

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2011



Dave Yost • Auditor of State

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21
Independent Accountant's Report on Applying Agreed-Upon Procedures.....	23

THIS PAGE INTENTIONALLY LEFT BLANK



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

The Graham Expeditionary Middle School
Franklin County
140 East 16th Avenue
Columbus, Ohio 43201

To the Board:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Graham Expeditionary Middle School, Franklin County, Ohio, as of and for the year ended June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2012, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 other assurance.

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

Dave Yost
Auditor of State

January 18, 2012

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

Our discussion and analysis of The Graham Expeditionary Middle School (GEMS) financial performance provides an overall review of GEMS' financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at GEMS' 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 GEMS' financial performance.

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

FINANCIAL HIGHLIGHTS

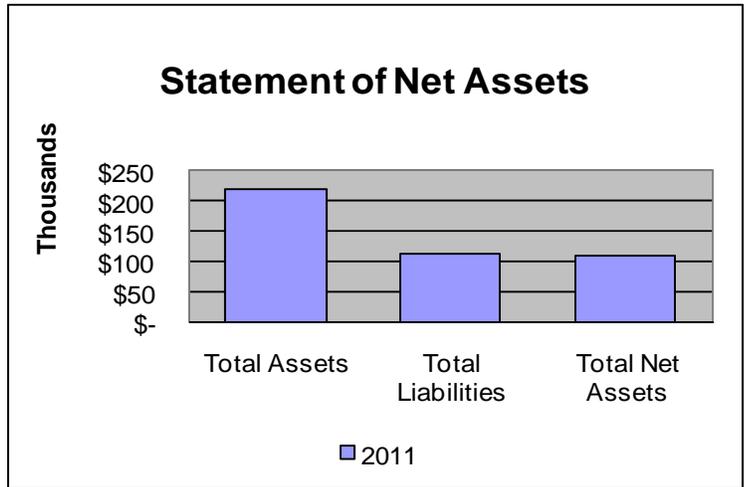
Key financial highlights for fiscal year 2011 are as follows:

- In total, net assets were \$108,227. This is due to total income being greater than operating expenses.
- Total assets were \$220,693. This was primarily due to cash and capital assets.
- Liabilities were \$112,466 which was the result of deferred revenue and accounts payable at year end.

USING THIS ANNUAL REPORT

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

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



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

GEMS uses an enterprise presentation for all of its activities.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

Statement of Net Assets

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

Table 1, below, is a summary of GEMS' net assets for fiscal year 2011.

(Table 1)
Statement of Net Assets

	<u>2011</u>
Assets	
Current Assets	\$ 107,956
Capital Assets, Net	<u>112,737</u>
Total Assets	<u><u>\$ 220,693</u></u>
Liabilities	
Current Liabilities	<u>\$ 112,466</u>
Net Assets	
Investment in Capital Assets	\$ 112,737
Unrestricted	<u>(4,510)</u>
Total Net Assets	<u><u>\$ 108,227</u></u>

Total assets were \$220,693, while total liabilities were \$112,446. Cash and cash equivalents were \$97,973 and capital assets, at net, were \$112,737. Intergovernmental receivables are \$9,983.

Statement of Revenues, Expenses and Change in Fund Net Assets

Table 2, below, demonstrates the net assets for fiscal year 2011, as well as a listing of revenues and expenses. This change in net assets is important because it tells the reader that, for GEMS as a whole, the financial position of GEMS has improved or diminished. The cause of this may be the result of many factors, some financial, some not. Non-financial factors include the current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

(Table 2)
Change in Net Assets

	2011
Operating Revenues	
State Aid	\$ 519,261
Food Service	3,859
Classroom Fees	1,310
Other Operating	2,055
Non-Operating Revenue	
Federal Grants	345,756
State Grants	4,871
Contributions & Donations	191,748
Investment Income	181
Insurance Proceeds	38,911
Total Revenues	1,107,952
Operating Expenses	
Purchased Services: Management Fees	513,710
Purchased Services: Rent and Property Services	46,902
Purchased Services: Professional Services	251,716
Purchased Services: Food Services	21,465
Purchased Services: Professional Development	11,469
Purchased Services: Other	12,971
Materials and Supplies	43,951
Depreciation	12,810
Other	22,660
Non-Operating Expenses	
Loss on Capital Assets	62,071
Total Expenses	999,725
Change in Net Assets	\$ 108,227

