The Graham School
Franklin County, Ohio

Basic Financial Statements

For the Fiscal Year Ended
June 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

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

We have reviewed the *Independent Auditor's Report* of the The Graham 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 The Graham School is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

April 1, 2019

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THE GRAHAM SCHOOL
Franklin County, Ohio
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February 26, 2019

To the Board of Directors
The Graham School
Franklin County, Ohio
3950 Indianola Avenue
Columbus, OH 43214

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of The Graham School, Franklin County, Ohio (the School), as of and for the year ended June 30, 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. We also have audited the accompanying schedule of management company expenses presented as supplementary information for the year ended June 30, 2018.

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. In addition, in our opinion, the supplemental information referred to above presents fairly, in all material respects, the management expenses incurred by the Graham School on behalf of other schools for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United State of America.

CPAs and business consultants
www.reacpa.com

Emphasis of Matter

As described in Note 19 to the financial statements, the School restated the beginning net position balance to account for the implementation of Governmental Accounting Standard Board (GASB) Statement No. 75, “Accounting and Financial reporting for Postemployment Benefits other than Pensions.” Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As disclosed in Note 20 to the financial statements, the School has previously suffered recurring losses from operations and has a net position deficit of $11,233,721 that raises substantial doubt about its ability to continue as a going concern. This deficit net position includes the effect of the net pension liability, net OPEB liability, and related accruals totaling $9,656,186. Note 20 describes management’s plan regarding these issues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management’s Discussion and Analysis*, *Schedule of the TGS' Proportionate Share of the Net Pension Liability, Schedule of the TGS’ Contributions – Pension, Schedule of the TGS’ Proportionate Share of the Net OPEB Liability,* and the *Schedule of the TGS’ Contributions – OPEB* on pages 3-9, 43, 44-45, 47, and 48-49, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated 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

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, 2018. The intent of this discussion and analysis is to look at TGS' financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the TGS' financial performance.

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

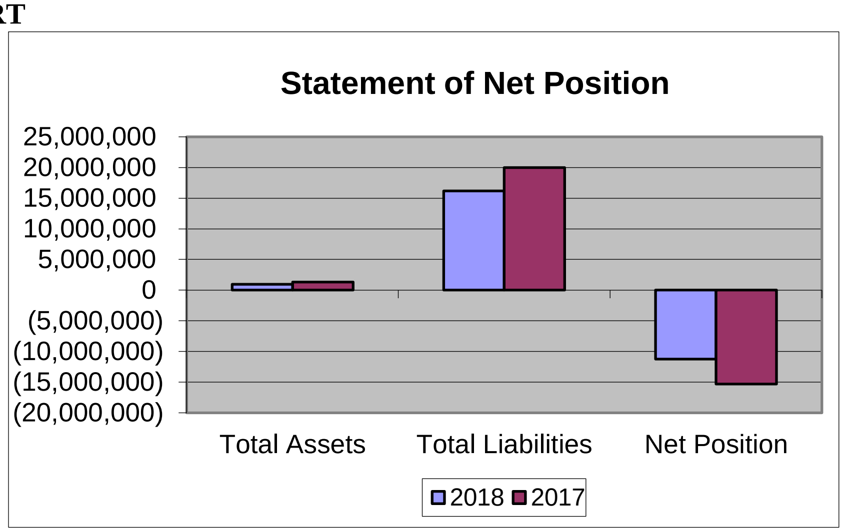
FINANCIAL HIGHLIGHTS -

Key Financial Highlights for TGS for the fiscal year 2018 are as follows:

- In total, net position increased $4,057,160, which represents a 27 percent increase from 2017.
- Total assets decreased $347,743 which represents a 26 percent decrease from 2017.
- Liabilities decreased $3,808,124 which represents a 19 percent decrease from 2017.
- TGS implemented GASB 75, which reduced beginning net position as previously reported by $2,789,774.

USING THIS ANNUAL REPORT

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



The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how TGS did financially during fiscal year 2018. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report TGS' net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of TGS has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial 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.

Table 1 provides a summary of TGS' net position for fiscal years 2018 and 2017.

