

Graham Elementary and Middle
School
Franklin County, Ohio

Basic Financial Statements

For the Fiscal Year Ended
June 30, 2018

OHIO AUDITOR OF STATE KEITH FABER



Board of Directors
Graham Elementary and Middle School
140 East 16th Avenue
Columbus, Ohio 43201

We have reviewed the *Independent Auditor's Report* of the Graham Elementary and Middle School, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. 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 Elementary and Middle School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 1, 2019

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GRAHAM ELEMENTARY AND MIDDLE SCHOOL
Franklin County, Ohio
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February 26, 2019

To the Board of Directors
Graham Elementary and Middle School
Franklin County, Ohio
140 E 16th Avenue
Columbus, OH 43201

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Graham Elementary and Middle School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 13 to the financial statements, the School merged with its sister school Graham Primary School, effective July 1, 2017. The combined School has changed its name to Graham Elementary and Middle School. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3-6 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 February 26, 2019, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Dublin, Ohio

**Graham Elementary and Middle School
Franklin County, Ohio**

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018*

Our discussion and analysis of The Graham Elementary and Middle School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School's 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 School's 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 Governments 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

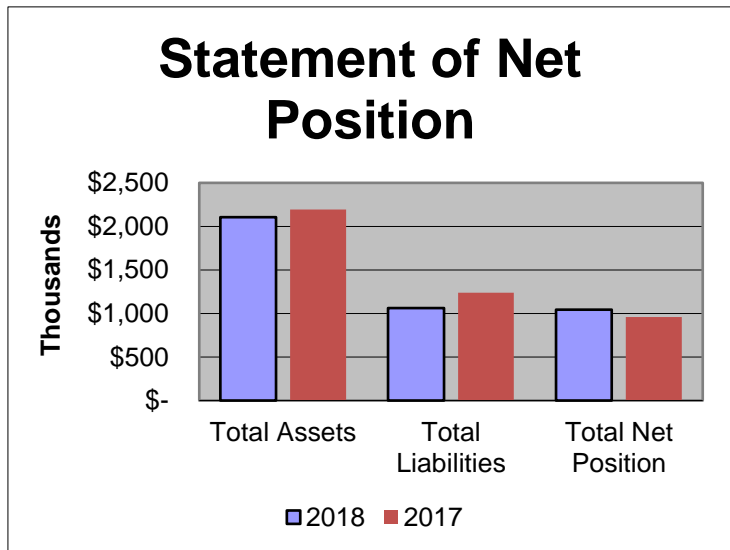
Key financial highlights for fiscal year 2018 are as follows:

- In total, net position increased by \$84,847. This is due to total expenses being less than total revenues.
- Total assets decreased by \$89,287. This was primarily due to decreases in cash and cash equivalents offset by increases in accounts receivable.
- Liabilities were \$1,063,147, which primarily constituted notes payable outstanding at year end.
- Effective July 1, 2017, the Graham Expeditionary Middle School and Graham Primary School merged to form the Graham Elementary and Middle School.

USING THIS ANNUAL REPORT

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

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how the School did financially during fiscal year 2018. 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.



Graham Elementary and Middle School
Franklin County, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during 2018. 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 resources 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, below, is a summary of the School's net position for fiscal year 2018 and 2017.

(Table 1)
Statement of Net Position

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets	\$ 700,680	\$ 765,070
Capital Assets, Net	1,404,850	1,429,747
Total Assets	<u>2,105,530</u>	<u>2,194,817</u>
Liabilities		
Current Liabilities	55,596	194,118
Non-Current Liabilities	1,007,551	1,043,163
Total Liabilities	<u>1,063,147</u>	<u>1,237,281</u>
Net Position		
Net Investment in Capital Assets	361,687	352,553
Unrestricted	680,696	604,983
Total Net Position	<u>\$ 1,042,383</u>	<u>\$ 957,536</u>

Total assets were \$2,105,530, while total liabilities were \$1,063,147. Cash and cash equivalents were \$206,733 and capital assets, at net, were \$1,404,850. Intergovernmental receivables were \$14,721. Accounts receivable were \$479,226. Current assets decreased \$64,390 due to a decrease in cash primarily from operations and an overpayment of management fees, which created an offsetting increase in accounts receivable.

