

Dave Yost • Auditor of State

THE GRAHAM SCHOOL
FRANKLIN COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

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, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider 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 to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of The Graham School, Franklin County, Ohio, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 to the financial statements, the School is experiencing certain financial difficulties. Note 21 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. This matter does not affect our opinion on these financial statements.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2014, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

April 23, 2014

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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, 2013. The intent of this discussion and analysis is to look at TGS' financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of TGS' financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the 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

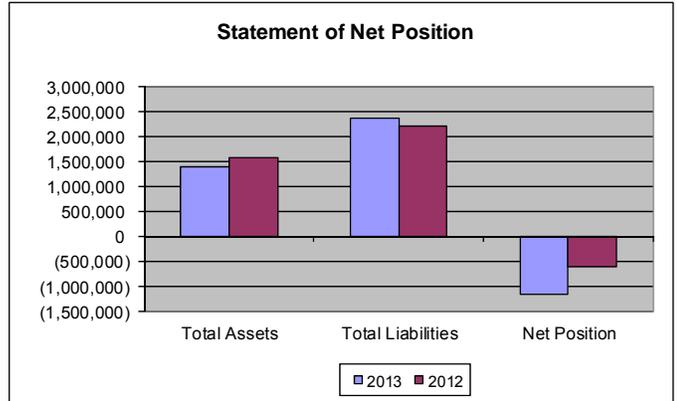
Key Financial Highlights for TGS for the fiscal year 2013 are as follows:

- In total, Net Position decreased \$565,834 which represents a 93.1 percent decrease from 2012. This decrease is due to increased expenditures for salaries and benefits.
- Total assets decreased \$205,591 which represents a 12.87 percent decrease from 2012. This was primarily due to decreases in cash and capital assets from the previous year.
- Liabilities increased \$208,422 which represents a 9.5 percent increase from 2012. The increase in liabilities is due to increases in accrued wages and benefits and a new promissory note.

USING THIS ANNUAL REPORT

This report consists of three parts: the MD&A, the basic financial statements, and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how TGS did financially during fiscal year 2013. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.



These statements report TGS' Net Position and changes to that 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 factors include TGS' student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

TGS uses enterprise presentation for all of its activities.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

Statement of Net Position

The Statement of Net Position answers the question of how TGS did financially during fiscal year 2013. This statement includes all assets, liabilities, and deferred inflows, 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 2013 and 2012.

**Table 1
Statement of Net Position**

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets	\$ 321,928	\$ 469,466
Capital Assets, Net of Accumulated Depreciation	<u>1,069,690</u>	<u>1,127,743</u>
Total Assets	<u><u>1,391,618</u></u>	<u><u>1,597,209</u></u>
Liabilities		
Current Liabilities	985,136	780,463
Long Term Liabilities	<u>1,428,265</u>	<u>1,424,516</u>
Total Liabilities	2,413,401	2,204,979
Deferred Inflows – Grants Deferred	151,821	0
Net Position		
Net Investment in Capital Assets	(398,674)	(316,620)
Unrestricted	<u>(774,930)</u>	<u>(291,150)</u>
Total Net Position	<u><u>\$(1,173,604)</u></u>	<u><u>\$ (607,770)</u></u>

Net Position decreased \$565,834 from 2012. Total assets decreased \$205,591 due to decreases in cash and capital assets. Total liabilities increased to \$2,413,401, an increase from 2012 of \$208,422. This is due to increases in accrued wages and benefits and a new promissory note.