Table 1
Statement of Net Position

	2018	Restated 2017
Assets		
Current Assets	$ 120,233	$ 408,121
Capital Assets, Net	847,761	907,616
Total Assets	967,994	1,315,737
Deferred Outflows		
Pension & OPEB	4,682,588	3,448,410
Liabilities		
Current Liabilities	1,571,757	1,221,751
Long Term Liabilities	14,615,551	18,773,681
Total Liabilities	16,187,308	19,995,432
Deferred Inflows		
Pension & OPEB	696,995	59,596
Net Position		
Net Investment in Capital Assets	(260,040)	(327,084)
Unrestricted	(10,973,681)	(14,963,797)
Total Net Position	$ (11,233,721)	$ (15,290,881)

The net pension liability (NPL) is the largest single liability reported by TGS at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2018, TGS adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the TGS' actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal TGS' proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the TGS is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

In accordance with GASB 68 and GASB 75, TGS' statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, TGS is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit $12,501,107 to a deficit $15,290,881.

At fiscal year end, capital assets represented 88 percent of total assets. Capital assets include land, buildings, improvements and furniture and equipment. Net investment in capital assets was a deficit $260,040 at June 30, 2018. These capital assets are used to provide services to students and are not available for future spending. Although TGS' investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Net Position increased $4,057,160, which represents a 27 percent increase from 2017. This is due to a decrease in fringe benefits related to GASB 68 and GASB 75. The significant decrease in net pension liability is largely the result of a change in benefit terms in which STRS reduced their COLA to zero coupled by a slight reduction in COLA benefits by SERS. The significant increase in deferred outflows and inflows related to pension/OPEB are primarily from the change of assumptions and the difference in projected and actual investments earnings, respectively. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

Total assets decreased $347,743 which represents a 26 percent decrease from 2017. This was primarily due to a decrease in accounts receivable related to management fee expenses owed to TGS coupled with deficit spending causing cash balance to decrease. Liabilities decreased $3,808,124, which represents a 19 percent decrease from 2017. The decrease in long-term liabilities is due to decreases in net pension/OPEB liabilities as discussed above coupled with principal payments on the capital lease and notes payable, These decreases were only partially offset by an increase in accounts payable from monies owed to TCS and GEMS.

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows the changes in net position for fiscal years 2018 and 2017, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader whether, for TGS as a whole, the financial position of TGS has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

Table 2
Change in Net Position

	2018	2017
Operating Revenue		
State Aid	$ 2,225,640	$ 2,379,745
Casino Aid	12,671	12,798
Facilities Aid	47,165	50,706
Classroom Materials & Fees	8,905	7,815
Services to Schools	5,314,899	4,975,819
Other Operating Revenues	28,826	14,460
Non-Operating Revenue		
Grants – Federal	274,957	334,558
Interest Income	405	1,240
Contributions and Donations	84,049	77,591
Total Revenues	7,997,517	7,854,732
Operating Expenses		
Salaries	5,746,990	5,442,327
Fringe Benefits	(2,783,747)	2,322,528
Purchased Services	718,625	751,004
Materials and Supplies	75,488	69,869
Depreciation Expense	60,954	77,378
Other Operating Expense	81,618	70,403
Non-Operating Expenses		
Interest and Fiscal Charges	40,429	51,694
Total Expenses	3,940,357	8,785,203
Increase (Decrease) in Net Position	$ 4,057,160	$ (930,471)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 expenses still include OPEB expense of $2,491 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $412,643. Consequently, in order to compare 2018 total expenses to 2017, the following adjustments are needed:

Total 2018 Expenses under GASB 75	$	3,940,357
Negative OPEB Expense under GASB 75		412,643
2018 Contractually Required Contribution		6,701
Adjusted 2018 Expenses		4,359,701
Total 2017 Expenses under GASB 45		8,785,203
Decrease in Expenses not Related to OPEB	$	(4,425,502)

Total revenues increased $142,785, which represents a 2 percent increase from 2017, primarily from an increase in services provided to schools. Operating revenue increases are due primarily to increases in revenue for services provided to schools (see notes 17 and 18). Total expenses decreased by $4,844,846, which represents a 55 percent decrease from 2017. See previous discussion for explanation of fluctuations in operating expenses. The negative expense reported in fringe benefits was also caused by these accruals.

CAPITAL ASSETS

TGS has $847,761 invested in capital assets, net of accumulated depreciation. Detailed information regarding capital asset activity is included in the Note 5 to the basic financial statements.

DEBT OBILIGATIONS

TGS has long-term debt obligation of $1,107,801 at June 30, 2018, of which $134,029 is current. Note 13 to the basic financial statements summarize all of the TGS' debt obligations at June 30, 2018.

OTHER INFORMATION

For the Future

TGS has extensive fundraising activities and receives donations to assist in financing its operations; this practice is expected to continue. TGS is also continuing to fund additional schools including the Charles School at Ohio Dominican University and Graham Elementary and 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 historic levels of enrollment at TGS. Currently, TGS is experiencing financial difficulty. See Note 20 for further information.