Graham Elementary and Middle School
Franklin County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Statement of Revenues, Expenses and Change in Net Position

Table 2 below demonstrates the net position for fiscal year 2018, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for the School as a whole, the financial position of the School 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

	2018	2017
Operating Revenues		
State Aid	\$ 3,605,724	\$3,112,738
Casino Aid	20,803	17,873
Facilities Funding	82,508	75,950
Food Service	11,186	13,883
Classroom Fees	0	1,663
Other Operating	49,922	28,386
Non-Operating Revenue		
Grants	455,371	447,329
Investment Income	33	20
Contributions & Donations	35,523	377,238
Total Revenues	4,261,070	\$4,075,080
Operating Expenses		
Purchased Services: Management Fees	2,835,670	2,572,456
Purchased Services: Property Services	176,787	272,135
Purchased Services: Professional Services	620,251	461,284
Purchased Services: Food Services	166,014	125,798
Purchased Services: Professional Development	46,616	34,039
Purchased Services: Other	92,806	89,687
Materials and Supplies	118,231	112,018
Depreciation	24,898	30,667
Other	46,165	22,219
Non-Operating Expenses		
Interest and Fiscal Charges	48,785	18,422
Total Expenses	4,176,223	3,738,725
Change in Net Position	\$ 84,847	\$ 336,355

Graham Elementary and Middle School
Franklin County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Operating revenues were \$3,770,143, which represents 88% of total revenue. Operating expenses were \$4,127,438, which represents 99% of total expenses. The School's most significant expense Purchased Services: Management Fees represents 69% of total expenses. The total comprises primarily management fees paid to the Graham School (TGS). The agreement, between the School and TGS, provides for the School to remit a specific percentage of certain revenues received to TGS to finance operations. Note 10 in the notes to the basic financial statements outlines this agreement. Increases in both revenues and expenses are directly related to an increase in enrollment.

The decrease in contributions is due to a one-time donation of \$340,000 from Columbus Foundation to help secure a facility. The increase in state aid was due to an increase in enrollment.

CAPITAL ASSETS

At the end of fiscal year 2018, the School had \$1,404,850 invested in capital assets, net of depreciation. The asset purchases were land, buildings, computers and equipment as well as improvements. For more information on capital assets, see Note 6 in the notes to the basic financial statements.

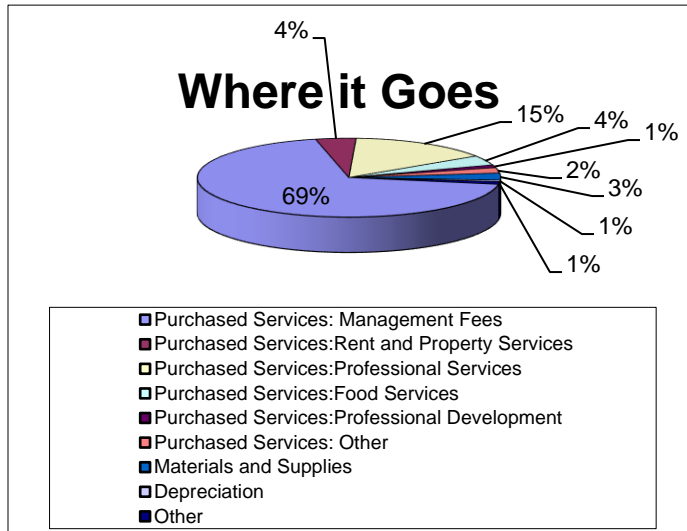
DEBT

At June 30, 2018, the School had \$1,043,163 in notes payable. For more information, see Note 12 in the notes to the basic financial statements.

OTHER INFORMATION

For the Future

In conclusion, the School has committed itself to financial excellence. The School owns a building on East Sixteenth Avenue. This building is expected to ensure that the School can meet its enrollment projections and give students a positive learning environment.



The School received donations and private grants to assist in financing the operations and development of curriculum; this practice is expected to continue.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School's finances and to show its accountability for the money received. If you have questions about this report or need additional information contact Ms. Jennifer Smith of Graham Elementary and Middle School, 140 East Sixteenth Avenue, Columbus, Ohio 43201 or e-mail at jsmith.1@mail.thegrahamschool.org.

Graham Elementary and Middle School
Franklin County, Ohio
Statement of Net Position
June 30, 2018

Assets

Current Assets

Cash and Cash Equivalents	\$ 206,733
Accounts Receivable	479,226
Intergovernmental Receivable	<u>14,721</u>
Total Current Assets	<u>700,680</u>

Non-Current Assets

Depreciable Capital Assets, net	615,350
Non-Depreciable Capital Assets	<u>789,500</u>
Total Non-Current Assets	<u>1,404,850</u>
Total Assets	<u>2,105,530</u>

Liabilities

Current Liabilities

Accounts Payable	16,755
Intergovernmental Payable	3,229
Notes Payable	<u>35,612</u>
Total Current Liabilities	<u>55,596</u>

Non-Current Liabilities

Notes Payable	<u>1,007,551</u>
Total Liabilities	<u>1,063,147</u>

Net Position

Net Investment in Capital Assets	361,687
Unrestricted	<u>680,696</u>
Total Net Position	<u><u>\$ 1,042,383</u></u>

See accompanying notes to the basic financial statements.