Statement of Revenues, Expenses and Changes in Net Position

Table 2, below, shows the changes in Net Position for fiscal years 2013 and 2012, as well as listing revenues and expenses. This change in Net Position is important because it tells the reader that, for TGS as a whole, the financial position of TGS has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

**Table 2
Change in Net Position**

	<u>2013</u>	<u>2012</u>
Operating Revenue		
State Aid	\$1,840,719	\$1,895,190
Casino Aid	5,440	
Classroom Materials & Fees	17,362	12,306
Services to Schools	3,469,250	2,784,965
Other Operating Revenues	<u>17,973</u>	<u>14,702</u>
Total Operating Revenue	<u>5,350,744</u>	<u>4,707,163</u>
Non-Operating Revenue		
Grants – State	459	424
Grants – Federal	283,900	294,603
Interest Income	424	325
Contributions and Donations	150,656	100,557
Debt Forgiveness	<u>0</u>	<u>240,000</u>
Total Non-Operating Revenue	<u>435,439</u>	<u>635,909</u>
Total Revenues	<u>5,786,183</u>	<u>5,343,072</u>
Operating Expenses		
Salaries	4,155,404	3,419,388
Fringe Benefits	1,209,682	1,055,620
Purchased Services	612,267	558,746
Materials and Supplies	172,001	76,052
Depreciation Expense	72,227	46,625
Other Operating Expense	<u>80,561</u>	<u>45,082</u>
Total Operating Expenses	<u>6,302,142</u>	<u>5,201,513</u>
Non-Operating Expenses		
Interest and Fiscal Charges	<u>49,875</u>	<u>30,786</u>
Total Expenses	<u>6,352,017</u>	<u>5,232,299</u>
Increase (Decrease) in Net Position	<u>\$ (565,834)</u>	<u>\$ 110,773</u>

Operating revenues increased \$643,581, which represents a 13.7% increase from 2012. Operating expenses increased by \$1,100,629, which represents a 21.2% increase from 2012. Operating revenue and expense increases are due primarily to related activities with The Charles School (TCS), Graham Expeditionary Middle School (GEMS) and Graham Primary School (GPS) (See notes 17 - 19). TGS received \$3,469,250 in revenue from all schools for services rendered and incurred expenses of \$3,633,291 for payroll, benefits, and allocated overhead. (See notes 17 - 19)

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

BUDGETING HIGHLIGHTS

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the community school's contract with its sponsor. The contract between TGS and its Sponsor does not prescribe a budgetary process. However, TGS has developed a one year spending plan and a five-year forecast that is reviewed semi-annually by the Board of Trustees. The five-year forecast is also submitted to the Sponsor and the Ohio Department of Education, annually.

CAPITAL ASSETS

TGS has \$1,069,690 invested in capital assets, net of accumulated depreciation. The decrease in asset carrying value of \$58,053 is the effect of annual depreciation. Detailed information regarding capital asset activity is included in the note 5 to the basic financial statements.

DEBT OBLIGATIONS

TGS has \$100,000 of short-term debt obligations at June 30, 2013, and long-term debt obligations of \$1,468,364, of which \$40,099 is current. Notes 12 and 13 to the basic financial statements summarize all of TGS' debt obligations at June 30, 2013.

OTHER INFORMATION

For the Future

In conclusion, TGS has committed itself to financial excellence. TGS has contracted with the Educational Service of Central Ohio as its Sponsor, effective May 13, 2009. See note 16 for further information.

TGS has extensive fundraising activities and receives donations to assist in financing its operations; this practice is expected to continue. TGS is also continuing to found additional schools. In addition to The Charles School at Ohio Dominican University (TCS) and Graham Expeditionary Middle School (GEMS), the School has most recently started The Graham Primary School (GPS), which had its first school year in fiscal year 2013. It is planned that income derived from running these schools will be used to reduce the debt of TGS. Also, the financial outlook over the next several years shows continued growth in enrollment at TGS as well. But, future revenue increases are cautious due to Ohio's weak economic recovery.