CONTACTING THE GRAHAM SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of TGS' finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Jennifer Smith of The Graham School, 3950 Indianola Avenue, Columbus, Ohio 43214 or e-mail at jsmith.1@mail.thegrahamschool.org.

The Graham School
Franklin County, Ohio
Statement of Net Position
June 30, 2018

Assets	
Current Assets:	
Cash and Investments	$ 89,268
Beneficial Interest in Assets Held By Others	20,571
Intergovernmental Receivable	10,394
Total Current Assets	120,233
Noncurrent Assets:	
Capital Assets:	
Non-Depreciable Capital Assets	141,800
Depreciable Capital Assets, net	705,961
Total Noncurrent Assets	847,761
Total Assets	967,994
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows - Pension	4,472,849
Deferred Outflows - OPEB	209,739
Total Deferred Outflows of Resources	4,682,588
Liabilities	
Current Liabilities:	
Accounts Payable	582,693
Accrued Wages and Benefits	851,337
Intergovernmental Payable	3,698
Capital Lease Payable	22,214
Notes Payable	111,815
Total Current Liabilities	1,571,757
Long-Term Liabilities:	
Net Pension Liability	11,327,590
Net OPEB Liability	2,314,189
Notes Payable	935,516
Capital Lease Payable	38,256
Total Long-Term Liabilities	14,615,551
Total Liabilities	16,187,308
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows - Pension	431,015
Deferred Inflows - OPEB	265,980
Total Deferred Inflows of Resources	696,995
Net Position	
Net Investment in Capital Assets	(260,040)
Unrestricted	(10,973,681)
Total Net Position	$ (11,233,721)

See accompanying notes to the basic financial statements.

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

Operating Revenues	
State Aid	$ 2,225,640
Casino Aid	12,671
Facilities Aid	47,165
Classroom Fees	8,905
Services to Schools	5,314,899
Other Operating	28,826
Total Operating Revenues	7,638,106
Operating Expenses	
Salaries	5,746,990
Fringe Benefits	(2,783,747)
Purchased Services	718,625
Materials and Supplies	75,488
Depreciation	60,954
Other	81,618
Total Operating Expenses	3,899,928
Operating Income	3,738,178
Non-Operating Revenues (Expenses)	
Grants	274,957
Contributions & Donations	84,049
Investment Income/(Loss)	405
Interest and Fiscal Charges	(40,429)
Total Non-Operating Revenues (Expenses)	318,982
Change in Net Position	4,057,160
Net Position Beginning of Year, Restated	(15,290,881)
Net Position End of Year	$ (11,233,721)

See accompanying notes to the basic financial statements.

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

Increase (Decrease) in Cash and Investments	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 2,273,417
Cash Received from Other Operating Sources	5,836,362
Cash Payments to Suppliers for Goods and Services	(814,585)
Cash Payments to Employees for Services	(5,704,445)
Cash Payments for Employee Benefits	(1,835,981)
Other Cash Payments	(81,174)
Net Cash Used for Operating Activities	(326,406)
Cash Flows from Noncapital Financing Activities	
Cash Received from Grants	274,957
Cash Received from Contributions and Donations	84,049
Net Cash Provided by Noncapital Financing Activities	359,006
Cash Flows from Capital and Related Financing Activities	
Cash Payments for Capital Assets	(1,099)
Cash Payments for Interest and Fiscal Charges	(40,429)
Cash Payments for Principal Payments	(126,899)
Net Cash Provided by (Used in) Capital Financing Activities	(168,427)
Cash Flows from Investing Activities	
Interest Income	280
Net Cash Provided by Investing Activities	280
Net Decrease in Cash and Investments	(135,547)
Cash and Investments Beginning of Year	224,815
Cash and Investments End of Year	$ 89,268
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities	
Operating Income (Loss)	$ 3,738,178
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	60,954
Changes in Assets and Liabilities, Deferred Inflows/Outflows of Resources	
Accounts Receivable	161,643
Intergovernmental Receivable	(9,177)
Deferred Outflows of Resources - Pension	(1,026,930)
Deferred Outflows of Resources - OPEB	(207,248)
Accounts Payable	306,633
Accrued Wages and Benefits	49,258
Intergovernmental Payable	(13,017)
Net Pension Liability	(3,546,023)
Net OPEB Liability	(478,076)
Deferred Inflows of Resources - Pension	371,419
Deferred Inflows of Resources - OPEB	265,980
Net Cash Used for Operating Activities	$ (326,406)

See accompanying notes to the basic financial statements.