Graham Elementary and Middle School
Franklin County, Ohio
Statement of Revenues,
Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

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Operating Revenues	
State Aid	\$ 3,605,724
Casino Aid	20,803
Facilities Funding	82,508
Food Service	11,186
Other Operating	49,922
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Total Operating Revenues	3,770,143
	<hr/>
Operating Expenses	
Purchased Services: Management Fees	2,835,670
Purchased Services: Property Services	176,787
Purchased Services: Professional Services	620,251
Purchased Services: Food Services	166,014
Purchased Services: Professional Development	46,616
Purchased Services: Other	92,806
Materials and Supplies	118,231
Depreciation	24,898
Other	46,165
	<hr/>
Total Operating Expenses	4,127,438
	<hr/>
Operating Loss	(357,295)
Non-Operating Revenues (Expenses)	
Grants	454,693
State Grants	678
Investment Income	33
Interest and Fiscal Charges	(48,785)
Contributions & Donations	35,523
	<hr/>
Total Non-Operating Revenues (Expenses)	442,142
	<hr/>
Change in Net Position	84,847
Net Position Beginning of Year, See Note 13	957,536
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Net Position End of Year	<u><u>\$ 1,042,383</u></u>

See accompanying notes to the basic financial statements.

Graham Elementary and Middle School
Franklin County, Ohio
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State of Ohio	\$ 3,710,843
Cash Received from Other Operating Sources	61,108
Cash Payments to Suppliers for Goods and Services	(4,486,170)
Other Cash Payments	<u>(46,115)</u>
Net Cash Used for Operating Activities	<u>(760,334)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash Received from Grants	458,135
Cash Received from Contributions and Donations	<u>35,523</u>
Net Cash Provided by Noncapital Financing Activities	<u>493,658</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash Payments for Interest and Fiscal Charges	(48,785)
Cash Principal Payments for Notes Payable	<u>(34,031)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(82,816)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	<u>33</u>
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (349,459)

CASH AND CASH EQUIVALENTS BEGINNING OF YEAR 556,192

CASH AND CASH EQUIVALENTS END OF YEAR \$ 206,733

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

Operating Loss \$ (357,295)

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

Depreciation	24,898
Changes in Assets and Liabilities:	
Accounts Receivable	(289,642)
Intergovernmental Receivable	1,808
Accounts Payable	(112,737)
Intergovernmental Payable	<u>(27,366)</u>
Net Cash Used for Operating Activities	<u><u>\$ (760,334)</u></u>

See accompanying notes to the basic financial statements.

Graham Elementary and Middle School

Franklin County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

1. DESCRIPTION OF THE REPORTING ENTITY

The Graham Elementary and Middle School (the “School”) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School 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 the School’s tax-exempt status. The School’s 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. The School, which is part of the State’s education program, is independent and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may acquire facilities as needed and contract for any services necessary for the operation of the school.

The School was originally approved for operation under a contract with the Educational Service Center of Central Ohio (the Sponsor) for a period of five years commencing July 1, 2009. In July, 2017, another two year contract extension was approved. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a five-member governing board. The governing board is responsible for carrying out the provisions of the contract, which include but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The School contracts with the Graham School (TGS) for most of its day-to-day activities (see Note 10).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School 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 the School’s accounting policies.

Basis of Presentation

The School 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.

Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. The operating statement presents 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.

Graham Elementary and Middle School

Franklin County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

Cash and Cash Equivalents

All cash received by the School is deposited in accounts in the School's name and reflected as Cash and Cash Equivalents on the Statement of Net Position. The School did not have any investments during fiscal year 2018.

Prepaid Items

The School records payments made to vendors for services that will benefit future periods 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 recorded in the year in which the services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements (deletions) during the year. The capitalization threshold is \$1,000. Donated capital assets are recorded at their acquisition value as of the date received.

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 useful life are not. Interest incurred during the construction of capital assets is also capitalized.