Operating revenues were \$526,486, which represents 48.0% of total revenue. Operating expenses were \$937,654, which represents 93.8% of total expenses. GEMS' most significant expense Purchased Services: Management Fees represents 51.4% of total expenses. The total comprises primarily management fees paid to the Graham School (TGS). The agreement, between GEMS and TGS, provides for GEMS to remit a specific percentage of certain revenues received to TGS to finance operations. Note 15, in the notes to the basic financial statements outlines this agreement.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

Budgeting Highlights

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

CAPITAL ASSETS

At the end of fiscal year 2011, GEMS had \$112,737 invested in capital assets, net of depreciation. The asset purchases were computers and equipment. For more information on capital assets, see Note 6 in the notes to the basic financial statements.

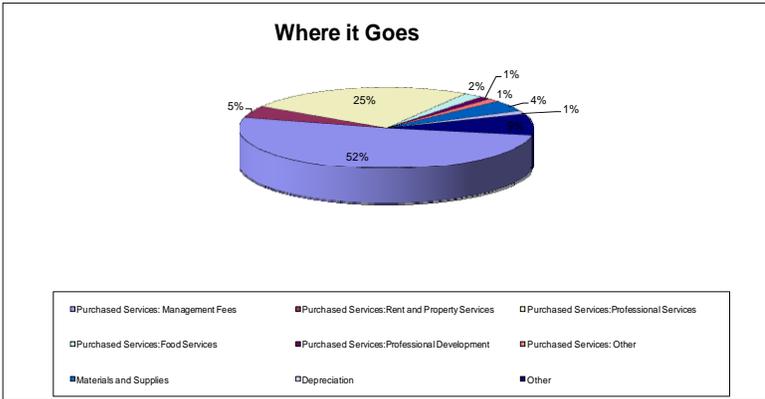
DEBT

At June 30, 2011, GEMS had \$112,466 in total liabilities, but no long-term debt.

OTHER INFORMATION

For the Future

In conclusion, GEMS has committed itself to financial excellence. GEMS occupies a leased building from the Columbus City School District on Brentnell Ave, effective July 1, 2010. Note 11 describes the conditions and terms of the lease agreement. This building is expected to ensure that the GEMS can meet its enrollment projections and give students a positive learning environment. GEMS received donations and private grants to assist in financing the operations and development of curriculum; this practice is expected to continue.



CONTACTING THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the GEMS School's finances and to show its accountability for the money received. If you have questions about this report or need additional information contacts Ms. Cheryl Long of The Graham Expeditionary Middle School, 140 East 16th Avenue, Columbus, Ohio 43201 or e-mail at cheryl@thegrahamschool.org.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**Statement of Net Assets
June 30, 2011**

Assets

Current Asset

Cash and Cash Equivalents	\$ 97,973
Intergovernmental Receivable	<u>9,983</u>

Total Current Assets	107,956
----------------------	---------

Noncurrent Assets

Depreciable Capital Assets, net	<u>112,737</u>
---------------------------------	----------------

Total Assets	<u>\$ 220,693</u>
--------------	-------------------

Liabilities

Current Liabilities

Accounts Payable	\$ 82,799
Deferred Revenue	<u>29,667</u>

Total Liabilities	<u>\$ 112,466</u>
-------------------	-------------------

Net Assets

Investment in Capital Assets, Net of Related Debt	112,737
Unrestricted	<u>(4,510)</u>

Total Net Assets	<u>\$ 108,227</u>
------------------	-------------------

See accompanying notes to the basic financial statements

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**Statement of Revenues,
Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011**

