

Dave Yost • Auditor of State



THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY

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# 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, 2012 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 June 30, 2012, and the respective changes in its financial position and its cash flows, thereof 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 March 13, 2013, 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

March 13, 2013

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(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, 2012. 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.

**FINANCIAL HIGHLIGHTS**

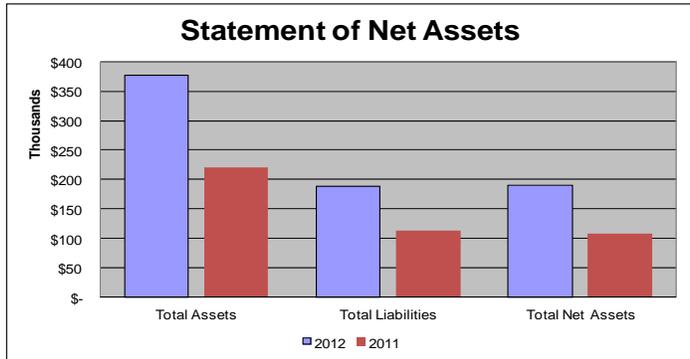
Key financial highlights for fiscal year 2012 are as follows:

- In total, net assets increased by \$81,213. This is due to total income being greater than operating expenses.
- Total assets increased by \$156,507. This was primarily due to an increase in cash and capital assets from the previous year.
- Liabilities were \$187,760, an increase of \$75,294, which was the result of increased accounts payable from the previous year.

**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 2012. 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, 2012  
(UNAUDITED)**

**Statement of Net Assets**

The Statement of Net Assets answers the question of how GEMS did financially during 2012. 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 2012 and 2011.

(Table 1)  
**Statement of Net Assets**

	2012	2011
<b>Assets</b>		
Current Assets	\$ 186,324	\$ 107,956
Capital Assets, Net	190,876	112,737
Total Assets	\$ 377,200	\$ 220,693
<b>Liabilities</b>		
Current Liabilities	\$ 187,760	\$ 112,466
<b>Net Assets</b>		
Investment in Capital Assets	\$ 190,876	\$ 112,737
Unrestricted	(1,436)	(4,510)
Total Net Assets	\$ 189,440	\$ 108,227

Total assets were \$377,200, an increase of 70.9% from the prior year due to an increase in intergovernmental receivables and capital assets. Total liabilities were \$187,760, an increase of 66.9% from the prior year due to an increase in accounts payable. Cash and cash equivalents were \$6,605 and capital assets, at net, were \$190,876. Intergovernmental receivables were \$179,719.

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

Table 2, below, demonstrates the net assets for fiscal year 2012, as well as listing 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, 2012  
(UNAUDITED)**

(Table 2)

**Change in Net Assets**

	2012	2011
<b>Operating Revenues</b>		
State Aid	\$ 998,885	\$ 519,261
Food Service	4,851	3,859
Classroom Fees	1,965	1,310
Other Operating	33,349	2,055
<b>Non-Operating Revenue</b>		
Federal Grants	452,589	345,756
State Grants	444	4,871
Contributions & Donations	31,816	191,748
Investment Income	60	181
Insurance Proceeds	-	38,911
Total Revenues	1,523,959	1,107,952
<b>Operating Expenses</b>		
Purchased Services: Management Fees	734,904	513,710
Purchased Services: Rent and Property Services	99,644	46,902
Purchased Services: Professional Services	276,372	251,716
Purchased Services: Food Services	49,940	21,465
Purchased Services: Professional Development	69,431	11,469
Purchased Services: Other	83,825	12,971
Materials and Supplies	91,864	43,951
Depreciation	29,167	12,810
Other	7,599	22,660
<b>Non-Operating Expenses</b>		
Loss on Capital Assets	0	62,071
Total Expenses	1,442,746	999,725
Change in Net Assets	\$ 81,213	\$ 108,227

Operating revenues were \$1,039,050, which represents 68.2% of total revenue due to an increase in enrollment, which resulted in increased state aid received. Operating expenses were \$1,442,746, which represents 100% of total expenses. GEMS' most significant expense Purchased Services: Management Fees represents 50.9 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, 2012  
(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 2012, GEMS had \$190,876 invested in capital assets, net of depreciation. The assets increased due to purchases of computers and equipment, as well as building improvements. For more information on capital assets, see Note 6 in the notes to the basic financial statements.

