

**The Graham School**  
Franklin County, Ohio  
Audited Financial Statements  
June 30, 2011





# Dave Yost • Auditor of State

Board of Trustees  
The Graham School  
3950 Indianola Avenue  
Columbus, Ohio 43214

We have reviewed the *Independent Auditor's Report* of The Graham School, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2010 through June 30, 2011. 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

December 29, 2011

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**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 23, 2011

To The Board of Trustees  
The Graham School  
3950 Indianola Avenue  
Columbus, Ohio 43214

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of The Graham School (the School), as of and for the year ended June 30, 2011, 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, 2011. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of The Graham School, as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity 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, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2011 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Hea & Associates, Inc.*



**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(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, 2011. The intent of this discussion and analysis is to look at TGS' financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the TGS' financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

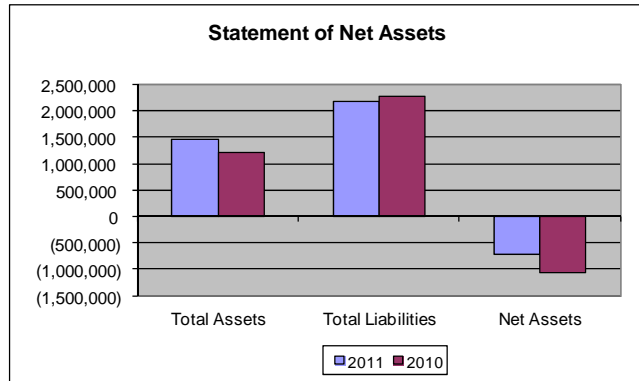
Key Financial Highlights for TGS for the fiscal year 2011 are as follows:

- In total, net assets increased \$340,198 which represents a 32.1 percent increase from 2010. This increase is due to increased revenues from Services to Schools.
- Total assets increased \$244,271 which represents a 20.2 percent increase from 2010. This was primarily due to increases in cash and receivables from the previous year.
- Liabilities decreased \$95,927 which represents a 4.2 percent decrease from 2010. The decrease in liabilities is due to retirement of short term and long term liabilities.

**USING THIS ANNUAL REPORT**

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

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets reflect how TGS did financially during fiscal year 2011. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.



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

TGS uses enterprise presentation for all of its activities.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)**

**Statement of Net Assets**

The Statement of Net Assets answers the question of how TGS did financially during 2011. This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of TGS' net assets for fiscal years 2011 and 2010.

**Table 1  
Statement of Net Assets**

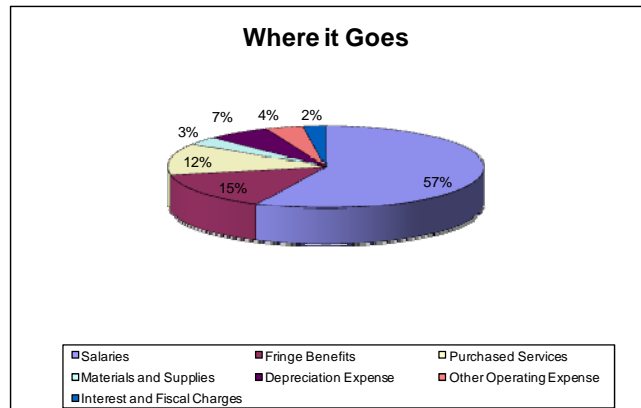
	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current Assets	\$ 447,417	\$ 167,528
Capital Assets, Net of Accumulated Depreciation	1,003,679	1,039,297
<b>Total Assets</b>	<u>1,451,096</u>	<u>1,206,825</u>
<b>Liabilities</b>		
Current Liabilities	1,455,442	1,525,805
Long Term Liabilities	714,197	739,761
<b>Total Liabilities</b>	<u>2,169,639</u>	<u>2,265,566</u>
<b>Net Assets</b>		
Investment in Capital Assets, Net of Related Debt	165,601	177,501
Unrestricted	(884,144)	(1,236,242)
<b>Total Net Assets</b>	<u>\$ (718,543)</u>	<u>\$(1,058,741)</u>

Net assets increased by \$340,198 from 2010. Total liabilities decreased to \$2,169,639, a decrease from 2010 of \$95,927. This is due to retirement of current and long term liabilities.