Operating Revenues	
State Aid	\$ 519,261
Food Service	3,859
Classroom Fees	1,310
Other Operating	<u>2,055</u>
Total Operating Revenues	<u>526,485</u>
Operating Expenses	
Purchased Services: Management Fees	513,710
Purchased Services: Rent and Property Services	46,902
Purchased Services: Professional Services	251,716
Purchased Services: Food Services	21,465
Purchased Services: Professional Development	11,469
Purchased Services: Other	12,971
Materials and Supplies	43,951
Depreciation	12,810
Other	<u>22,660</u>
Total Operating Expenses	<u>937,654</u>
Operating Loss	<u>(411,169)</u>
Non-Operating Revenues (Expenses)	
Federal Grants	345,756
State Grants	4,871
Insurance Proceeds	38,911
Contributions & Donations	191,748
Investment Income	181
Loss on Capital Assets	<u>(62,071)</u>
Total Non-Operating Revenues (Expenses)	<u>519,396</u>
Change in Net Assets	<u>108,227</u>
Net Assets Beginning of Year	-
Net Assets End of Year	<u>\$ 108,227</u>

See accompanying notes to the basic financial statements

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$ 519,261
Cash Received from Other Operating Sources	7,224
Cash Payments to Suppliers for Goods and Services	(819,385)
Other Cash Payments	<u>(22,660)</u>

Net Cash Used for Operating Activities (315,560)

Cash Flows from Noncapital Financing Activities

Cash Received from Grants	340,644
Cash Received from Contributions and Donations	221,415
Cash Received from Insurance Proceeds	<u>38,911</u>

Net Cash Provided by Noncapital Financing Activities 600,970

Cash Flows from Capital and Related Financing Activities

Cash Payments for Capital Assets	<u>(187,618)</u>
----------------------------------	------------------

Net Cash Used in Capital Financing Activities (187,618)

Cash Flows from Investing Activities

Interest Income	181
-----------------	-----

Net Cash Provided by Investing Activities 181

Net Increase in Cash and Cash Equivalents 97,973

Cash and Cash Equivalents Beginning of Year -

Cash and Cash Equivalents End of Year \$ 97,973

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011
(Continued)**

**Reconciliation of Operating Loss to Net Cash
Used in Operating Activities**

Operating Loss	\$ (411,169)
----------------	--------------

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

Depreciation	12,810
--------------	--------

Changes in Assets and Liabilities:

Accounts Payable	82,799
------------------	--------

Net Cash Used in Operating Activities	<u>\$ (315,560)</u>
---------------------------------------	---------------------

See accompanying notes to the basic financial statements

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

1. DESCRIPTION OF THE REPORTING ENTITY

The Graham Expeditionary Middle School (GEMS) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. GEMS applied for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, but did not receive this status until October 27, 2011. Management is not aware of any course of action or series of events that have occurred that might adversely affect GEMS' tax-exempt status. GEMS' 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. GEMS, which is part of the State's education program, is independent and is nonsectarian in its programs, admission policies, employment practices, and all other operations. GEMS may acquire facilities as needed and contract for any services necessary for the operation of the school.

GEMS was approved for operation under a contract with the Educational Service Center of Central Ohio (the Sponsor) for a period of two years commencing July 1, 2010. The Sponsor is responsible for evaluating the performance of GEMS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

GEMS operates under the direction of a five-member governing board. The governing board is responsible for carrying out the provisions of the contract, which include but are not limited to, state mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

GEMS contracts with The Graham School (TGS) for most of its day-to-day activities. (See Note 15)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

GEMS' basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

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

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

C. Budgetary Process

Unlike traditional public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided for in the sponsorship agreement. The contract between GEMS and its Sponsor does not prescribe an annual budget requirement, as defined in Ohio Revised Code Chapter 5705. However, GEMS prepares a five-year forecast, which is to be updated semi-annually, as required by the sponsorship agreement.

D. Cash and Cash Equivalents

All cash received by GEMS is deposited in accounts in GEMS's name and reflected as Cash and Cash Equivalents on the Statement of Net Assets. GEMS did not have any investments during fiscal year 2011.

