

**The Graham School**

Franklin County, Ohio

Audited Financial Statements

For The Fiscal Year Ended June 30, 2015





# Dave Yost • Auditor of State

Board of Directors  
The Graham School  
3950 Indianola Ave.  
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, 2014 through June 30, 2015. 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 31, 2016

**This page intentionally left blank.**

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**TABLE OF CONTENTS**

Independent Auditor's Report .....	1
Management's Discussion and Analysis .....	4
Statements of Net Position .....	11
Statement of Revenues, Expenses and Changes in Net Position .....	12
Statement of Cash Flows .....	13
Notes to the Basic Financial Statements .....	15
Supplementary Schedule of Management Company Expenses .....	36
Required Supplementary Information:	
Schedule of Schools Proportionate Share of Net Pension Liability .....	37
Schedule of School's Contributions .....	38
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 .....	39

March 25, 2016

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, 2015, 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 supplemental schedule of management company expenses presented as supplementary information for the year ended June 30, 2015.

### ***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, 2015, 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 schedule referred to above presents fairly, in all material respects, the management expenses incurred by the Graham School on behalf of the other schools for the year ended June 30, 2015, in accordance with accounting principles generally accepted in the United State of America.

***Emphasis of Matters***

As described in Note 21, the School restated the June 30, 2014 the net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*." Our opinion is not modified with respect to this 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 \$11,801,565 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 \$10,889,955. 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's Contributions on pages 4-9, 37, and 38, 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 March 25, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Hea & Associates, Inc.*

Dublin, Ohio

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(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, 2015. 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**

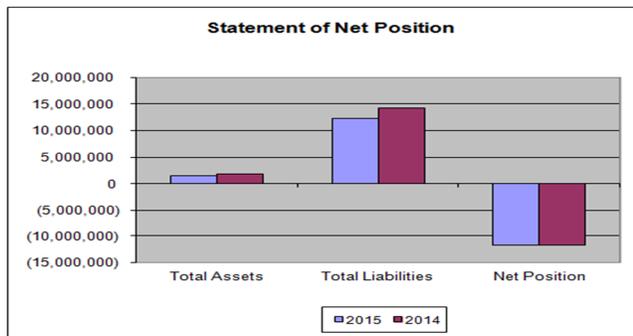
Key Financial Highlights for TGS for the fiscal year 2015 are as follows:

- In total, net position increased \$33,120 which represents a 6.5 percent of 2014. This is due to consistent expenses, an increase in State Aid and a decrease from Services to Schools.
- Total assets decreased \$308,359 which represents a 16.7 percent decrease from 2014. This was primarily due to increases in cash from the previous year.
- Liabilities decreased \$1,936,527 which represents a 13.6 percent decrease from 2014. The decrease in liabilities is due to decreases in net pension liabilities.
- During 2015, the School implemented GASB 68 and restated net position by \$11,164,806.

**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 2015. These statements include all assets deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.



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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

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 2015. 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 2015 and 2014.

**Table 1  
Statement of Net Position**

	<u>2015</u>	<u>Restated 2014</u>
<b>Assets</b>		
Current Assets	\$ 565,669	\$ 793,713
Capital Assets, Net of Accumulated Depreciation	969,000	1,049,315
Total Assets	1,534,669	1,843,028
<b>Deferred Outflows</b>		
Pension Requirements	813,672	609,721
<b>Liabilities</b>		
Current Liabilities	1,196,320	1,166,903
Long Term Liabilities	11,154,587	13,120,531
Total Liabilities	12,350,907	14,287,434
<b>Deferred Inflows</b>		
Pension Requirements	1,798,999	-
<b>Net Position</b>		
Net Investment in Capital Assets	(373,095)	(376,754)
Unrestricted	(11,428,470)	(11,457,931)
Total Net Position	\$(11,801,565)	\$(11,834,685)

Net Position increased \$33,120 from 2014. Total liabilities decreased to \$12,350,907 a decrease from 2014 of \$1,936,527. This is due to decreases in accrued wages and benefits and accounts payable and net pension liability.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

**Statement of Revenues, Expenses and Changes in Net Position**

Table 2 shows the changes in Net Position for fiscal years 2015 and 2014, as well as a listing of revenues and expenses. This change in Net Position is important because it tells the reader that, for TGS as a whole, the financial position of TGS has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**Table 2  
Change in Net Position**