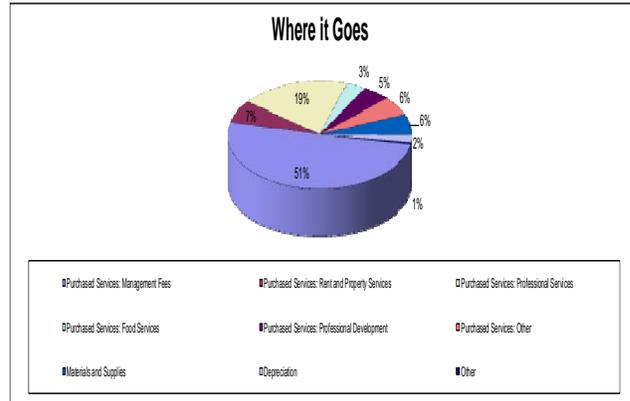
**DEBT**

At June 30, 2012, GEMS had \$187,760 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 East Sixteenth Avenue, effective July 1, 2011. Note 11 describes the conditions and terms of the lease agreement. This building is expected to ensure that 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 contact Ms. Cheryl Long of The Graham Expeditionary Middle School, 140 East Sixteenth Avenue, Columbus, Ohio 43201 or e-mail at [cheryl@thegrahamschool.org](mailto:cheryl@thegrahamschool.org).

THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY

STATEMENT OF NET ASSETS  
JUNE 30, 2012

**Assets**

Current Assets

Cash and Cash Equivalents	\$ 6,605
Intergovernmental Receivable	<u>179,719</u>

Total Current Assets	186,324
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Noncurrent Assets

Depreciable Capital Assets, net	<u>190,876</u>
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Total Assets	<u>\$ 377,200</u>
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**Liabilities**

Current Liabilities

Accounts Payable	<u>\$ 187,760</u>
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Total Liabilities	<u>\$ 187,760</u>
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**Net Assets**

Investment in Capital Assets	190,876
Unrestricted	<u>(1,436)</u>

Total Net Assets	<u>\$ 189,440</u>
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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, 2012**

<b>Operating Revenues</b>	
State Aid	\$ 998,885
Food Service	4,851
Classroom Fees	1,965
Other Operating	<u>33,349</u>
Total Operating Revenues	1,039,050
<b>Operating Expenses</b>	
Purchased Services: Management Fees	734,904
Purchased Services: Rent and Property Services	99,644
Purchased Services: Professional Services	276,372
Purchased Services: Food Services	49,940
Purchased Services: Professional Development	69,431
Purchased Services: Other	83,825
Materials and Supplies	91,864
Depreciation	29,167
Other	7,599
<b>Total Operating Expenses</b>	<u>1,442,746</u>
<b>Operating Loss</b>	<u>(403,696)</u>
<b>Non-Operating Revenues</b>	
Federal Grants	452,589
State Grants	444
Contributions & Donations	31,816
Investment Income	<u>60</u>
<b>Total Non-Operating Revenues</b>	<u>484,909</u>
<b>Change in Net Assets</b>	<u>81,213</u>
<b>Net Assets Beginning of Year</b>	108,227
<b>Net Assets End of Year</b>	<u><u>\$ 189,440</u></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, 2012**

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

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$ 998,885
Cash Received from Other Operating Sources	40,165
Cash Payments to Suppliers for Goods and Services	(1,301,020)
Other Cash Payments	<u>(7,599)</u>

Net Cash Used for Operating Activities (269,569)

**Cash Flows from Noncapital Financing Activities**

Cash Received from Grants	283,298
Cash Received from Contributions and Donations	<u>2,149</u>

Net Cash Provided by Noncapital Financing Activities 285,447

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

Cash Payments for Capital Assets	<u>(107,306)</u>
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Net Cash Used for Capital and Related Financing Activities (107,306)