E. Prepaid Items

GEMS records payments made to vendors for services that will benefit future periods as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is recorded in the year in which the services are consumed. No prepaids were recorded at June 30, 2011.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements (deletions) during the year. Donated capital assets are recorded at their fair market values as of the date received. GEMS' 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 useful life are not. Interest incurred during the construction of capital assets is also capitalized. Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to capital assets are depreciated over the remaining useful lives. Buildings are depreciated over forty years.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

GEMS currently participates in the state foundation program. Revenue received from this program is recognized as operating revenue (foundation payments) in the accounting period in which it is earned and becomes measurable. Funding from this program is listed as "State Aid" on the Statement of Revenues, Expenses, and Change in Net Assets.

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

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

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

Amounts awarded under the above programs for the 2011 school year totaled \$869,888.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by GEMS or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. GEMS does not have any restricted net assets at June 30, 2011, but the Statement of Net Assets reports \$112,737 in Invested in Capital Assets.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of GEMS. Operating expenses are necessary costs incurred to provide the service that is the primary activity of GEMS. 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 the accompanying notes. Actual results may differ from those estimates.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

3. DEPOSITS AND INVESTMENTS

Deposits with Financial Institutions

Deposits: The carrying value of GEMS's deposits are \$97,973, and the bank balance totaled \$123,832, of which all was covered by federal depository insurance based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011.

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

4. INTERGOVERNMENTAL RECEIVABLE

At June 30, 2011, GEMS had an intergovernmental receivable in the amount of \$9,983 for monies for food service and the final grant payment of the Public Charter School Grant due, but not received by year end. The intergovernmental receivable is collectible in the next operating cycle.

5. ACCOUNTS PAYABLE

Accounts Payable consists of obligations at June 30, 2011 incurred during the normal course of conducting operations.

6. CAPITAL ASSETS

For the year ended June 30, 2011, GEMS' capital assets consisted of the following:

	Balance	Balance	Balance	Balance
	<u>06/30/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>06/30/11</u>
Capital Assets Being Depreciated:				
Computers & Equipment	\$ -	\$187,618	\$(65,300)	\$ 122,318
Total Capital Assets Being Depreciated	<u>-</u>	<u>187,618</u>	<u>(65,300)</u>	<u>122,318</u>
Less Accumulated Depreciation:				
Computers & Equipment	<u>-</u>	<u>(15,301)</u>	<u>5,720</u>	<u>(9,581)</u>
Total Accumulated Depreciation	<u>-</u>	<u>(15,301)</u>	<u>5,720</u>	<u>(9,581)</u>
Total Capital Assets Being Depreciated Net	<u>\$ -</u>	<u>\$172,317</u>	<u>\$(59,580)</u>	<u>\$ 112,737</u>

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

7. RISK MANAGEMENT

A. Insurance Coverage

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

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

The amount of settlements did not exceed insurance coverage for fiscal year 2011.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and GEMS is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B and Health Care Fund.) of the System. For the fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. GEMS contributions to SERS for the fiscal year ending June 30, 2011 was zero; all contributions were paid and reported under TGS.

B. State Teachers Retirement Systems (STRS)

Plan Description - GEMS participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plans. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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 - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The GEMS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

GEMS' required contributions for pension obligations to STRS for the fiscal year ending June 30, 2011 was \$0; all employee contributions were paid and reported under TGS.

C. Social Security System

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

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

9. POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

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

Medicare Part B

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

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal 2011, the actuarial required allocation is .76 percent. GEMS contributions for the year ending June 30, 2011 was zero. All contributions were paid and reported under The Graham School.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with the Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43 percent. An additional health care surcharge on employers is collected for employees earning less than the actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For the fiscal year June 30, 2011, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. GEMS contributions assigned to health care for the year ending June 30, 2011 was zero; all contributions were paid and reported under TGS.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

9. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

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

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

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The GEMS' contribution for health care for the fiscal year ending June 30 2011 was \$0. These amounts were paid by TGS as part of both the Graham and GEMS contribution to the Health Care Fund.