CONTACTING THE GRAHAM SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of TGS' finances and to demonstrate accountability for the money received. If you have questions about this report or need additional information contact Ms. Cheryl Long of The Graham School, 3950 Indianola Avenue, Columbus, Ohio 43214 or e-mail at cheryl@thegrahamschool.org.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2013**

Assets

Current Assets:

Cash and Cash Equivalents	\$ 140,239
Beneficial Interest in Assets Held By Others	20,664
Accounts Receivable	88,209
Intergovernmental Receivable	38,871
Prepays	<u>33,945</u>

Total Current Assets 321,928

Noncurrent Assets:

Capital Assets:

Depreciable Capital Assets	927,890
Non-Depreciable Capital Assets, net	<u>141,800</u>

Total Noncurrent Assets 1,069,690

Total Assets 1,391,618

Liabilities

Current Liabilities:

Accounts Payable	230,426
Accrued Wages and Benefits	610,499
Promissory Note	100,000
Intergovernmental Payable	4,112
Capital Lease Payable, Due within one year	11,910
Long Term Notes Payable, Due within one year	28,189

Total Current Liabilities 985,136

Long-Term Liabilities:

Notes Payable, Due within more than one year	1,383,841
Capital Lease Payable, Due within more than one year	<u>44,424</u>

Total Long-Term Liabilities 1,428,265

Total Liabilities 2,413,401

Deferred Inflows

Grants-Deferred 151,821

Net Position

Net Investment in Capital Assets	(398,674)
Unrestricted	<u>(774,930)</u>

Total Net Position \$ (1,173,604)

See accompanying notes to the basic financial statements

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Operating Revenues	
State Aid	\$ 1,840,719
Casino Aid	5,440
Classroom Fees	17,362
Services to Schools	3,469,250
Other Operating	<u>17,973</u>
Total Operating Revenues	<u>5,350,744</u>
Operating Expenses	
Salaries	4,155,404
Fringe Benefits	1,209,682
Purchased Services	612,267
Materials and Supplies	172,001
Depreciation	72,227
Other	<u>80,561</u>
Total Operating Expenses	6,302,142
Operating Loss	<u>(951,398)</u>
Non-Operating Revenues (Expenses)	
Grants	284,359
Contributions & Donations	150,656
Investment Income	424
Interest and Fiscal Charges	<u>(49,875)</u>
Total Non-Operating Revenues (Expenses)	<u>385,564</u>
Change in Net Position	<u>(565,834)</u>
Net Position Beginning of Year	<u>(607,770)</u>
Net Position End of Year	<u>(1,173,604)</u>

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$1,812,126
Cash Received from Other Operating Sources	3,477,128
Cash Payments to Suppliers for Goods and Services	(713,825)
Cash Payments to Employees for Services	(4,042,936)
Cash Payments for Employee Benefits	(1,199,947)
Other Cash Payments	<u>(80,561)</u>

Net Cash Used for Operating Activities (748,015)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Operating Grants	285,306
Cash Received from Promissory Note	100,000
Cash Received from Contributions and Donations	<u>334,868</u>

Net Cash Provided by Noncapital Financing Activities 720,174

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

Cash Payments for Capital Assets	(56,044)
Cash Payments for Interest and Fiscal Charges	(49,875)
Cash Payments for Principal Payments	<u>(30,894)</u>

Net Cash Used for Capital Financing Activities (136,813)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	<u>424</u>
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Net Cash Provided by Investing Activities 424

NET DECREASE IN CASH AND CASH EQUIVALENTS (164,230)

CASH AND CASH EQUIVALENTS BEGINNING OF YEAR 304,469

CASH AND CASH EQUIVALENTS END OF YEAR \$ 140,239

See accompanying notes to the basic financial statements.

THE GRAHAM SCHOOL
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(CONTINUED)

**RECONCILIATION OF LOSS TO NET CASH
USED FOR OPERATING ACTIVITIES**

Operating Loss \$(951,398)

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

Depreciation 72,227

Changes in Assets and Liabilities:

Accounts Receivable (27,457)

Accounts Payable 70,443

Prepays 9,735

Accrued Wages and Benefits 112,468

Intergovernmental Payable (34,033)

Net Cash Used for Operating Activities \$ (748,015)