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. TCS' objective is to use the Columbus community to form partnerships for student learning. Individualized programs are used to meet students' needs. Parents and students are included in all decision-making. TGS, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. TGS may acquire facilities as needed and contract for any services necessary for its operation.

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

On January 1, 2009, the Sponsor merged with the Franklin County Service Center. The surviving organization, the Educational Service Center of Central Ohio, acknowledges its obligations under the existing contract between the Sponsor and TCS, and expects to honor provisions contained therein, as documented in the Memorandum of Understanding dated January 3, 2009. The contract ran through July 2014 and was renewed for an additional three year period through June 2017 and renewed again through June 30, 2019.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

TGS uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in Net Position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

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 TGS and its Sponsor does not require TGS to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

D. Cash and Investments

All cash received by the TGS is deposited in accounts in the TGS' name and reflected as Cash and Investments on the Statement of Net Position.

Investments with a maturity of three months or less at the time they are purchased by TGS are considered to be cash equivalents.

E. Prepaid Items

TGS records payments made to vendors for services that will benefit future periods using the consumption method. No prepaid items were recorded at June 30, 2018. 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.

F. Capital Assets and Depreciation

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

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

All reported capital assets except land are depreciated. 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.

G. Intergovernmental Revenues

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

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

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

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

H. Net Position

Net Position represent the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net Position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net Position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by TGS or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. TGS presently has no restricted Net Position at June 30, 2018, but the Statement of Net Position reports $(260,040) in Net Investment in Capital Assets.

I. Operating Revenues and Expenses

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

J. Estimates

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

K. Pension and Other Postemployment Benefits (OPEB)

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

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For TGS, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 7 and 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For TGS, deferred inflows of resources include pension and OPEB, which are reported on the statement of net position. (See Notes 7 and 8).

3. DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

Deposits: The carrying value of the TGS' deposits totaled $77,047, and the bank balance totaled $167,854. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2018, all of TGS' bank balance was covered by Federal Deposit Insurance.

Protection of TGS' 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.

B. Investments

TGS has received donations in the form of equity stock. The investment banker, Morgan Stanley Smith Barney, LLC holds the investment.

The carrying value of the equity stock is recorded at its fair market value at June 30, 2018.

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

Rating	Investment Type	Measurement Amount	Maturity 0 - 12 Months	Percent of Total
N/A	Morgan Stanley Securities	$ 12,221	$ 12,221	100.00%
	Total	$ 12,221	$ 12,221	100.00%

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

4. RECEIVABLES

At June 30, 2018, TGS had intergovernmental receivables in the amount of $10,394. Intergovernmental receivables are amounts due from ODE related to federal grants and state aid.

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5. CAPITAL ASSETS

At June 30, 2018, the following table represents TGS' changes in capital assets. Capital assets are considered depreciable, except for land.

	Balance 6/30/2017	Additions	Disposals	Balance 6/30/2018
Capital Assets Not Being Depreciated				
Land	$ 141,800	$ 0	$ 0	$ 141,800
Capital Assets Being Depreciated:				
Building	1,108,200	0	0	1,108,200
Improvements	770,677	0	0	770,677
Furniture and Equipment	354,189	1,099	0	355,288
Total Capital Assets Being Depreciated	2,233,066	1,099	0	2,234,165
Less Accumulated Depreciation:				
Building	(446,907)	(23,668)	0	(470,575)
Improvements	(770,677)	0	0	(770,677)
Furniture and Equipment	(249,666)	(37,286)	0	(286,952)
Total Accumulated Depreciation	(1,467,250)	(60,954)	0	(1,528,204)
Total Capital Assets Being Depreciated	765,816	(59,855)	0	705,961
Capital Assets, Net	$ 907,616	$ (59,855)	$ 0	$ 847,761

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 2018, 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 Occurence	6,000,000
Umbrella Liability Aggregate	6,000,000
Automobile Liability Ccombined Single Limit	1,000,000
Commercial Property Liability - Personal Property ($1,000 Deductible)	25,600
Excess Volunteer Liability per Occurrence	1,000,000
Excess Volunteer Liability Aggregate	3,000,000

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

B. Workers' Compensation

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

C. Employee Medical, Dental and Vision Benefits

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

7. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and TGS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

TGS's contractually required contribution to SERS was $136,613 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – TGS licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. TGS was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