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

Table 2 shows the changes in net assets for fiscal years 2011 and 2010, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for TGS as a whole, the financial position of

TGS has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.



**Table 2**

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)**

**Change in Net Assets**

	<u>2011</u>	<u>2010</u>
Operating Revenue		
State Aid	\$1,542,079	\$ 1,421,081
Classroom Materials & Fees	13,852	11,131
Services to Schools	2,469,831	1,566,378
Other Operating Revenues	11,360	30,765
Total Operating Revenues	<u>4,037,122</u>	<u>3,029,355</u>
Operating Expenses		
Salaries	2,811,461	2,290,573
Fringe Benefits	798,152	713,708
Purchased Services	343,477	390,346
Materials and Supplies	44,610	28,630
Depreciation Expense	41,287	31,790
Other Operating Expense	29,148	31,228
Total Operating Expenses	<u>4,068,135</u>	<u>3,486,275</u>
Operating Income (Loss)	(31,013)	(456,920)
Non-Operating Revenues and (Expenses)		
Grants – State	5,339	5,243
Grants – Federal	414,961	332,267
Interest Income	201	136
Contributions and Donations	85,080	111,490
Interest and Fiscal Charges	(49,870)	(51,653)
Loss on Sale of Asset	(500)	0
Contribution to Charles School	(84,000)	0
Debt Forgiveness	0	430,658
Total Non-Operating Revenues and (Expenses)	<u>371,211</u>	<u>828,141</u>
Increase (Decrease) in Net Assets	<u>\$ 340,198</u>	<u>\$ 371,221</u>

Operating revenues increased \$1,007,767, which represents a 33.2% increase from 2010. Operating expenses increased by \$581,860, which represents a 16.7% increase from 2010. Operating revenue and expense increases are due primarily to related activities with The Charles School (TCS) and Graham Expeditionary Middle School (GEMS) (See note 18). TGS received \$2,469,831 in revenue from both schools for services rendered and incurred expenses of \$2,342,376 for payroll, benefits, and allocated overhead. (See note 18)

**BUDGETING HIGHLIGHTS**

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(UNAUDITED)**

**CAPITAL ASSETS**

TGS has \$1,003,679 invested in capital assets, net of accumulated depreciation. The decrease in assets carrying value of \$(35,617) is the net effect of asset purchases and annual depreciation. Detailed information regarding capital asset activity is included in the note 5 to the basic financial statements.

**DEBT OBLIGATIONS**

TGS has short-term debt obligations at June 30, 2011 of \$1,000,049, and long-term debt obligation of \$739,768, of which \$25,571 is current. Notes 12 and 13 to the basic financial statements summarize all of the TGS' debt obligations at June 30, 2011.

**OTHER INFORMATION**

**For the Future**

In conclusion, TGS has committed itself to financial excellence and has contracted 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 found additional schools. In addition to the Charles School at Ohio Dominican University, the school has started the Graham Expeditionary Middle School (GEMS). It is planned that income derived from running both schools will be used to reduce the debt of TGS. Also, the financial outlook over the next several years shows continued growth in enrollment at TGS as well. But, future revenue increases are cautious due to Ohio's weak economic recovery.

**CONTACTING THE GRAHAM SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our 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).

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**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2011**

**Assets**

*Current Assets:*

Cash and Cash Equivalents	\$ 270,258
Beneficial Interest in Assets Held By Others	20,830
Accounts Receivable	127,432
Intergovernmental Receivable	23,318
Prepays	<u>5,579</u>

Total Current Assets 447,417

*Noncurrent Assets:*

Capital Assets:

Non-Depreciable Capital Assets	141,800
Depreciable Capital Assets, net	<u>861,879</u>

Total Noncurrent Assets 1,003,679

Total Assets 1,451,096

**Liabilities**

*Current Liabilities:*

Accounts Payable	39,634
Accrued Wages and Benefits	365,188
Line of Credit	901,739
Long Term Notes Payable, Due within one year	25,571
Notes Payable	98,310
Unearned Revenue	<u>25,000</u>