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

1. DESCRIPTION OF THE REPORTING ENTITY

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

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

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

TGS operates under the direction of a seven-member governing board. The governing board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The governing board controls TGS' instructional/support facilities staffed by 21 non-certified and 75 certificated full time personnel who provide services to students at TGS, The Charles School at Ohio Dominican University (TCS), The Graham Primary School (GPS), and The Graham Expeditionary Middle School (GEMS).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of TGS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Basis of Presentation

TGS's basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. TGS uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, all liabilities, and deferred inflows are included on the Statement of Net Position. The operating statement presents increases and decreases in net total 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 traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by its sponsor in the sponsorship agreement. The contract between TGS and its Sponsor does not prescribe for an annual budget requirement. However, TGS does prepare a five-year forecast, which is to be updated semi-annually, and shared with the Governing Board, Ohio Department of Education and its Sponsor, as required by the Sponsorship agreement.

D. Cash and Cash Equivalents

All cash received by TGS is deposited in accounts in TGS' name and reflected as Cash and Cash Equivalents on the Statement of Net Position. TGS had investments as of June 30, 2013 (See note 3).

E. Prepaid Items

TGS records payments made to vendors for services that will benefit periods beyond June 30, 2013, as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed. TGS had prepaids as of June 30, 2013 (see Note 4)

F. Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements (deletions) during the year. Donated capital assets are recorded at their fair market values as of the date received. TGS' capitalization threshold is one thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

TGS currently participates in the state's foundation program. Revenue received from this program is recognized as operating revenue (foundation payments) in the accounting period in which it is earned and becomes measurable. Funding from this program is listed as "State Aid" on the Statement of Revenues, Expenses, and Changes in Net 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 2013 school year totaled \$2,125,078.

H. Net Position

Net Position represents the difference between assets and liabilities and deferred inflows. 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 its use either through the enabling legislation adopted by TGS or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. TGS has no restricted Net Position at June 30, 2013, but the Statement of Net Position reports \$(398,674) in net investment in capital assets.

TGS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of TGS. Operating expenses are necessary costs incurred to provide the service that is the primary activity of TGS. All revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accounts Payable

Accounts Payable consists of obligations at June 30, 2013 incurred during the normal course of conducting operations

L. Intergovernmental Payable

Intergovernmental payable consists of payments owed as a result of the ODE FTE audit at year-end for overpayment of Foundation monies. This audit is not yet complete, but the School has estimated this amount for FY 2013.

M. Deferred Inflows of Resources

Deferred inflows consist of overpayments of management fees received from TCS, GEMS, and GPS that have not been earned as of June 30, 2013 or private grant monies received for Fiscal Year 2014.

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

Deposits: The carrying value of TGS' deposits totaled \$136,443, and the bank balance totaled \$222,557. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, All of TGS' bank balance was covered by Federal Deposit Insurance.

Custodial credit risk is the risk that, in the event of bank failure, the TGS' deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in TGS' name.

In fiscal year 2008, TGS received a donation in the form of equity stock in Wells Fargo. The investment banker, Morgan Stanley Smith Barney, LLC holds the investment. Morgan Stanley received a credit rating of Baa2 as of November 14, 2013. This is a downgrade from Baa1 in the previous year. The carrying value of various equity shares of this stock at June 30, 2013 is \$3,796, of which \$412 is in cash. Due to current market risk and its affect on the equity stocks, TGS has gained \$460 in fiscal 2013 on these holdings.

The carrying value of the equity stock is recorded at its fair market value at June 30, 2013.

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.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments

TGS has a money market account with the Columbus Foundation, which serves as a custodian bank, to be used for the renovation of TGS' property. At June 30, 2013, the custodian held \$20,664 in TGS assets.

4. RECEIVABLES AND PREPAID EXPENSES

At June 30, 2013, TGS had accounts receivable in the amount of \$88,209, intergovernmental receivables in the amount of \$ 38,871, and prepaid expenses in the amount of \$ 33,945. Accounts receivable are amounts due from affiliated schools (TCS, GPS, and GEMS). Intergovernmental Receivables consist of federal assistance earned at year end but not received at June 30, 2013. The Prepaids consist of over withheld STRS/SERS for fiscal 2013.