TGS's contractually required contribution to STRS was $659,816 for fiscal year 2018.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. TGS's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.03029110%	0.04006600%	
Prior Measurement Date	0.02839550%	0.03822579%	
Change in Proportionate Share	0.00189560%	0.00184021%	
Proportionate Share of the Net Pension Liability	$ 1,809,826	$ 9,517,764	$ 11,327,590
Pension Expense	$ (38,822)	$ (3,366,283)	$ (3,405,105)

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

At June 30, 2018 TGS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 77,886	$ 367,530	$ 445,416
Changes of Assumptions	93,588	2,081,640	2,175,228
Changes in Proportion and Differences between TGS Contributions and Proportionate Share of Contributions	130,296	925,480	1,055,776
TGS Contributions Subsequent to the Measurement Date	136,613	659,816	796,429
Total Deferred Outflows of Resources	$ 438,383	$ 4,034,466	$ 4,472,849
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	$ 0	$ 76,710	$ 76,710
Net Difference between Projected and Actual Earnings on Pension Plan Investments	8,590	314,098	322,688
Changes in Proportion and Differences between TGS Contributions and Proportionate Share of Contributions	31,617	0	31,617
Total Deferred Inflows of Resources	$ 40,207	$ 390,808	$ 431,015

$796,429 reported as deferred outflows of resources related to pension resulting from TGS contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ 98,791	$ 737,078	$ 835,869
2020	153,743	1,164,354	1,318,097
2021	51,219	809,124	860,343
2022	(42,190)	273,286	231,096
	$ 261,563	$ 2,983,842	$ 3,245,405

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
TGS's Proportionate Share of the Net Pension Liability	$ 2,511,569	$ 1,809,826	$ 1,221,974

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

Asset Class	Target Allocation*	Long Term Expected Real Rate of Return**
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of TGS's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents TGS's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what TGS's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
TGS's Proportionate Share of the Net Pension Liability	$ 13,643,391	$ 9,517,764	$ 6,042,542

Assumption Changes since the Prior Measurement Date
The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date
Effective July 1, 2017, the COLA was reduced to zero.

8. DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - TGS contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, TGS's surcharge obligation was $1,641.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. TGS's contractually required contribution to SERS was $6,701 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. TGS's proportion of the net OPEB liability was based on TGS's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.02798010%	0.04006600%	
Prior Measurement Date	0.02624012%	0.03822579%	
Change in Proportionate Share	0.00173998%	0.00184021%	
Proportionate Share of the Net OPEB Liability	$ 750,912	$ 1,563,277	$ 2,314,189
OPEB Expense	$ 50,261	$ (462,904)	$ (412,643)

At June 30, 2018, TGS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 0	$ 90,239	$ 90,239
Changes in Proportionate Share and Differences between TGS Contributions and Proportionate Share of Contributions	28,443	84,356	112,799
TGS Contributions Subsequent to the Measurement Date	6,701	0	6,701
Total Deferred Outflows of Resources	$ 35,144	$ 174,595	$ 209,739
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	$ 1,983	$ 66,816	$ 68,799
Changes of Assumptions	71,258	125,923	197,181
Total Deferred Inflows of Resources	$ 73,241	$ 192,739	$ 265,980

$6,701 reported as deferred outflows of resources related to OPEB resulting from TGS contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (16,009)	$ (8,592)	$ (24,601)
2020	(16,009)	(8,592)	(24,601)
2021	(12,285)	(8,592)	(20,877)
2022	(495)	(8,592)	(9,087)
2023	0	8,112	8,112
Thereafter	0	8,112	8,112
	$ (44,798)	$ (18,144)	$ (62,942)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of TGS's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
TGS's Proportionate Share of the Net OPEB Liability	$ 906,822	$ 750,912	$ 627,392

	1% Decrease	Current Trend Rate	1% Increase
TGS's Proportionate Share of the Net OPEB Liability	$ 609,309	$ 750,912	$ 938,327

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
	100.00 %	

*Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan’s fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of TGS’s Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
TGS's Proportionate Share of the Net OPEB Liability	$ 2,098,608	$ 1,563,277	$ 1,140,102

	1% Decrease	Current Trend Rate	1% Increase
TGS's Proportionate Share of the Net OPEB Liability	$ 1,086,063	$ 1,563,277	$ 2,191,231

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, 2018.

B. Full-Time Equivalency Reviews

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is 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, additional 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 payable in the amount of $3,698.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2018 have been completed. A reconciliation between payments previously made and the FTE adjustments have taken place with these contracts.