	<u>2015</u>	<u>2014</u>
<b>Operating Revenue</b>		
State Aid	\$ 2,292,248	\$ 2,028,427
Casino Aid	12,535	12,886
Facilities Aid	22,911	25,221
Classroom Materials & Fees	5,989	8,077
Services to Schools	4,055,417	4,712,642
Other Operating Revenues	30,185	19,767
<b>Non-Operating Revenue</b>		
Grants	293,399	218,500
Interest Income	274	874
Contributions and Donations	96,349	263,296
<b>Total Revenues</b>	<b>6,809,307</b>	<b>7,289,690</b>
 <b>Operating Expenses</b>		
Salaries	4,675,678	4,518,740
Fringe Benefits	1,208,797	1,399,003
Purchased Services	542,569	546,251
Materials and Supplies	136,358	122,934
Depreciation Expense	84,615	77,824
Other Operating Expense	80,117	109,000
<b>Non-Operating Expenses</b>		
Interest and Fiscal Charges	48,053	12,213
<b>Total Expenses</b>	<b>6,776,187</b>	<b>6,785,965</b>
 Increase (Decrease) in Net Position	 <b>\$ 33,120</b>	 <b>\$ 503,725</b>

Total revenues decreased \$480,108 which represents a 7% decrease from 2014. Total expenses decreased by \$9,778, which represents a .1% decrease from 2014. Operating revenue decreases are due primarily to related activities with The Charles School (TCS), Graham Expeditionary Middle School (GEMS) and Graham Primary School (See notes 18 - 20). TGS received \$4,055,417 in revenue from all schools for services rendered and incurred expenses of \$3,967,845 for payroll, benefits, and allocated overhead. (See notes 18 - 20)

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

During 2015, 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 new 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**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

As a result of implementing GASB 68, the School is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$(669,879) to \$(11,834,685).

Net Position June 30, 2014	\$ (669,879)
Deferred Outflows of Resources	609,721
Net Pension Liability	<u>(11,774,527)</u>
Restated Net Position, July 1, 2014	<u>\$ (11,834,685)</u>

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2015 and 2014.

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$609,721 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$445,110. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$ 6,776,187
Pension expense under GASB 68	(445,110)
2015 contractually required contribution	<u>719,961</u>
Adjusted 2015 program expenses	7,051,038
Total 2014 program expenses under GASB 27	<u>6,785,965</u>
Increase in program expenses not related pension	<u>\$ 265,073</u>

**BUDGETING HIGHLIGHTS**

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

**CAPITAL ASSETS**

TGS has \$969,000 invested in capital assets, net of accumulated depreciation. The decrease in asset carrying value of \$80,315 is the net effect of asset purchase and annual depreciation. Detailed information regarding capital asset activity is included in the Note 5 to the basic financial statements.

**DEBT OBLIGATIONS**

TGS at June 30, 2015 has long-term debt obligation of \$1,342,095, of which \$92,136 is current. Notes 12 and 13 to the basic financial statements summarize all of the TGS' debt obligations at June 30, 2015.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(UNAUDITED)**

**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 to Ohio's weak economic recovery. 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](mailto:cheryl@thegrahamschool.org).

**THIS PAGE INTENTIONALLY LEFT BLANK**

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**Statement of Net Position  
June 30, 2015**

**Assets**

*Current Assets:*

Cash and Investments	\$ 485,136
Beneficial Interest in Assets Held By Others	20,495
Intergovernmental Receivable	8,320
Accounts Receivable	<u>51,718</u>

Total Current Assets 565,669

*Noncurrent Assets:*

Capital Assets:

Non-Depreciable Capital Assets	141,800
Depreciable Capital Assets, net	<u>827,200</u>

Total Noncurrent Assets 969,000

Total Assets 1,534,669

**Deferred Outflows of Resources**

Pension Requirements 813,672

**Liabilities**

*Current Liabilities:*

Accounts Payable	340,461
Accrued Wages and Benefits	763,723
Capital Lease Payable, Due within one year	19,515
Long Term Notes Payable, Due within one year	<u>72,621</u>

Total Current Liabilities 1,196,320

*Long-Term Liabilities:*

Net Pension Liability	9,904,628
Notes Payable, Due in more than one year	1,240,295
Capital Lease Payable, Due in more than one year	<u>9,664</u>