5. CAPITAL ASSETS

At June 30, 2013, the following table represents TGS' changes in capital assets. Capital assets are considered depreciable, except for land.

	<u>Balance 06/30/12</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 06/30/13</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>231,683</u>	<u>14,174</u>	<u>-</u>	<u>245,857</u>
Total Capital Assets Being Depreciated	2,110,560	14,174	-	2,124,734
Less Accumulated Depreciation:				
Building	(304,345)	(27,705)	-	(332,050)
Improvements	(691,337)	(18,464)	-	(709,801)
Furniture and Equipment	<u>(128,935)</u>	<u>(26,058)</u>	<u>-</u>	<u>(154,993)</u>
Total Accumulated Depreciation	<u>(1,124,617)</u>	<u>(72,227)</u>	<u>-</u>	<u>(1,196,844)</u>
Net Total Capital Assets	<u>\$1,127,743</u>	<u>\$ (58,053)</u>	<u>\$ -</u>	<u>\$ 1,069,690</u>

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

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 2013, 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.

B. Workers' Compensation

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

C. Employee Medical, Dental and Vision Benefits

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

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and TGS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

For the fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10 percent. The remaining .90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. TGS contributions to SERS for the years ended June 30, 2013, 2012 and 2011 were \$123,713, \$118,032, and \$66,184, respectively, of which 100% has been contributed.

B. State Teachers Retirement Systems (STRS)

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

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

A DB or Combined Plan member with five or more years credited service that becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salaries. TGS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

TGS' required contributions for pension obligations to STRS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$415,519, \$260,618, and \$285,926, respectively, of which 100% has been contributed.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

C. Social Security

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, there were no members that elected Social Security.

8. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement Systems

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

Medicare Part B

The Medicare B plan reimburses Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90; SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarial required allocation is .74 percent. TGS' contributions for the years ended June 30, 2013, 2012 and 2011 were \$7,015, \$6,970, and \$4,274, respectively, of which, 100% has been contributed by TGS.

Health Care Plan

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

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

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement Systems (Continued)

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is .16 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year June 30, 2013, the minimum compensation level was established at \$20,525. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. TGS' contributions assigned to health care for the years ended June 30, 2013, 2012 and 2011 were \$12,574, \$14,645, and \$17,575, respectively, of which, 100% has been contributed by TGS.

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

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' website www.ohsers.org under Employers/Audit Resources

B. State Teachers Retirement System

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. TGS' contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$32,718, \$20,521, and \$21,994, respectively all of which has been contributed for all fiscal years.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

9. CONTINGENCIES

A. Grants

TGS receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the operating fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of TGS at June 30, 2013.

B. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review has been conducted for the 2012-2013 school year. The adjustments for FTE did not have a material effect on the accompanying financial statements presented.

10. PURCHASED SERVICES

For the period July 1, 2012 through June 30, 2013, purchased service expenses were payments for services rendered by various vendors, as follows:

Description	Amount
Professional and Technical Services	\$368,951
Property Services	28,609
Travel Mileage/Meeting Expense	32,992
Communications	16,160
Utilities	37,599
Contracted Trade Services	18,456
Pupil Transportation Services	<u>109,500</u>
Total Purchased Services	<u>\$612,267</u>

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

11. CAPITAL LEASES – LESSEE DISCLOSURE

In December of 2011, TGS entered into a lease agreement with Modern Leasing for a copier. TGS' lease obligations meet the criteria for a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$70,094 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. Principal payments for fiscal year 2013 totaled \$9,304.

The following is a schedule of the future minimum payments required under the capital lease as of June 30, 2013.