All capital assets are depreciated except for land. Depreciation of computers and equipment is computed using the straight-line method over an estimated useful life of five years. Depreciation of building is computed using the straight-line method over an estimated useful life of 39 years. Improvements to capital assets are depreciated over the remaining useful lives.

Intergovernmental Revenues

The School currently participates in the state foundation, casino aid, facilities funding, and state special education programs. Revenues received from these programs are recognized as operating revenues (foundation and special education payments) in the accounting period in which they are earned and become measurable. Funding from these programs is listed as "Operating Revenues" on the Statement of Revenues, Expenses, and Change in Net Position.

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

Graham Elementary and Middle School

Franklin County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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 the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School 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.

Net Position

Net position represents the difference between assets and liabilities. 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 is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School does not have any net position restricted for enabling legislation.

Operating Revenues and Expenses

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

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 the accompanying notes. Actual results may differ from those estimates.

Change in Accounting Principles

For the fiscal year ended June 30, 2018, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial reporting for Postemployment Benefits other than Pensions, GASB Statement No. 81, Irrevocable Split-Interest Agreements, GASB Statement No. 85, Omnibus 2017 and GASB Statement No. 86, Certain Debt Extinguishments.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. The implementation of GASB Statement No. 75 did not have an effect on the financial statements of the School.

Graham Elementary and Middle School

Franklin County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the School.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School.

3. DEPOSITS AND INVESTMENTS

Deposits with Financial Institutions

Deposits: The carrying value of the School's deposits are \$206,733, and the bank balance totaled \$239,953, of which all was covered by federal depository insurance based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2018.

Protection of the School's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

4. INTERGOVERNMENTAL RECEIVABLE AND ACCOUNTS RECEIVABLE

At June 30, 2018, the School had intergovernmental receivable in the amount of \$14,721 for monies for food service, Foundation FTE adjustments, and other federal grants due, but not received by year end. At June 30, 2018, the School had \$479,226 in accounts receivable due at June 30, 2018, primarily due to an overpayment of management fees.

5. ACCOUNTS PAYABLE

Accounts payable of \$16,755 consists of obligations at June 30, 2018, incurred during the normal course of conducting operations.

Graham Elementary and Middle School

Franklin County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

6. CAPITAL ASSETS

For the year ended June 30, 2018, the School's capital assets consisted of the following:

	Balance 6/30/2017	Additions	Disposals	Balance 6/30/2018
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 789,500	\$ 0	\$ 0	\$ 789,500
<i>Capital Assets Being Depreciated</i>				
Building	615,500	0	0	615,500
Computers and Equipment	295,188	0	0	295,188
Improvements	6,370	0	0	6,370
	<u>917,058</u>	<u>0</u>	<u>0</u>	<u>917,058</u>
<i>Accumulated Depreciation</i>				
Building	(1,513)	(15,782)	0	(17,295)
Computers and Equipment	(268,927)	(9,116)	0	(278,043)
Improvements	(6,370)	0	0	(6,370)
	<u>(276,810)</u>	<u>(24,898)</u>	<u>0</u>	<u>(301,708)</u>
<i>Total Capital Assets Being Depreciated</i>	<u>640,248</u>	<u>(24,898)</u>	<u>0</u>	<u>615,350</u>
Capital Assets, Net	<u>\$ 1,429,748</u>	<u>\$ (24,898)</u>	<u>\$ 0</u>	<u>\$ 1,404,850</u>

7. RISK MANAGEMENT

Insurance Coverage

The School 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 fiscal year 2018, the School contracted with the Philadelphia Insurance Company for the following insurance coverage:

Commercial General Liability per Occurrence	\$ 1,000,000
Commercial General Liability Aggregate	2,000,000
Umbrella Liability per Occurrence (\$10,000 self-insured retention)	6,000,000

The amount of settlements did not exceed insurance coverage for any of the past three years nor has there been any reduction in coverage from the prior year.

Graham Elementary and Middle School

Franklin County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

8. CONTINGENCIES

Grants

The School 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 the school, any such disallowed claims would not have a material adverse effect on the financial position of the school.

Full-Time Equivalency Reviews

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review for fiscal year 2018.

As of the date of this report, all ODE adjustments for fiscal year 2018 have been finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements have been determined and reflected on the face of the financials as a receivable in the amount of \$11,072.

In addition, TCS contracts with their Sponsor and Management Company that requires payment based on revenues received from the State. These items have also been recorded on the financial statements for 2018.