10. CONTINGENCIES

A. Grants

GEMS receives financial assistance from federal and state agencies in the form of grants. GEMS was awarded the Public Charter School Program grant in the amount of \$255,000. 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 GEMS at June 30, 2011.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

10. CONTINGENCIES (Continued)

B. Full-Time Equivalency Reviews

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by GEMS. These reviews are conducted to ensure GEMS is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review has been conducted for the 2010-2011 school year. The amount owed and paid to GEMS was \$9,983 and has been adjusted to the accompanying financial statements presented.

11. OPERATING LEASES – LESSEE DISCLOSURE

A. Educational Facility

GEMS sub-leases a building located at 1270 Brentnell Avenue from the Charles School at Ohio Dominican University. The term of the lease is from September 1, 2010 to August 31, 2011 unless terminated earlier for \$4,000 (\$48,000 annually).

12. RELATED PARTY TRANSACTION

Charles E. Graham serves on the board of GEMS and The Charles School at Ohio Dominican University. He is the cousin of Eileen Meers who serves as the superintendent and founder of GEMS.

13. TAX EXEMPT STATUS

GEMS was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization, subsequent to year end on October 2, 2011. Management is not aware of any course of action or series of events that might adversely affect GEMS' tax exempt status.

14. SPONSOR

On July 1, 2010, a sponsorship agreement was executed between GEMS and the Educational Service Center of Central Ohio for a two (2) year period beginning July 1, 2010. The school shall pay annually 2.5% of its state funding per pupil as provided by the State of Ohio. For fiscal year ending June 30, 2011, GEMS paid \$11,493. The payments are reported in the Statement of Revenues, Expenses, and Changes in Net Assets as part of Purchased Services – Professional Services.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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

15. MANAGEMENT AGREEMENT WITH THE GRAHAM SCHOOL

Effective July 1, 2010, GEMS entered into a two year Management Agreement (the Agreement) with TGS. The Agreement's terms run through June 30, 2012. Per the contract, TGS receives up to ninety-five (95) percent of GEMS' federal and state awards, after a minimum of five (5) percent is spent by GEMS to pay its direct expenses. GEMS management fee expense for the fiscal year total \$513,710, as reported in the Statement of Revenues, Expenses and Changes in Net Assets. Of this fee, \$ 292,689 was for general fund related fees and \$221,021 was for grant related reimbursements

16. MANAGEMENT COMPANY EXPENSES

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

Expenses	2011
Direct Expenses:	
Salaries & wages	\$335,338
Employees' benefits	93,003
Indirect Expenses:	
Overhead	<u>142,298</u>
Total Expenses	\$570,639

Overhead charges are assigned to the 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 GEMS. 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.

17. SUBSEQUENT EVENTS

On October 27, 2011, the GEMS school received its official letter of exemption from taxes. Also, on August 1, 2011, the GEMS school signed a lease for a building from the Columbus City School District, commencing July 1, 2011 through June 30, 2021, with monthly rent of \$3,539.

18. CHANGE IN ACCOUNTING PRINCIPLES

The School has implemented Government Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The implementation of this statement did not result in any changes to the School's financial statements.

19. LOSS ON CAPITAL ASSETS

The School incurred losses on capital assets in the amount of \$62,071 due to equipment being stolen from the School. The loss has been reflected on the financial statements.



Dave Yost • Auditor of State

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

The Graham Expeditionary Middle School
Franklin County
140 East 16th Avenue
Columbus, Ohio 43201

To the Board:

We have audited the financial statements of The Graham Expeditionary Middle School, Franklin County, Ohio (the School) as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 18, 2012. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated January 18, 2012.

We intend this report solely for the information and use of the audit committee, management, the Board, the School's sponsor (the Educational Service Center of Central Ohio), and others within the School. We intend it for no one other than these specified parties.

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

Dave Yost
Auditor of State

January 18, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURE

The Graham Expeditionary Middle School
Franklin County
140 East 16th Avenue
Columbus, Ohio 43201

To the Board :

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

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

1. The Board approved an anti-harassment policy on August 16, 2010; however, we noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

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

This report is intended solely for the information and use of the Board and School's Sponsor (the Educational Service Center of Central Ohio), and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 18, 2012

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

This page intentionally left blank.



Dave Yost • Auditor of State

THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 20, 2012