10. PURCHASED SERVICES

For the period July 1, 2017 through June 30, 2018, purchased service expenses were payments for services rendered by various vendors, as follows:

Description	Amount
Professional and Technical Services	$ 399,562
Property Services	117,506
Travel Mileage/Meeting Expense	38,934
Communications	7,663
Utilities	40,166
Contracted Trade Services	60,651
Tuition Payments	6,310
Pupil Transportation Services	47,833
Total Purchased Services	$ 718,625

11. CAPITAL LEASES – LESSEE DISCLOSURE

In October of 2015, TGS entered into a lease agreement with Modern Leasing for three copiers for $2,780 per month at an interest rate of 22 percent. TGS' lease obligations meets the criteria for a capital lease as defined by the Standards, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital assets of $100,670 have been recorded, which represents the present value of the minimum lease payments at time of acquisition. Principal payments for fiscal year 2018 totaled $17,862 and interest payments totaled $15,502. Net book value of the copier is $45,302 at June 30, 2018.

The following is a schedule of the future minimum payments required under the capital lease as of June 30, 2018.

Fiscal Year Ending	Copiers
2019	$ 33,365
2020	33,365
2021	11,122
Total Minimum Lease Payments	77,852
Less Amount Representing Interest	(17,382)
Present Value of Minimum Lease Payments	$ 60,470

12. ACCOUNTS PAYABLE

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

13. DEBT AND LONG-TERM OBLIGATIONS

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

	Restated Outstanding 6/30/17	Additions	Reductions	Outstanding 6/30/2018	Amounts Due in One Year
Dantomka Ltd.	$ 469,122	$ 0	$ 43,873	$ 425,249	$ 45,004
Dantomka Ltd.	687,246	0	65,164	622,082	66,811
Modern Leasing	78,332	0	17,862	60,470	22,214
Net Pension Liability	14,873,613	0	3,546,023	11,327,590	0
Net OPEB Liability	2,792,265	0	478,076	2,314,189	0
Total Governmental Activities Long-Term Liabilities	$ 18,900,578	$ 0	$ 4,150,998	$ 14,749,580	$ 134,029

In November 2011, TGS entered into a new mortgage promissory note agreement with Dantomka, Ltd. in the amount of $542,224 for a 15 year term at an interest rate of 2.5% annually. Monthly payments on the note are $4,610. Total interest paid during fiscal year 2018 was $11,452.

In November 2011, TGS entered into a new mortgage promissory note agreement with Eileen Meers in the amount of $1,100,881 for a 15 year term at an interest rate of 2.5% annually. The note was subsequently assigned to Dantomka, Ltd. Monthly payments on the note are $4,367 for years 1 and 2. Payments escalate up to $5,714 beginning in year 3 with a balloon payment of $210,933 due at the end of the term. Total interest paid during fiscal year 2018 was $13,475.

Effective April 8, 2003, Ohio Revised Code Section 3314.08 (J) (1) (b) was amended, in part, to permit facilities acquisition debt with a maturity not exceeding fifteen years. All current notes comply with this provision of the revised code.

The annual requirements to retire all outstanding long-term debt (excluding capital leases) as of June 30, 2018, including interest are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	$ 111,815	$ 25,110	$ 136,925
2020	114,665	22,259	136,924
2021	118,810	18,114	136,924
2022	120,586	16,338	136,924
2023	123,660	13,264	136,924
2024 - 2027	457,795	21,056	478,851
Total	$ 1,047,331	$ 116,141	$ 1,163,472

14. RELATED PARTY TRANSACTION

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

15. SPONSOR

On May 13, 2014, a sponsorship agreement was executed between TGS and the Educational Service Center of Central Ohio for a two (2) year period beginning July 1, 2014. In July 2014, the contract was extended for three years through June 2017 and another two year extension through June 30, 2019. Under this agreement, TGS pays the Sponsor “up to” 3% of State Aid (see Note 2.). TGS sponsor fee expense at June 30, 2018 totaled $66,518.

16. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Columbus Foundation holds in trust a money market account valued at $20,571 at June 30, 2018. 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 2018.