Total Current Liabilities 1,455,442

*Long-Term Liabilities:*

Notes Payable, Due within more than one year 714,197

Total Liabilities 2,169,639

**Net Assets**

Investment in Capital Assets, Net of Related Debt	165,601
Unrestricted	<u>(884,144)</u>

Total Net Assets \$ (718,543)

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<b>Operating Revenues</b>	
State Aid	\$1,542,079
Classroom Fees	13,852
Services to Schools	2,469,831
Other Operating	<u>11,360</u>
<b>Total Operating Revenues</b>	4,037,122
<b>Operating Expenses</b>	
Salaries	2,811,461
Fringe Benefits	798,152
Purchased Services	343,477
Materials and Supplies	44,610
Depreciation	41,287
Other	<u>29,148</u>
<b>Total Operating Expenses</b>	<u>4,068,135</u>
<b>Operating Loss</b>	<u>(31,013)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Grants	420,300
Contributions & Donations	85,080
Investment Income	201
Loss on Sale of Asset	(500)
Contribution to Charles School	(84,000)
Interest and Fiscal Charges	<u>(49,870)</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>371,211</u>
<b>Change in Net Assets</b>	340,198
<b>Net Assets Beginning of Year</b>	<u>(1,058,741)</u>
<b>Net Assets End of Year</b>	<u><u>\$ (718,543)</u></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, 2011**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from State of Ohio	\$1,542,079
Cash Received from Other Operating Sources	2,407,636
Cash Payments to Suppliers for Goods and Services	(484,626)
Cash Payments to Employees for Services	(2,785,216)
Cash Payments for Employee Benefits	(771,950)
Other Cash Payments	<u>(29,148)</u>
Net Cash Used for Operating Activities	(121,225)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash Received from Operating Grants	425,860
Cash Received from Contributions and Donations	<u>98,406</u>
Net Cash Provided by Noncapital Financing Activities	<u>524,266</u>

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

Cash Payments for Capital Assets	(5,670)
Cash Payments for Interest and Fiscal Charges	(49,870)
Cash Payments for Principal Payments	<u>(122,949)</u>
Net Cash Provided by (Used for) Capital Financing Activities	<u>(178,489)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Income	<u>(22,028)</u>
Net Cash Provided by Investing Activities	<u>(22,028)</u>

**Net Decrease in Cash and Cash Equivalents** 202,524

**Cash and Cash Equivalents Beginning of Year** 67,734

**Cash and Cash Equivalents End of Year** \$ 270,258

See accompanying notes to the basic financial statements.



**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011  
(CONTINUED)**

**RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH  
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating Gain (Loss)	\$ (31,013)
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**ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

Depreciation	41,287
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Changes in Assets and Liabilities:

Accounts Receivable	(87,407)
Accounts Payable	(96,539)
Prepays	26,202
Accrued Wages and Benefits	<u>26,245</u>

Net Cash Provided by (Used in) Operating Activities	<u>\$ (121,225)</u>
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Schedule of Non Cash Capital Financing Activities:

During fiscal year 2011, a contribution was made to the Charles School in the amount of \$84,000 to assume a portion of their debt and make principal payments. See Note 18 for explanation of the relationship and management agreement.

See accompanying notes to the basic financial statements

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

**1. DESCRIPTION OF THE REPORTING ENTITY**

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

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

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

TGS operates under the direction of a seven-member governing board. Most of the members who sit on the TGS board also serve on the Board of the Charles School at Ohio Dominican University, (TCS),( see Note 18). 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 54 non-certified and 23 certificated full time teaching personnel who provide services to students at TGS and TCS.

**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. Graham also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of Graham's accounting policies. However, TGS has elected not to apply FASB statements and interpretations issued after November 30, 1989.

**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 assets, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

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

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the Statement of Net Assets. Operating statements present increases and decreases in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

**C. Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by its sponsor in the sponsorship agreement. The contract between TGS and its Sponsor does not prescribe for an annual budget requirement. TGS does prepare a five-year forecast, which is to be updated semi-annually, and shared with the Governing Board, Ohio Department of Education and its Sponsor.