<u>Fiscal Year</u>	<u>Copier</u>
2014	24,662
2015	24,662
2016	24,662
2017	10,276
Total minimum Lease Payments	\$ 84,261
Less: amount representing interest	(27,927)
Present value of minimum lease payments	\$ 56,334

12. DEBT OBLIGATIONS- SHORT-TERM

At June 30, 2013, the following table represents TGS' short-term debt issuances:

	<u>Principal Outstanding 6/30/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2013</u>
Meers – Promissory Note	\$ -	\$ 100,000	\$ -	\$ 100,000

On June 3, 2013, TGS entered into an open-end promissory Note with Eileen Meers (Payee) in the amount of \$200,000 to be repaid with interest at a rate of 2.5%. The entire unpaid principal balance together with accrued interest shall be due and payable upon the demand of the payee. The proceeds are to be used for operating expenses. As of June 30, 2013, only \$100,000 has been drawn down.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

13. DEBT OBLIGATIONS- LONG-TERM

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

	<u>Principal Outstanding 6/30/2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/2013</u>	<u>Amounts Due Within one year</u>
Dantomka, Lt. Note-c and Note-d	1,378,725	374	(849)	1,378,250	4,520
Charles E Graham	54,895	-	(21,115)	33,780	23,669
Modern Leasing	<u>65,638</u>	<u>-</u>	<u>(9,304)</u>	<u>56,334</u>	<u>11,910</u>
Total Long-Term Liabilities	<u>\$ 739,768</u>	<u>\$ 374</u>	<u>\$ (31,268)</u>	<u>\$1,468,364</u>	<u>\$ 40,099</u>

In December of 2011, TGS modified its capital lease for 3 Lanier copiers with Modern Leasing. The terms of the lease are for 60 months with a lease payment of \$2,055 per month. The interest rate of the lease is 25%. Total payments for fiscal year 2013 were \$25,956.

On September 1, 2005, TGS refinanced its previous mortgage with the CEO of Students and a board member (the mortgage is held jointly in their names). Terms of the mortgage are for 25 years at a rate of 7%, with monthly payments of \$5,413. In November 2011, the debt was retired and replaced with Note-D.

In November 2011, TGS entered into a new loan with Charles Graham in the amount of \$70,000 for a 3 year term at an interest rate of 2.5% annually. Monthly payments on the note are \$2,020. Total payments made at June 30, 2013 were \$22,223.

In November 2011, TGS entered into a new loan with Dantomka, Ltd. in the amount of \$542,224 (Note – C) for a 15 year term at an interest rate of 2.5% annually. Monthly payments on the note are \$3,629.83. Total payments made at June 30, 2013 were \$10,755. TGS failed to comply with the debt agreement to make consecutive monthly payments, causing the material noncompliance. However, Dantomka will not be calling the debt and has waived any penalties caused by the violation.

In November 2011, TGS entered into a new loan with Eileen Meers (Note – D) which was subsequently assigned to Dantomka, Ltd. in the amount of \$1,105,248 for a 15 year term at an interest rate of 2.5% annually. Monthly payments on the note are \$4,367.07. Total payments made at June 30, 2013 were \$21,835. TGS failed to comply with the debt agreement to make consecutive monthly payments, causing the material noncompliance. However, Dantomka will not be calling the debt and has waived any penalties caused by the violation.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

13. DEBT OBLIGATIONS LONG -TERM (Continued)

The annual requirements to amortize all outstanding long-term debt as of June 30, 2013, including interest are as follows:

	Principal	Interest	Total
2014	40,099	47,914	88,013
2015	69,783	43,269	113,052
2016	65,065	37,813	102,878
2017	56,367	32,125	88,492
2018	47,884	30,333	78,217
2019-2023	258,206	132,875	391,081
2024-2027	930,960	71,313	1,002,273
Total	\$1,468,364	\$ 395,642	\$1,864,006

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 CEO of Students and is the developer of TGS, also serves as the president of DK Services and a general partner of Dantomka, Ltd. Note 13 details the terms and payment arrangements of the loans.

Eileen Meers also has a promissory note disclosed in Note 12.