Total Long-Term Liabilities 11,154,587

Total Liabilities 12,350,907

**Deferred Inflows of Resources**

Pension Requirements 1,798,999

**Net Position**

Net Investment in Capital Assets	(373,095)
Unrestricted	<u>(11,428,470)</u>

Total Net Position \$(11,801,565)

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, 2015**

<b>Operating Revenues</b>	
State Aid	\$ 2,292,248
Casino Aid	12,535
Facilities Aid	22,911
Classroom Fees	5,989
Services to Schools	4,055,417
Other Operating	<u>30,185</u>
<b>Total Operating Revenues</b>	<u>6,419,285</u>
<b>Operating Expenses</b>	
Salaries	4,675,678
Fringe Benefits	1,208,797
Purchased Services	542,569
Materials and Supplies	136,358
Depreciation	84,615
Other	<u>80,117</u>
<b>Total Operating Expenses</b>	<u>6,728,134</u>
<b>Operating Loss</b>	<u>(308,849)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Grants	293,399
Contributions & Donations	96,349
Investment Income	274
Interest and Fiscal Charges	<u>(48,053)</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>341,969</u>
<b>Change in Net Position</b>	33,120
<b>Net Position Beginning of Year – Restated (See Note 21)</b>	<u>(11,834,685)</u>
<b>Net Position End of Year</b>	<u>\$ (11,801,565)</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, 2015**

**Increase (Decrease) in Cash and Investments**

**Cash Flows Used for Operating Activities**

Cash Received from State of Ohio	\$ 2,273,768
Cash Received from Other Operating Sources	4,094,266
Cash Payments to Suppliers for Goods and Services	(447,450)
Cash Payments to Employees for Services	(4,710,474)
Cash Payments for Employee Benefits	(1,483,648)
Other Cash Payments	<u>(72,372)</u>
Net Cash Used for Operating Activities	<u>(345,910)</u>

**Cash Flows from Noncapital Financing Activities**

Cash Received from Operating Grants	285,164
Cash Received from Contributions and Donations	<u>96,349</u>
Net Cash Provided by Noncapital Financing Activities	<u>381,513</u>

**Cash Flows from Capital and Related Financing Activities**

Cash Payments for Capital Assets	(4,300)
Cash Payments for Interest and Fiscal Charges	(48,053)
Cash Payments for Principal Payments	<u>(217,127)</u>
Net Cash Provided by (Used in) Capital Financing Activities	<u>(269,480)</u>

**Cash Flows from Investing Activities**

Interest Income	<u>274</u>
Net Cash Provided by Investing Activities	<u>274</u>

**Net Decrease in Cash and Investments** (233,603)

**Cash and Investments Beginning of Year** 718,739

**Cash and Investments End of Year** \$ 485,136

(Continued)

THE GRAHAM SCHOOL  
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(CONTINUED)

**Reconciliation of Operating Gain (Loss) to Net Cash  
Provided by (Used For) Operating Activities**

Operating Gain (Loss) \$ (308,849)

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

Depreciation 84,615

**CHANGES IN ASSETS, DEFERRED OUTFLOWS OF  
RESOURCES, LIABILITIES AND DEFERRED INFLOWS OF  
RESOURCES:**

Accounts Receivable 2,676

Accounts Payable 231,477

Accrued Wages and Benefits (34,796)

Intergovernmental Payable (46,182)

Net Pension Liability (1,869,899)

Deferred Outflows of resources (203,951)

Deferred Inflows of resources 1,798,999

Net Cash Provided by (Used For) Operating Activities \$ (345,910)

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**1. DESCRIPTION OF THE REPORTING ENTITY**

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

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

On January 1, 2009, the Sponsor merged with the Franklin County Service Center. The surviving organization, the Educational Service Center of Central Ohio, acknowledges its obligations under the existing contract between the Sponsor and TGS, and expects to honor provisions contained therein, as documented in the Memorandum of Understanding dated January 3, 2009. The contract ran through July 2014 and was renewed for an additional three year period through June 2017.

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**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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 not prescribe for an annual budget requirement. TGS does prepare a five-year forecast, which is to be updated semi-annually, and shared with the Governing Board, Ohio Department of Education and its Sponsor.