**D. Cash and Cash Equivalents**

All cash received by the TGS is deposited in accounts in the TGS' name and reflected as Cash and Cash Equivalents on the Statement of Net Assets. The TGS has investments during fiscal year 2011 (See note 3).

**E. Prepaid Items**

TGS records payments made to vendors for services that will benefit periods beyond June 30, 2011, 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, 2011  
(Continued)**

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

**G. Intergovernmental Revenues**

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

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

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

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

**H. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Graham or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Graham presently has no restricted net assets.

**I. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of Graham. Operating expenses are necessary costs incurred to provide the service that is the primary activity of Graham. 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, 2011  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

**A. Deposits with Financial Institutions**

**Deposits:** The carrying value of the TGS' deposits totaled \$268,668, and the bank balance totaled \$328,185. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$78,185 of TGS' bank balance was not covered by Federal Deposit Insurance.

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

**B. Investments**

In fiscal 2008, TGS received a donation in the form of equity stock in Wells Fargo. The investment banker, Morgan Stanley Smith Barney, LLC holds the investment in the Citigroup Global Markets, Inc. The carrying value of forty-one equity shares of this stock at June 30, 2011 is \$1,590, of which \$434 is in cash. Due to current market risk and its affect on the equity stocks, the TGS has gained \$65 in fiscal 2011 on these holdings.

The carrying value of the equity stock is recorded at its fair market value at June 30, 2011.

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 AND PREPAID EXPENSES**

At June 30, 2011, TGS had intergovernmental receivables in the amount of \$23,318 and prepaid expenses in the amount of \$5,579. Intergovernmental Receivables consist of federal assistance earned at year end but not received at June 30, 2011. The prepaids consist of over withheld STRS/SERS payments for fiscal 2011.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

**5. CAPITAL ASSETS**

At June 30, 2011, the following table represents TGS' changes in capital assets. Capital assets are considered depreciable, except for land.

	Balance <u>06/30/10</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>06/30/11</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	682,394	-	-	682,394
Furniture and Equipment	<u>161,385</u>	<u>5,670</u>	-	<u>167,055</u>
<b>Total Capital Assets Being Depreciated</b>	<u>1,951,979</u>	<u>5,670</u>	-	<u>1,957,649</u>
<b>Less Accumulated Depreciation:</b>				
Building	(248,935)	(27,705)	-	(276,640)
Improvements	(681,047)	(1,347)	-	(682,394)
Furniture and Equipment	<u>(124,501)</u>	<u>(12,235)</u>	-	<u>(136,736)</u>
<b>Total Accumulated Depreciation</b>	<u>(1,054,483)</u>	<u>(41,287)</u>	-	<u>(1,095,770)</u>
<b>Net Total Capital Assets</b>	<u>\$1,039,296</u>	<u>\$ (35,617)</u>	<u>\$ -</u>	<u>\$ 1,003,679</u>

**6. RISK MANAGEMENT**

**A. Insurance Coverage**

TGS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2011, TGS contracted with the Philadelphia Insurance Co.:

Commercial General Liability per occurrence	\$1,000,000
Commercial General Liability aggregate	2,000,000
Umbrella Liability per occurrence	6,000,000
Umbrella Liability aggregate	6,000,000
Automobile Liability combined single limit	1,000,000
Commercial Property Liability – Personal Property (\$1,000 Deductible)	25,600
Excess Volunteer Liability per occurrence	1,000,000
Excess Volunteer Liability aggregate	3,000,000

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

**6. RISK MANAGEMENT (continued)**

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

**B. Workers' Compensation**

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

**C. Employee Medical, Dental and Vision Benefits**

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

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

**Funding Policy** - Plan members are required to contribute 10 percent of their annual covered salary and the TGS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. TGS contributions to SERS for the year ended June 30, 2011, 2010 and 2009 were \$66,184, \$98,707, and \$46,827, respectively, of which 100% has been contributed.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

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

**B. State Teachers Retirement Systems (STRS)**

**Plan Description** - The TGS contributes to the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report, which may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at [www.strsoh.org](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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

**Funding Policy** - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2010, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

TGS' required contribution for pension obligations to STRS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$285,926, \$200,224, and \$195,193, respectively, of which 100% has been contributed.

The above is the latest available information.