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

15. TAX EXEMPT STATUS

TGS was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization. Management is not aware of any course of action or series of events that might adversely affect the School's tax exempt status.

16. SPONSOR

On May 13, 2012, a sponsorship agreement was executed between TGS and the Educational Service Center of Central Ohio for a two (2) year period beginning July 1, 2012. Under this agreement, TGS pays the Sponsor "up to" 3% of State Aid (see Note 2G.). TGS' sponsor fee expense at June 30, 2013 totaled \$54,626.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

17. MANAGEMENT AGREEMENT WITH THE CHARLES SCHOOL (TCS)

Effective July 1, 2007, TCS entered into a two year Management Agreement (the Agreement) with TGS. The Agreement's term ran through June 30, 2009 and was subsequently renewed on July 8, 2009 and modified on August 12, 2009 to cover the periods ending January 31, 2010 and December 31, 2010 respectively. On July 21, 2010, the TCS Board approved a modified agreement with TGS to commence July 1, 2010 through December 31, 2011, which further defined the roles of TGS and TCS in the agreement. In December 2011, the board approved the contract to continue to June 30, 2013. Per the contract, TGS receives up to ninety-five (95) percent of TCS' federal and state awards, after a minimum of five (5) percent is spent by TCS to pay its direct expenses. TGS' management fee revenue for the fiscal year totaled \$2,026,789, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$1,659,454 was for general fund related fees and \$367,335 was for grant related reimbursements.

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

Effective July 1, 2011, TGS entered into a two year Management Agreement (the Agreement) with The Graham Expeditionary Middle School (GEMS). The Agreement's terms ran through June 30, 2013. Per the contract, TGS receives up to ninety-five (95) percent of GEMS' federal and state awards, after a minimum of five (5) percent is spent by GEMS to pay its direct expenses. TGS' management fee revenue for the fiscal year total \$836,257, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$677,734 was for general fund related fees and \$158,523 was for grant related reimbursements.

19. MANAGEMENT AGREEMENT WITH GRAHAM PRIMARY SCHOOL (GPS)

Effective July 1, 2012, TGS entered into a one year Management Agreement (the Agreement) with Graham Primary School (GPS). The Agreement term ran through June 30, 2013. Per the contract, TGS receives up to ninety-five (95) percent of GPS' federal and state awards, after a minimum of five (5) percent is spent by GPS to pay its direct expenses. TGS' management fee revenue for the fiscal year total \$623,204, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$286,640 was for general fund related fees and \$336,564 was for grant related reimbursements.

20. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2013, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34," *Statement No. 62, "Codification of Accounting and financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements,"* *Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,"* *Statement No. 65 "Items Previously Reported as Assets and Liabilities,"* and *Statement No. 66 "Technical Corrections – 2012 – and amendment of GASB Statements No. 10 and No. 62."*

GASB Statement No. 61 "The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34" improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, "The Financial Reporting Entity", and the related financial reporting requirements of Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments", were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The implementation of this statement did not have a significant effect on the financial statements of the School.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

20. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the School's financial statements.

GASB Statement No. 63 provides financial and reporting guidance for deferred outflows of resources and deferred inflows of resources which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's net position. The implementation of GASB Statement No. 63 has changed the presentation of the school's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School's fiscal year 2013 financial statements; however, there was no effect on beginning net position.

21. MANAGEMENT PLAN

At June 30, 2013, TGS had ending net position of \$(1,173,604), with an operating loss of \$951,398. As of March 31, 2014, the School had a cash balance of \$406,912 and net revenues of \$648,687. To address the issue of the deficit in net position, the School is engaged in a variety of activities. There are weekly meetings held with the Dean of the School to review expenses and reduce spending. The School is also hiring a part time Budget Analyst to assist with financial planning. Enrollment sessions are held throughout the year at TGS and its affiliate schools to actively recruit and enroll students throughout the year. The increased enrollment from the affiliate schools will increase revenues to TGS to reduce the deficit. Lastly, TGS is active in fund raising and grant writing to help supplement its programs.