**D. Cash and Investments**

All cash received by the TGS is deposited in accounts in the TGS' name and reflected as Cash and Investments on the Statement of Net Position. The TGS has investments during fiscal year 2015 (See Note 3).

**E. Prepaid Items**

TGS records payments made to vendors for services that will benefit periods beyond June 30, 2015, 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.

**F. Capital Assets and Depreciation**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. TGS' capitalization threshold is one thousand dollars.

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

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Intergovernmental Revenues**

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

Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which Graham must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to 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.

**H. Net Position**

Net Position represent the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net Position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net Position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by TGS or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. TGS presently has no restricted Net Position at June 30, 2015, but the Statement of Net Position reports \$373,095 in Invested 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.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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 government-wide 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 \$480,192, and the bank balance totaled \$551,400. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$301,400 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.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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, 2015 is \$4,944, of which \$424 is in cash. Due to current market risk and its affect on the equity stocks, the TGS has gained \$274 in fiscal 2015 on these holdings.

The carrying value of the equity stock is recorded at its fair market value at June 30, 2015.

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

**4. RECEIVABLES**

At June 30, 2015, TGS had accounts receivable in the amount of \$51,718. Accounts receivable are amounts due from affiliated schools (TGS, GPS, and GEMS).

**5. CAPITAL ASSETS**

At June 30, 2015, the following table represents TGS' changes in capital assets. Capital assets are considered depreciable, except for land.

	Balance <u>06/30/14</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>06/30/15</u>
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 141,800	-	-	\$ 141,800
<b>Capital Assets Being Depreciated:</b>				
Building	1,108,200	-	-	1,108,200
Improvements	770,677	-	-	770,677
Furniture and Equipment	<u>303,306</u>	<u>4,300</u>	-	<u>307,606</u>
<b>Total Capital Assets Being Depreciated</b>	<u>2,182,183</u>	<u>4,300</u>	-	<u>2,186,483</u>
<b>Less Accumulated Depreciation:</b>				
Building	(359,755)	(27,705)	-	(387,460)
Improvements	(728,265)	(18,464)	-	(746,729)
Furniture and Equipment	<u>(186,648)</u>	<u>(38,446)</u>	-	<u>(225,094)</u>
<b>Total Accumulated Depreciation</b>	<u>(1,274,668)</u>	<u>(84,615)</u>	-	<u>(1,359,283)</u>
<b>Net Total Capital Assets</b>	<u>\$1,049,315</u>	<u>\$ (80,315)</u>	<u>\$ -</u>	<u>\$ 969,000</u>

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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 2015, 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 . 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 GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**7. DEFINED BENEFIT PENSION PLANS (continued)**

**A . Net Pension Liability (continued)**

The net pension liability represents the TGS'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 TGS's obligation for this liability to annually required payments. The School cannot control benefit terms or the manner in which pensions are financed; however, the School 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.

**B. Plan Description - School Employees Retirement System (SERS)**

Plan Description – TGS 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](http://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.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**7. DEFINED BENEFIT PENSION PLANS (continued)**

**B. Plan Description - School Employees Retirement System (SERS) (continued)**

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

TGS' contractually required contribution to SERS was \$147,285 for fiscal year 2015.

**C. Plan Description - State Teachers Retirement System (STRS)**

Plan Description – TGS 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](http://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. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**7. DEFINED BENEFIT PENSION PLANS (continued)**

**C. Plan Description - State Teachers Retirement System (STRS)**

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, member contributions are allocated among investment choices by the member, and employer contributions 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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 that 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.

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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 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 2015 contribution rates were equal to the statutory maximum rates.

TGS' contractually required contribution to STRS was \$572,676 for fiscal year 2015.