**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

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

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2011, there were no members that elected Social Security.

**8. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement Systems**

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

**Medicare Part B**

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40; SERS' reimbursement for retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund, For fiscal 2011, the actuarial required allocation is .76 percent TGS contributions for the years ended June 30, 2011, 2010 and 2009 were \$4,274, \$5,870, and \$3,864, respectively of which 100% has been contributed.

**Health Care Plan**

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including

HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

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

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (continued)**

**A. School Employee Retirement Systems (continued)**

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is .0143 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year June 30, 2011, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. TGS contributions assigned to health care for the years ended June 30, 2011, 2010 and 2009 were \$17,575, \$11,716, and \$28,826, respectively of which 100% has been contributed.

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

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

**B. State Teachers Retirement System**

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

**Funding Policy** - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The TGS' contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$21,994, \$15,402, and \$15,015, respectively all of which has been contributed for all fiscal years.

The above is the latest information available.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

**9. CONTINGENCIES**

**A. Grants**

TGS receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the operating fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of TGS at June 30, 2011.

**B. Full-Time Equivalency Reviews**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by TGS. These reviews are conducted to ensure Graham is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review has been conducted for the 2010-2011 school year. However, the adjustment for FTE did not have a material effect on the accompanying financial statements presented, but will be included in the financial activity for fiscal year 2012.

**10. PURCHASED SERVICES**

For the period July 1, 2010 through June 30, 2011, purchased service expenses were payments for services rendered by various vendors, as follows:

<b>Description</b>	<b>Amount</b>
Professional and Technical Services	\$172,146
Property Services	10,074
Travel Mileage/Meeting Expense	8,305
Communications	12,818
Utilities	38,095
Contracted Trade Services	15,521
Insurance	21,335
Pupil Transportation Services	<u>65,183</u>
Total Purchased Services	<u>\$343,477</u>

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

**11. CAPITAL LEASES – LESSEE DISCLOSURE**

In September of 2007, Graham entered into a lease agreement with Modern Leasing for a copier. TGS' lease obligations meets the criteria for a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of \$34,949 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. Principal payments for fiscal year 2011 totaled \$7,402.

The following is a schedule of the future minimum payments required under the capital lease as of June 30, 2011.

<u>Fiscal Year</u>	<u>Copier</u>
2012	\$ 8,635
2013	<u>2,160</u>
Total minimum Lease Payments	10,795
Less: amount representing interest	<u>600</u>
Present value of minimum lease payments	<u><u>\$10,193</u></u>

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

At June 30, 2011, the following table represents TGS' short-term debt issuances:

	<u>Principal Outstanding 06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 06/30/11</u>
Chuck Graham - Line of Credit	\$ 916,970	\$ 84,000	\$ (99,231)	\$ 901,739
Dantomka, Lt. Note-a	<u>98,310</u>	<u>-</u>	<u>-</u>	<u>98,310</u>
Total Short-Term Liabilities	<u>\$ 1,015,280</u>	<u>\$ 84,000</u>	<u>\$ (99,231)</u>	<u>\$ 1,000,049</u>

On November 17, 2003, TGS entered into an open-end promissory Note with Charles E. Graham (Payee) in the amount of \$75,000 to be repaid with interest at a rate of 8%. The entire unpaid principal balance together with accrued interest shall be due and payable upon the demand of the payee. On October 10, 2007, the Note was amended to increase the principal amount to \$1,000,000. At June 30, 2011, TGS had an outstanding principal balance of \$901,739, a decrease of \$15,231 from the prior year, which has been recorded as line of credit payable. On November 11, 2009, Mr Graham forgave the accrued interest in the amount of \$171,922 and has ceased charging interest on this loan. On May 31, 2011, TGS assumed a portion of the Charles School line of credit in the amount of \$84,000 and made an equal amount of principal payments. See Note 18 for explanation of relationship with Charles School.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

**12. DEBT OBLIGATIONS- SHORT-TERM (continued)**

In April 2003, TGS executed a promissory Note in the amount of \$398,310 to Dantomka, Ltd for leasehold improvements that were completed on behalf of TGS during fiscal year 2002. The Note has accrued interest payable of \$150,578, with an interest rate of prime plus 2.5% indexed April 7 of each year. The Note also is callable within thirty days by Dantomka, Ltd. At June 30, 2011, the principal balance was \$98,310. On November 11, 2009, Dantomka, Ltd forgave the accrued interest in the amount of \$158,736 and has ceased charging interest on this loan.