17. MANAGEMENT AGREEMENT WITH THE CHARLES SCHOOL (TCS)

Effective July 1, 2007, TGS entered into a two-year Management Agreement (the Agreement) with TCS. The Agreement’s term ran through June 30, 2009 and was subsequently renewed on July 8, 2009 and modified on August 12, 2009 to cover the periods ending January 31, 2010 and December 31, 2010 respectively. On July 21, 2010, the TGS Board approved a modified agreement with TCS to commence July 1, 2010 through December 31, 2012, which further defined the roles of TGS and TCS in the agreement. In December 2012, the board approved the contract to continue to June 30, 2014. Since June of 2014, the Board has approved another one year renewal annually. Per the contract, TGS receives a base fee of three (3) percent of TCS’ state foundation, and reimbursement of all direct costs for expenses incurred under the Federal Title program. TGS also receives up to ninety-five (95) percent of TCS’ federal and state awards, after a minimum of five (5) percent is spent by TCS to pay its direct expenses. TCS management fee expense for the fiscal year total $2,502,109, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, $1,943,141 was for general fund related fees and $478,040 was for grant related reimbursements. The remainder of the expense was for base licensing fees in the amount of $80,928. Accounts receivable due from TGS in the amount of $19,089 is listed on the Statement of Net Position as a result of overpayment made to TCS.

18. MANAGEMENT AGREEMENT WITH GRAHAM ELEMENTARY AND MIDDLE SCHOOL (GEMS)

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, 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.

19. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2018, TGS 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. See below for the effect on net position as previously reported.

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 TGS.

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. These changes were incorporated in TGS's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

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 TGS.

Net Position, June 30, 2017	$	(12,501,107)
Adjustments:		
Net OPEB Liability		(2,792,265)
Deferred Outflow-Payments Subsequent to Measurement Date		2,491
Restated Net Position, July 1, 2017	$	(15,290,881)

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

20. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT

At June 30, 2018, TGS had ending net position of $(11,233,721), including the impact of GASB 68 and 75. Without the impact of GASB 68 and GASB 75, the School's net position is $(1,577,535). To address the issue of the deficit in net position, TGS is engaged in a variety of activities. There are weekly meetings held with the Dean of TGS to review expenses and reduce spending. TGS is also hiring a part time Budget Analyst to assist with financial planning. Enrollment sessions are held throughout the year at TGS and its affiliate schools to actively recruit and enroll students throughout the year. The increased enrollment from the affiliate schools will increase revenues to TGS to reduce the deficit. Lastly, TGS is active in fund raising and grant writing to help supplement its programs.

21. TAX EXEMPT STATUS

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

22. JOINTLY GOVERNED ORGANIZATION

META Solutions

Effective July 1, 2017, TGS became a participant in META (Metropolitan Educational Technology Association) Solutions. META Solutions is an association of public school districts throughout Ohio. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of META Solutions consists of the superintendent from 11 member districts. Financial information can be obtained from the Metropolitan Educational Technology Association, 100 Executive Drive, Marion, Ohio 43302.

23. SUBSEQUENT EVENT

Subsequent to year end, management contracts with TCS and GEMS schools were renewed for an additional one-year period ending June 30, 2019.

The Graham School
Franklin County, Ohio
Supplementary Information
Schedule of Management Company Expenses

For the fiscal year ended June 30, 2018, TGS incurred the following expenses on-behalf of TCS and GEMS:

Expenses	GEMS	TCS
Direct Expenses:		
Salaries & Wages		
Regular Instruction	$ 1,317,211	$ 1,048,980
Special Instruction	6,305	88,839
Other Instruction	214,238	0
Support Services	401,942	445,434
Employees' Benefits		
Regular Instruction	202,914	162,067
Special Instruction	930	13,726
Other Instruction	33,099	0
Support Services	56,379	68,609
Indirect Expenses:		
Overhead		
Support Services	535,317	440,674
Total Expenses	$ 2,768,335	$ 2,268,329

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

The Graham School
Franklin County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
School Employees Retirement System (SERS)					
School's Proportion of the Net Pension Liability	0.03029110%	0.02839550%	0.02708810%	0.02906700%	0.02906700%
School's Proportionate Share of the Net Pension Liability	$ 1,809,826	$ 2,078,289	$ 1,545,673	$ 1,471,064	$ 1,728,521
School's Covered Payroll	$ 1,031,357	$ 1,006,286	$ 1,117,489	$ 824,235	$ 944,566
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	175.48%	206.53%	138.32%	178.48%	183.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System (STRS)					
School's Proportion of the Net Pension Liability	0.04006600%	0.03822579%	0.03655546%	0.03467255%	0.03467255%
School's Proportionate Share of the Net Pension Liability	$ 9,517,764	$ 12,795,324	$ 10,102,860	$ 8,433,564	$ 10,046,006
School's Covered Payroll	$ 4,404,764	$ 3,996,086	$ 4,090,329	$ 3,811,400	$ 3,196,300
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.08%	320.20%	246.99%	221.27%	314.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