9. SPONSOR

On July 1, 2009, a sponsorship agreement was executed between the School and the Educational Service Center of Central Ohio for a five (5) year period beginning July 1, 2009. The School shall pay annually 3% of its state funding per pupil as provided by the State of Ohio. For fiscal year ending June 30, 2018, the School paid \$102,950. An additional 2 year term has been extended through June 30, 2019.

10. MANAGEMENT AGREEMENT WITH THE GRAHAM SCHOOL (TGS)

Effective July 1, 2015, the School entered into a one year Management Agreement (the Agreement) with TGS. The Agreement's terms ran through June 30, 2016, and was subsequently renewed for an additional one year term. The Agreement has been renewed for an additional one year term through June 30, 2018. Per the contract, TGS receives a base fee of three (3) percent of GEMS' state foundation, and reimbursement of all direct costs for expenses incurred under the Federal Title programs. TGS also receives ninety-five (95) percent of GEMS' remaining revenues after the School pays its direct expenses. The School management fee expense for the fiscal year total \$2,835,670, as reported in the Statement of Revenues,

Graham Elementary and Middle School

Franklin County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

Expenses and Changes in Fund Net Position. Of this fee, \$2,499,161 was for general fund related fees, and \$226,194 was for grant related reimbursements. The remainder of the expense was for base licensing fees in the amount of \$110,315.

11. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2018, TGS paid the following expenses on-behalf of the School:

Expenses	GEMS
Direct Expenses:	
Salaries & Wages	
Regular Instruction	\$ 1,317,211
Special Instruction	6,305
Other Instruction	214,238
Support Services	401,942
Employees' Benefits	
Regular Instruction	202,914
Special Instruction	930
Other Instruction	33,099
Support Services	56,379
Indirect Expenses:	
Overhead	
Support Services	535,317
Total Expenses	<u>\$ 2,768,335</u>

Overhead charges are assigned to the School 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.

12. LONG-TERM OBLIGATIONS

The changes in the School's long-term obligations during fiscal year 2018 were as follows:

	Balance 6/30/2017	Additions	Deductions	Balance 6/30/2018	Due Within One Year
Notes Payable	<u>\$ 1,077,194</u>	<u>\$ 0</u>	<u>\$ (34,031)</u>	<u>\$ 1,043,163</u>	<u>\$ 35,612</u>

Graham Elementary and Middle School
Franklin County, Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

During 2017, the School entered into a loan with Huntington National Bank for the purchase of a new school building. The total amount of the loan was \$1,080,000 with an annual interest rate of 4.55% to be paid over a 10-year period and amortized over a 20-year period. The School has a balloon payment that is due in the tenth year. The Graham School and The Charles School of Ohio Dominican University act as guarantors of the loan.

Future principal obligations of the notes are as follows:

Fiscal Year Ending June 30,	Notes Payable	
	Principal	Interest
2019	\$ 35,612	\$ 50,550
2020	37,267	48,754
2021	38,999	46,874
2022	40,810	44,908
2023	42,707	42,850
2024 - 2028	847,768	163,283
Total	<u>\$ 1,043,163</u>	<u>\$ 397,219</u>

13. MERGER

On July 1, 2017, Graham Primary School merged with its sister school Graham Expeditionary Middle School to carry out its mission of providing a positive learning environment. The merged entity is called Graham Elementary and Middle School. The below table represents the amounts recognized in the merged entity as of July 1, 2017.

	Graham Expeditionary Midde School	Graham Primary School	Total
Current Assets	\$ 525,163	\$ 239,907	\$ 765,070
NonCurrent Assets	1,413,449	16,298	1,429,747
Total Assets	<u>1,938,612</u>	<u>256,205</u>	<u>2,194,817</u>
Current Liabilities	73,015	121,103	194,118
NonCurrent Liabilities	1,043,163	0	1,043,163
Total Liabilities	<u>1,116,178</u>	<u>121,103</u>	<u>1,237,281</u>
Net Investment in Capital Assets	336,255	16,298	352,553
Unrestricted	486,179	118,804	604,983
Total Net Position, July 1, 2017	<u>\$ 822,434</u>	<u>\$ 135,102</u>	<u>\$ 957,536</u>

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February 26, 2019

To the Board of Directors
Graham Elementary and Middle School
Franklin County, Ohio
140 E 16th Avenue
Columbus, OH 43201

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 Elementary and Middle School, Franklin County, Ohio (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated February 26, 2019, wherein we noted the School merged with another School effective July 1, 2017.

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

OHIO AUDITOR OF STATE KEITH FABER



GRAHAM ELEMENTARY AND MIDDLE 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
APRIL 11, 2019**