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

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

	Principal Outstanding <u>06/30/10</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>06/30/11</u>	Amounts Due Within <u>one year</u>
Dantomka, Lt. Note-b	\$ 43,692	\$ -	\$ -	\$ 43,692	\$ -
Modern Leasing	17,595	-	(7,402)	10,193	8,068
<u>Meers/Graham</u>	<u>702,199</u>	<u>-</u>	<u>(16,316)</u>	<u>685,883</u>	<u>17,503</u>
Total Long-Term Liabilities	<u>\$ 763,486</u>	<u>\$ -</u>	<u>\$(23,718)</u>	<u>\$ 739,768</u>	<u>\$ 25,571</u>

A promissory note (Note –B) was issued in the year ended 2001 through Dantomka, Ltd. In 2004, TGS renegotiated their payments with Dantomka, Ltd. to only pay the interest on the Note. The principal payments have been suspended indefinitely. Also, the monthly interest payments of \$958 were suspended as of December 2007. The principal on the note is reflected in the amortization schedule below as a balloon payment in the final year of the note, 2022. The proceeds from the Note were used to purchase TGS' new facility. On November 11, 2009 Dantomka, Ltd forgave \$100,000 of principal on Note-b.

On September 1, 2007 the TGS entered into a capital lease for a Lanier copier with Modern Leasing. The terms of the lease are for 60 months with a lease payment of \$720 per month. The interest rate of the lease is 8.65%. Total payments for fiscal year 2011 were \$8,635.

On September 1, 2005, the TGS refinanced its previous mortgage with the Dean of Academics and a board member (the mortgage is held jointly in their names). Terms of the mortgage are for 25 years at a rate of 7%, with monthly payments of \$5,413. Total payments for fiscal year 2011 were \$64,961.

Effective April 8, 2003, Ohio Revised Code Section 3314.08 (J) was amended, in part, to permit facilities acquisition debt with a maturity not exceeding fifteen years. Neither the Dantomka, Ltd. Promissory Note-b nor the Meers/Graham notes comply with the fifteen year maturity requirement.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

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

The annual requirements to amortize all outstanding long-term debt as of June 30, 2011, including interest are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>2012</b>	\$ 25,571	\$ 48,024	\$ 73,595
<b>2013</b>	20,894	46,223	67,117
<b>2014</b>	20,125	44,835	64,960
<b>2015</b>	21,580	43,380	64,960
<b>2016</b>	23,140	41,820	64,960
<b>2017-2021</b>	143,347	181,456	324,803
<b>2022-2026</b>	246,904	121,591	368,495
<b>2027-2031</b>	238,207	27,876	266,083
<b>Total</b>	\$ 739,768	\$555,205	\$1,294,973

**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. During 2001, Dantomka, Ltd. issued a \$150,000 promissory Note at 8% for the purchase of a new facility. At June 30, 2011, \$43,692 is remaining and payable (See note 13).

In addition, in April 2003, TGS executed a promissory Note in the amount of \$398,310 to Dantomka, Ltd. for leasehold improvements that were completed on-behalf of TGS during fiscal year 2002. At June 30, 2011, \$98,310 is remaining and payable on demand (See note 12).

Charles E. Graham is a board member who is the maker of a line of credit (See notes 12 & 13). Mr. Graham also jointly holds the mortgage with the Dean of Academics. Balances due on each of these notes at June 30, 2011 are \$901,739 and \$685,883, respectively.

**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, 2009, a sponsorship agreement was executed between TGS and the Educational Service Center of Central Ohio for a five (5) year period beginning July 1, 2009. Under this agreement, TGS pays the Sponsor "up to" 3% of State Aid (see Note 3 G.). TGS sponsor fee expense at June 30, 2011 totaled \$37,790.