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

	2018	2017	2016	2015
School Employees Retirement System (SERS)				
Contractually Required Contribution	$ 136,613	$ 144,390	$ 140,880	$ 147,285
Contributions in Relation to the Contractually Required Contribution	(136,613)	(144,390)	(140,880)	(147,285)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 1,011,948	$ 1,031,357	$ 1,006,286	$ 1,117,489
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 659,816	$ 616,667	$ 559,452	$ 572,646
Contributions in Relation to the Contractually Required Contribution	(659,816)	(616,667)	(559,452)	(572,646)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 4,712,971	$ 4,404,764	$ 3,996,086	$ 4,090,329
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information.

	2014	2013	2012	2011	2010	2009
	$ 114,239	$ 130,728	$ 125,002	$ 7,458	$ 104,577	$ 50,691
	(114,239)	(130,728)	(125,002)	(7,458)	(104,577)	(50,691)
	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	$ 824,235	$ 944,566	$ 929,383	$ 59,332	$ 772,356	$ 515,152
	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
	$ 495,482	$ 415,519	$ 260,618	$ 285,926	$ 200,224	$ 195,193
	(495,482)	(415,519)	(260,618)	(285,926)	(200,224)	(195,193)
	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	$ 3,811,400	$ 3,196,300	$ 2,004,754	$ 2,199,431	$ 1,540,185	$ 1,501,485
	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information.

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The Graham School
Franklin County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	2018	2017
School Employees Retirement System (SERS)		
School's Proportion of the Net OPEB Liability	0.02798010%	0.02624012%
School's Proportionate Share of the Net OPEB Liability	$ 750,912	$ 747,940
School's Covered Payroll	$ 1,031,357	$ 1,006,286
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	72.81%	74.33%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
State Teachers Retirement System (STRS)		
School's Proportion of the Net OPEB Liability	0.04006600%	0.03822579%
School's Proportionate Share of the Net OPEB Liability	$ 1,563,277	$ 2,044,325
School's Covered Payroll	$ 4,404,764	$ 3,996,086
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.49%	51.16%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015
School Employees Retirement System (SERS)				
Contractually Required Contribution (1)	$ 6,701	$ 2,491	$ 2,399	$ 11,537
Contributions in Relation to the Contractually Required Contribution	(6,701)	(2,491)	(2,399)	(11,537)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 1,011,948	$ 1,031,357	$ 1,006,286	$ 1,117,489
OPEB Contributions as a Percentage of Covered Payroll (1)	0.66%	0.24%	0.24%	1.03%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 0	$ 0	$ 0	$ 0
Contributions in Relation to the Contractually Required Contribution	0	0	0	0
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School's Covered Payroll	$ 4,712,971	$ 4,404,764	$ 3,996,086	$ 4,090,329
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information.

	2014	2013	2012	2011	2010	2009
	$ 6,499	$ 12,574	$ 14,645	$ 17,575	$ 11,716	$ 28,826
	(6,499)	(12,574)	(14,645)	(17,575)	(11,716)	(28,826)
	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	$ 824,235	$ 944,566	$ 929,383	$ 59,332	$ 772,356	$ 515,152
	0.79%	1.33%	1.58%	29.62%	1.52%	5.60%
	$ 38,114	$ 31,963	$ 20,048	$ 21,994	$ 15,402	$ 15,015
	(38,114)	(31,963)	(20,048)	(21,994)	(15,402)	(15,015)
	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
	$ 3,811,400	$ 3,196,300	$ 2,004,754	$ 2,199,431	$ 1,540,185	$ 1,501,485
	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

See accompanying notes to the required supplementary information.

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
    - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
    - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disable member was updated to the following:
    - RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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February 26, 2019

To the Board of Directors
The Graham School
Franklin County, Ohio
3950 Indianola Avenue
Columbus, OH 43214

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Graham School, Franklin County, Ohio (the "School") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, as well as the accompanying schedule of management company expenses presented as supplementary information, and have issued our report thereon dated February 26, 2019, in which we noted the School restated their beginning net position to account for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits other than* Pensions". In addition, the School has suffered recurring losses from operations and has a net position deficit of $11,233,721, including the effect of net pension liability, net OPEB liability, and related accruals totaling $9,656,186, that raises substantial doubt about its ability to continue as a going concern.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rea & Associates, Inc.

Dublin, Ohio

OHIO AUDITOR OF STATE
KEITH FABER

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
APRIL 11, 2019