. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the School implemented GASB Statement No. 77 "Tax Abatement Disclosures" which improves disclosure of tax abatement information, such as how the tax abatements affect their financial statements and operations and the government's ability to raise resources in the future, by reporting (1) the government's own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented GASB Statement No. 78 "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" which amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The implementation of this statement did not have an effect on the financial statements of the School

For fiscal year 2017, the School implemented GASB Statement No. 80 "Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14" which amends the blending requirements for the financial statement presentation of component units of all state and local governments to enhanced the comparability of financial statements among governments. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented GASB Statement No. 82 "Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73" which addresses issues regarding (1) the

**THE GRAHAM SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

21. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

presentation of payroll related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The implementation of this statement during the year did not have an effect on beginning net position.

22. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT

At June 30, 2017, TGS had ending net position of \$(12,501,107), including the impact of GASB 68. Without the impact of GASB 68, the School's net position is \$(1,013,817). To address the issue of the deficit in net position, TGS is engaged in a variety of activities. There are weekly meetings held with the Dean of TGS to review expenses and reduce spending. TGS 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.

23. SUBSEQUENT EVENTS

Subsequent to year end, management contracts with TCS and GEMS schools were renewed for an additional one-year period ending June 30, 2018. Effective July 1, 2017, GPS merged with its sister school GEMS. The combined school changed its name to the Graham Elementary and Middle School.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**
Supplementary Information
Schedule of Management Company Expenses

For the year ended June 30, 2017, TGS incurred the following expenses on-behalf of TCS, GPS and GEMS:

Expenses	<u>TCS</u>	<u>GEMS</u>	<u>GPS</u>
Direct Expenses:			
Salaries & wages			
Regular Instruction	\$ 713,012	\$ 336,401	\$ 454,779
Special Instruction	72,534	-	63,129
Other Instruction	-	69,080	117,501
Support Services	286,424	132,074	189,699
Employees' benefits			
Regular Instruction	110,160	51,974	70,263
Special Instruction	11,207	-	9,753
Other Instruction	-	10,673	18,154
Support Services	43,917	20,405	29,308
Indirect Expenses (Overhead):			
Support Services	<u>336,851</u>	<u>126,341</u>	<u>192,907</u>
Total Expenses	<u>\$1,574,105</u>	<u>\$ 746,948</u>	<u>\$1,145,493</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.

THE GRAHAM SCHOOL
Franklin County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
State Teachers Retirement System (STRS)				
School's Proportion of the Net Pension Liability	0.03822579%	0.03655546%	0.03467255%	0.03467255%
School's Proportionate Share of the Net Pension Liability	\$ 12,795,324	\$ 10,102,860	\$ 8,433,564	\$ 10,046,006
School's Covered Payroll	\$ 3,996,086	\$ 4,090,329	\$ 3,811,400	\$ 3,196,300
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	320.20%	246.99%	221.27%	314.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%
School Employees Retirement System (SERS)				
School's Proportion of the Net Pension Liability	0.02839550%	0.02708810%	0.02906700%	0.02906700%
School's Proportionate Share of the Net Pension Liability	\$ 2,078,289	\$ 1,545,673	\$ 1,471,064	\$ 1,728,521
School's Covered Payroll	\$ 1,006,286	\$ 1,117,489	\$ 824,235	\$ 944,566
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	206.53%	138.32%	178.48%	183.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Notes:

School Employees Retirement System (SERS)

Changes of Benefit Terms: None.

Changes of Assumptions: Amounts reported in 2017 reflect an adjustment of the rates of withdrawal, retirement and disability to more closely reflect actual experience and the expectation of retired life mortality was based on RP-2014 Blue Collar Mortality Tables and RP-2000 Disabled Mortality Table. The following reductions were also made to the actuarial assumptions:

- Discount rate from 7.75% to 7.50%
- Assumed rate of inflation from 3.25% to 3.00%
- Payroll growth assumption from 4.00% to 3.50%
- Assumed real wage growth from 0.75% to 0.50%

THE GRAHAM SCHOOL
Franklin County, Ohio
Required Supplementary Information
Schedule of School Contributions
Last Ten Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
State Teachers Retirement System (STRS)										
Contractually Required Contribution	\$ 616,667	\$ 559,452	\$ 572,646	\$ 495,482	\$ 415,519	\$ 260,618	\$ 285,926	\$ 200,224	\$ 195,193	\$ 144,298
Contributions in Relation to the Contractually Required Contribution	<u>(616,667)</u>	<u>(559,452)</u>	<u>(572,646)</u>	<u>(495,482)</u>	<u>(415,519)</u>	<u>(260,618)</u>	<u>(285,926)</u>	<u>(200,224)</u>	<u>(195,193)</u>	<u>(144,298)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 4,404,764	\$ 3,996,086	\$ 4,090,329	\$ 3,811,400	\$ 3,196,300	\$ 2,004,754	\$ 2,199,431	\$ 1,540,185	\$ 1,501,485	\$ 1,109,985
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
School Employees Retirement System (SERS)										
Contractually Required Contribution	\$ 144,390	\$ 140,880	\$ 147,285	\$ 114,239	\$ 130,728 #	\$ 125,002	\$ 7,458	\$ 104,577	\$ 50,691	\$ 55,137
Contributions in Relation to the Contractually Required Contribution	<u>(144,390)</u>	<u>(140,880)</u>	<u>(147,285)</u>	<u>(114,239)</u>	<u>(130,728)</u>	<u>(125,002)</u>	<u>(7,458)</u>	<u>(104,577)</u>	<u>(50,691)</u>	<u>(55,137)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 1,031,357	\$ 1,006,286	\$ 1,117,489	\$ 824,235	\$ 944,566	\$ 929,383	\$ 59,332	\$ 772,356	\$ 515,152	\$ 561,477
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

(1) Information prior to 2009 is not available.

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April 12, 2018

To the Board of Directors
The Graham School
Franklin County, Ohio
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, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, as well as the accompanying schedule of management company expenses presented as supplementary information, and have issued our report thereon dated April 12, 2018, in which we noted that the School has suffered recurring losses from operations and has a net position deficit of \$12,501,107, including the effect of net pension liability and related accruals totaling \$11,487,290, that raises substantial doubt about its ability to continue as a going concern.

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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 from 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Dublin, Ohio



Dave Yost • Auditor of State

GRAHAM SCHOOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 31, 2018