**D. 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 June 30, 2014, 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 proportion of the net pension liability was based on TGS's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**7. DEFINED BENEFIT PENSION PLANS (continued)**

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 8,433,564	\$ 1,471,064	\$ 9,904,628
Proportion of the Net Pension Liability	0.03467255%	0.02906700%	
Pension Expense	\$ 362,090	\$ 83,020	\$ 445,110

At June 30, 2015, TGS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 81,191	\$ 12,520	\$ 93,711
School contributions subsequent to the measurement date	<u>572,676</u>	<u>147,285</u>	<u>719,961</u>
Total Deferred Outflows of Resources	<u>\$ 653,867</u>	<u>\$ 159,805</u>	<u>\$ 813,672</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 1,560,241</u>	<u>\$ 238,758</u>	<u>\$ 1,798,999</u>

\$719,961 reported as deferred outflows of resources related to pension resulting from TGS contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	\$ (369,763)	\$ (56,560)	\$ (426,323)
2017	(369,763)	(56,560)	(426,323)
2018	(369,763)	(56,560)	(426,323)
2019	<u>(369,761)</u>	<u>(56,558)</u>	<u>(426,319)</u>
	<u>\$ (1,479,050)</u>	<u>\$ (226,238)</u>	<u>\$ (1,705,288)</u>

**E. 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.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**7. DEFINED BENEFIT PENSION PLANS (continued)**

**E. 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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined 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 a weighted averaged 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 assets class are summarized in the following table:

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**7. DEFINED BENEFIT PENSION PLANS (continued)**

**E. Actuarial Assumptions – SERS (continued)**

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
	100.00 %	

**F. Discount Rate**

The total pension liability was calculated using the discount rate of 7.75 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 earning were calculated using the long-term assumed investment rate of return (7.75 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.

**G. 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 net pension liability calculated using the discount rate of 7.75 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 (6.75 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	\$ 2,098,772	\$ 1,471,064	\$ 943,108

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**7. DEFINED BENEFIT PENSION PLANS (continued)**

**H. Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
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 paid on fifth anniversary of 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 not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates 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	1.00	3.00
	<u>100.00 %</u>	

**I. Discount Rate**

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**7. DEFINED BENEFIT PENSION PLANS (continued)**

**J. 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 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	\$ 12,073,567	\$ 8,433,564	\$ 5,355,347

**8. POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Health Care Plan Description – TGS 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](http://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 Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. 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 2015, this amount was \$20,450. 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.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**8. POSTEMPLOYMENT BENEFITS (continued)**

**A. School Employees Retirement System (continued)**

TGS' contributions for health care (including surcharge) for the fiscal years ended June 30, 2015, 2014, and 2013 were \$11,537, \$6,499 and \$12,574, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**B. State Teachers Retirement System**

Plan Description – TGS 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](http://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 year 2015, STRS did not allocate any employer contributions to post-employment health care. The School's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$39,014 and \$32,718, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**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, 2015.

**B. Full-Time Equivalency Reviews**

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**10. PURCHASED SERVICES**

For the period July 1, 2014 through June 30, 2015, purchased service expenses were payments for services rendered by various vendors, as follows:

<b>Description</b>	<b>Amount</b>
Professional and Technical Services	\$250,495
Property Services	80,377
Travel Mileage/Meeting Expense	23,978
Communications	20,878
Utilities	41,446
Contracted Trade Services	43,158
Pupil Transportation Services	<u>82,237</u>
Total Purchased Services	<u>\$542,569</u>

**11. CAPITAL LEASES – LESSEE DISCLOSURE**

In December of 2011, TGS entered into a lease agreement with Modern Leasing for a copier. TGS' lease obligations meets the criteria for a capital lease as defined by 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 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. Principal payments for fiscal year 2015 totaled \$15,245 and interest payments totaled \$9,417.

The following is a schedule of the future minimum payments required under the capital lease as of June 30, 2015.

<u>Fiscal Year</u>	<u>Copier</u>
2016	\$ 24,662
2017	<u>10,276</u>
Total minimum Lease Payments	34,938
Less: amount representing interest	<u>(5,759)</u>
Present value of minimum lease payments	<u>\$ 29,179</u>

**12. DEBT OBLIGATIONS- SHORT-TERM**

At June 30, 2015, the following table represents TGS' short-term debt issuances:

	<u>Principal</u>			<u>Principal</u>
	<u>Outstanding</u>			<u>Outstanding</u>
	<u>6/30/2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2015</u>
Meers - Line of Credit	<u>\$ 133,153</u>	<u>\$ -</u>	<u>\$ (133,153)</u>	<u>\$ -</u>

On June 3, 2014, 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. Principal totaled \$133,153, while interest total 4,847.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**13. DEBT AND LONG-TERM OBLIGATIONS**