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011  
(Continued)**

**17. COLUMBUS FOUNDATION**

The Columbus Foundation holds in trust a money market account valued at \$ 20,830 at June 30 2011. 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 2011.

**18. MANAGEMENT AGREEMENT WITH THE CHARLES SCHOOL (TCS)**

Effective July 1, 2007, TCS entered into a two year Management Agreement (the Agreement) with TGS. The Agreement's terms ran through December 31, 2009. Between January 1, 2010 and June 30, 2011, the boards continued their existing agreement and signed a new contract ending on December 20, 2011. Per the contract, TGS receives up to ninety-five (95) percent of TCS' federal and state awards, after a minimum of five (5) percent is spent by TCS to pay its direct expenses. TGS management fee revenue for the fiscal year total \$1,925,575, as reported in the Statement of Revenues, Expenses and Changes in Fund Net Asset. Of this fee, \$1,294,598 was for general fund related fees and \$630,977 was for grant related reimbursements

TCS and TGS have common board members as of June 30, 2011.

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

Effective July 1, 2010, TGS entered into a one and half year Management Agreement (the Agreement) with Graham Expeditionary Middle School (GEMS). The Agreement terms run through December 20, 2011. Per the contract, TGS receives up to ninety-five (95) percent of TCS' federal and state awards, after a minimum of five (5) percent is spent by GEMS to pay its direct expenses. TGS management fee revenue for the fiscal year total \$544,256, as reported in the Statement of Revenues, Expenses and Changes in Fund Net Asset. Of this fee, \$299,900 was for general fund related fees and \$244,356 was for grant related reimbursements

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY**

**SUPPLEMENTARY SCHEDULE  
MANAGEMENT COMPANY EXPENSES**

**MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2011, TGS incurred the following expenses on-behalf of TCS and GEMS:

<b>Expenses</b>	<u>TCS</u>	<u>GEMS</u>
<b>Direct Expenses:</b>		
Salaries & wages	\$1,135,870	\$335,338
Employees' benefits	307,599	93,003
<b>Indirect Expenses:</b>		
Overhead	<u>328,268</u>	<u>142,298</u>
<b>Total Expenses</b>	<u><u>\$1,771,737</u></u>	<u><u>\$570,639</u></u>

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





## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 23, 2011

To The Board of Trustees  
The Graham School  
3950 Indianola Avenue  
Columbus, Ohio 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 the financial statements of The Graham School (the School) as of and for the year ended June 30, 2011, which collectively comprise The Graham School's basic financial statements and have issued our report thereon dated November 23, 2011. 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.

**Internal Control Over Financial Reporting**

Management of The Graham School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2011-01.

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

This report is intended solely for the information and use of the Board of Trustees, audit committee, management and the School's sponsor, and is not intended to be and should not be used by anyone other than those specified parties.

*Kea & Associates, Inc.*

**THE GRAHAM SCHOOL  
FRANKLIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
JUNE 30, 2011**

<p><b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b></p>
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**FINDING NUMBER 2011-001**

**Material Noncompliance**

**Ohio Rev. Code Section 3314.08(J)(1)(b)** states that a community school may borrow money for a term not to exceed fifteen years to acquire facilities.

During testing we noted The Graham School has entered into two debt agreements that exceed fifteen years for the acquisition of facilities. The debt agreements include Meers/Graham (\$685,883) for a period of 25 years and Dantomka, Lt. (\$43,692) for a period of 20 years.

We recommend that The Graham School amend the debt agreements so the terms do not exceed fifteen years, and in the future, only issue debt that is in compliance with State laws and the terms of any applicable contract or grant agreements.

View of Responsible Officials

The Graham School concurs with the finding, but does not plan to correct the noncompliance.

**The Graham School  
SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2011**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken or Finding No Longer Valid Explain</b>
2010-1	Loan term exceeds the maximum allowed by ORC 3314.08.	No	Reissued as Finding 2011-01



## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

### Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Directors  
The Graham School  
3950 Indianola Avenue  
Columbus, Ohio 43214

November 23, 2011

To the Board of Directors:

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

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

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying. Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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

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

*Rea & Associates, Inc.*

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# Dave Yost • Auditor of State

THE GRAHAM SCHOOL

FRANKLIN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 17, 2012