22. SUBSEQUENT EVENT

On July 11, 2013 TGS received the second and final \$100,000 drawdown on the Eileen Meers promissory note totaling \$200,000 disclosed in Note 12.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**SUPPLEMENTARY SCHEDULE
MANAGEMENT COMPANY EXPENSES**

MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2013, 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	1,248,714	711,654	428,396
Employees' benefits	340,907	192,337	125,054
Indirect Expenses:			
Overhead	<u>363,137</u>	<u>164,353</u>	<u>58,739</u>
Total Expenses	1,952,758	1,068,344	612,189

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.



Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of The Graham School, Franklin County, Ohio (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated April 23, 2014, wherein we noted the School is experiencing certain financial difficulties.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. 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. We consider finding 2013-002 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

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

www.ohioauditor.gov

Entity's Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

April 23, 2014

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013**

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

FINDING NUMBER 2013-001

Debt Covenants – Noncompliance

The Graham School's promissory note agreements with Dantomka, Ltd. for Dantomka Note C and Dantomka Note D provide that the School is obligated to make 180 consecutive monthly payments (12 payments each year) to Dantomka, Ltd. in order to service the outstanding notes.

Of the required 24 annual payments for the 2013 fiscal year, the School only made 10 non-consecutive payments (5 payments for each Note). Dantomka, Ltd. and the School have made not made an agreement or amendment to forgive the missed payments.

Failure to pay obligations as they are due could cause the School to default on their notes or incur excessive interest, late fees, and legal costs.

We recommend the School establish controls and procedures to follow the covenants within the promissory note agreements. Additionally, the School should adopt a budget that allows for debts to be paid as they come due.

Official's Response: While there may have been no written agreement between Ms. Meers and the Board relative to the non-payment of the notes, Ms. Meers did give permission to abate the note payments.

FINDING NUMBER 2013-002

Financial Reporting – Material Weakness

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

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

The following errors were material to the June 30, 2013 basic financial statements, and were posted to the financial statements, and the School's accounting system, if applicable:

1. Reclassification of Grant Revenue to Services to Schools Revenue in the amount of \$123,333.
2. Reclassification of Cash Received from Promissory Note from Capital Activity to Noncapital Activity on the Statement of Cash Flows in the amount of \$100,000.

**THE GRAHAM SCHOOL
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013
(Continued)**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

FINDING NUMBER 2013-002 (Continued)

Financial Reporting – Material Weakness (Continued)

The following differences were immaterial to the overall June 30, 2013 basic financial statements and adjustments were not posted:

1. Reclassification of Contributions and Donations Revenue to Services to Schools Revenue in the amount of \$44,300.
2. Reclassification of debt notes from long-term liability to current liability in the amount of \$37,558.
3. Reclassification of Interest payments that should be principal payments in the amount of \$17,870.
4. Reclassification of a portion of the promissory note payable from current liability to long-term liability in the amount of \$33,153.
5. Adjustment to gross-up Purchased Services Expenses and Services to Schools Revenue in the amount of \$105,172.

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

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

We did not receive an Official's Response for the finding reported above.

THE GRAHAM SCHOOL
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001 Financial Reporting	Material Weakness for audit adjustments and unadjusted differences noted	No	Not Corrected; re-issued as Finding 2013-002

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Trustees:

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

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

1. In our report dated March 13, 2013, we noted the Board adopted an anti-harassment policy on September 9, 2009. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
2. The Board amended the policy on September 17, 2012. We read the amended policy, noting it still does not include the following requirements listed in Ohio Rev. Code 3313.666.
 - (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property on a school bus.

Ohio Rev. Code Section 3313.666 required the Board to amend its policy by November 4, 2012.

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

This report is intended solely for the information and use of the Board and School's Sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

April 23, 2014



Dave Yost • Auditor of State

THE GRAHAM SCHOOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 27, 2014**