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

	Principal Outstanding <u>6/30/2014</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>6/30/2015</u>	Amounts Due Within <u>one year</u>
Dantomka, Lt. Note-c	\$ 536,472	\$ -	\$ (17,286)	\$ 519,186	\$ 21,154
Dantomka, Lt. Note-d	833,034	-	(41,431)	791,603	49,340
Charles E Graham	12,139	-	(10,012)	2,127	2,127
Modern Leasing	44,424	-	(15,245)	29,179	19,515
Net Pension Liability: SERS	1,728,521	-	(257,457)	1,471,064	-
Net Pension Liability: STRS	<u>10,046,006</u>	<u>-</u>	<u>(1,612,442)</u>	<u>8,433,564</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$13,200,596</u>	<u>\$ -</u>	<u>\$(1,953,873)</u>	<u>\$11,246,723</u>	<u>\$ 92,136</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 2015 were \$24,662 (See Note 11).

In November 2011, TGS entered into a new loan with Charles Graham in the amount of \$65,960 for a 3 year term at an interest rate of 2.5% annually. Monthly payments on the note are \$2,020. Total payments made at June 30, 2015 were \$22,223. Principal total \$10,012, while interest was \$12,211.

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 \$2,824. Total payments made at June 30, 2015 were \$30,525, principal of \$17,286, and interest of \$13,239

In November 2011, TGS entered into a new loan with Eileen Meers (Note – D) which was subsequently assigned to Dantomka, Ltd. in the amount of \$1,100,881 for a 15 year term at an interest rate of 2.5% annually. Monthly payments on the note are \$4,367 for years 1 and 2. Payments escalate up to \$5,713 beginning in year 4 with a balloon payment of \$210,933 due at the end of the term. Total payments made at June 30, 2015 were \$49,770 of which \$41,431 was principle and \$8,339 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 GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**13. DEBT AND LONG-TERM OBLIGATIONS (Continued)**

The annual requirements to amortize all outstanding long-term debt (including capital leases) as of June 30, 2015, including interest are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>2016</b>	\$ 92,136	\$ 37,112	\$ 127,121
<b>2017</b>	102,130	30,668	132,798
<b>2018</b>	109,479	27,445	136,924
<b>2019</b>	112,248	24,677	136,925
<b>2020</b>	115,128	21,839	136,926
<b>2021-2025</b>	620,587	64,039	684,626
<b>2026</b>	190,387	44,781	235,168
<b>Total</b>	\$1,342,095	\$ 228,723	\$1,453,562

**14. RELATED PARTY TRANSACTION**

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

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

**15. TAX EXEMPT STATUS**

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

**16. SPONSOR**

On May 13, 2014, a sponsorship agreement was executed between TGS and the Educational Service Center of Central Ohio for a two (5) year period beginning July 1, 2014. Under this agreement, TGS pays the Sponsor "up to" 3% of State Aid (see Note 3 G.). TGS sponsor fee expense at June 30, 2015 totaled \$68,846. In July 2014 the contract was extended three years till June, 2017.

**17. COLUMBUS FOUNDATION**

The Columbus Foundation holds in trust a money market account valued at \$20,495 at June 30, 2015. 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 2015.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**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, 2013, which further defined the roles of TGS and TCS in the agreement. In July 2014, the board approved the contract to continue to June 30, 2015. 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 \$2,335,620, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$1,916,134 was for general fund related fees and \$419,486 was for grant related reimbursements

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

Effective July 1, 2014, GEMS entered into a one-year Management Agreement (the Agreement) with TGS. The Agreement's terms ran through June 30, 2015, 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 \$768,029, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$612,214 was for general fund related fees and the remaining was for grant related reimbursements. Accounts Receivable due from TGS in the amount of \$291,731 is listed on the Statement of Net Position.

**20. MANAGEMENT AGREEMENT WITH GRAHAM PRIMARY SCHOOL (GPS)**

Effective July 1, 2014, TGS entered into a one year Management Agreement (the Agreement) with GPS. The Agreement's terms ran through June 30, 2015. 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. GPS management fee expense for the fiscal year total \$1,088,661, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$939,500 was for general fund related fees and \$149,161 was for grant related reimbursements.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**21. CHANGE IN ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2015, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*.

GASB Statement No. 68 requires recognition of the entire net pension liability and a more comprehensive measure of pension expense for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 68 resulted in the inclusion of net pension liability and pension expense components on the accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 69 addresses accounting and financial reporting for government combinations (including mergers, acquisitions and transfers of operations) and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the School.

GASB Statement No. 71 amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. See below for the effect on net position as previously reported.

Net Position June 30, 2014	\$ (669,879)
Deferred Outflows of Resources	609,721
Net Pension Liability	<u>(11,774,527)</u>
Restated Net Position, July 1, 2014	<u><u>\$ (11,834,685)</u></u>

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**22. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT**

At June 30, 2015, TGS had ending net position of \$11,801,565, including the impact of GASB 68 of \$10,889,955 with a change in net position of \$33,120. 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.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2015**

**23. SUBSEQUENT EVENTS**

Subsequent to year end, management contracts with TCS, GPS, and GEMS schools were renewed for an additional one-year period ending June 30, 2016.

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

For the year ended June 30, 2015, TGS incurred the following expenses on-behalf of TCS, GPS and GEMS:

<b>Expenses</b>	TCS	GEMS	GPS
<b>Direct Expenses:</b>			
Salaries & wages	\$ 1,395,558	\$ 609,277	\$ 759,538
Employees' benefits	300,692	123,575	147,622
<b>Indirect Expenses:</b>			
Overhead	333,282	142,624	155,677
<b>Total Expenses</b>	<b>\$ 2,029,532</b>	<b>\$ 875,476</b>	<b>\$1,062,837</b>

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 Two Fiscal Years (1)*

	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>		
School's proportion of the net pension liability	0.03467255%	0.03467255%
School's proportionate share of the net pension liability	\$ 8,433,564	\$ 10,046,006
School's covered-employee payroll	\$ 3,811,400	\$ 3,196,300
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	221.27%	314.30%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%
 <b><i>School Employees Retirement System (SERS)</i></b>		
School's proportion of the net pension liability	0.02906700%	0.02906700%
School's proportionate share of the net pension liability	\$ 1,471,064	\$ 1,728,521
School's covered-employee payroll	\$ 824,235	\$ 944,566
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	178.48%	183.00%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

**The Graham School**  
**Franklin County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School's Contributions*  
*Last Ten Fiscal Years*

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>State Teachers Retirement System (STRS)</b>										
Contractually Required Contribution	\$ 572,676	\$ 495,482	\$ 415,519	\$ 260,618	\$ 285,926	\$ 200,224	\$ 195,193	\$ 144,298	\$ 105,821	\$ 145,202
Contributions in Relation to the Contractually Required Contribution	(572,676)	(495,482)	(415,519)	(260,619)	(285,926)	(200,224)	(195,193)	(144,298)	(105,821)	(145,202)
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
School's covered-employee payroll	\$ 4,090,543	\$ 3,811,400	\$ 3,196,300	\$ 2,004,754	\$ 2,199,431	\$ 1,540,185	\$ 1,501,485	\$ 1,109,985	\$ 814,008	\$ 1,116,938
Contributions as a percentage of covered-employee payroll	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
<b>School Employees Retirement System (SERS)</b>										
Contractually required contribution	\$ 147,285	\$ 114,239	\$ 130,728	\$ 125,002	\$ 70,458	\$ 104,577	\$ 50,691	\$ 55,137	n/a	n/a
Contributions in relation to the contractually required contribution	(147,285)	(114,239)	(130,728)	(125,002)	(70,458)	(104,577)	(50,691)	(55,137)	n/a	n/a
Contribution deficiency (excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	n/a	n/a
School's covered-employee payroll	\$ 1,117,489	\$ 824,235	\$ 944,566	\$ 929,383	\$ 560,525	\$ 772,366	\$ 515,152	\$ 561,477	n/a	n/a
Contributions as a percentage of covered-employee payroll	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%	n/a	n/a

n/a - Information prior to 2006 is not available.

March 25, 2016

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, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, as well as the accompanying supplemental schedule of management company expenses, and have issued our report thereon dated March 25, 2016, in which we noted the School restated the June 30, 2014 net position to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*", and GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*", and the School has suffered recurring losses from operations and has a net position deficiency of \$11,801,565, including effect of net pension liability and related accruals totaling \$10,889,955, 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

**This page intentionally left blank.**



# Dave Yost • Auditor of State

THE GRAHAM SCHOOL

FRANKLIN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JUNE 14, 2016