**Cash Flows from Investing Activities**

Interest Income	<u>60</u>
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Net Cash Provided by Investing Activities 60

**Net Decrease in Cash and Cash Equivalents** (91,368)

**Cash and Cash Equivalents Beginning of Year** 97,973

**Cash and Cash Equivalents End of Year** \$ 6,605

The GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY

STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012  
(Continued)

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

Operating Loss \$ (403,696)

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

Depreciation 29,167

Changes in Assets and Liabilities:

Accounts Payable 104,960

Net Cash Provided by Operating Activities \$ (269,569)

See accompanying notes to the basic financial statements

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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 is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, as of 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. This contract was renewed through June 30, 2014.

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 Change 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, 2012  
(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 2012.

**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 prepaid items were recorded at June 30, 2012.

**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. The capitalization threshold is \$1,000. Donated capital assets are recorded at their fair market values as of the date received.

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

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, 2012  
(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 2012 school year totaled \$1,451,918.

**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. GEMS does not have any restricted net assets at June 30, 2012, but the Statement of Net Assets reports \$190,876 Invested in Capital Assets. The School applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**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, 2012  
(continued)**

**3. DEPOSITS**

**Deposits with Financial Institutions**

**Deposits:** The carrying value of GEMS's deposits are \$6,605, and the bank balance totaled \$70,155, 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, 2012.

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, 2012, GEMS had an intergovernmental receivable in the amount of \$179,719 for monies for food service and other federal grants, including 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, 2012 incurred during the normal course of conducting operations.

**6. CAPITAL ASSETS**

For the year ended June 30, 2012, GEMS' capital assets consisted of the following:

	<b>Balance</b>			<b>Balance</b>
	<b><u>6/30/2011</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>6/30/2012</u></b>
<b>Capital Assets Being Depreciated:</b>				
Computers & Equipment	\$122,318	\$100,937	\$ -	\$ 223,255
Improvements	-	6,370	-	6,370
<b>Total Capital Assets Being Depreciated</b>	<u>122,318</u>	<u>107,307</u>	<u>-</u>	<u>229,625</u>
<b>Less Accumulated Depreciation:</b>				
Computers & Equipment	(9,581)	(28,117)	-	(37,698)
Improvements	-	(1,051)	-	(1,051)
<b>Total Accumulated Depreciation</b>	<u>(9,581)</u>	<u>(29,168)</u>	<u>-</u>	<u>(38,749)</u>
<b>Total Capital Assets Being Depreciated Net</b>	<u>\$112,737</u>	<u>\$ 78,139</u>	<u>\$ -</u>	<u>\$ 190,876</u>

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012  
(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 2012, 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 the past 2 years. There has not been a significant reduction in coverage from the prior year.

**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](http://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, 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 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 years ending June 30, 2012 and 2011 were 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](http://www.strsoh.org).

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012  
(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, 2012, plan members were required to contribute 10 percent of their annual covered salaries. 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 years ending June 30, 2012 and 2011 were zero; 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, 2012, no employee has elected to participate in Social Security.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012  
(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 reimburses 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 2012 was \$99.90; 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 2012, the actuarial required allocation is .75 percent. GEMS contributions for the years ending June 30, 2012 and 2011 were 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, 2012, the health care allocation is .55 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, 2012, 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 years ending June 30, 2012 and 2011 were zero. All employee contributions were paid and reported under TGS.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012  
(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](http://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](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. GEMS' contributions for health care for the fiscal years ending June 30 2012 and 2011 were zero. These amounts were paid by TGS as part of both The Graham School and GEMS contributions 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 \$195,000. 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 in the overall financial position of GEMS at June 30, 2012.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012  
(continued)**

**10. CONTINGENCIES (continued)**

**B. Full-Time Equivalency Reviews**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency calculations made by the School. These reviews are conducted to ensure the School is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. A review has been conducted for the 2011-2012 school year. The adjustments for FTE did not have a material effect on the accompanying financial statements presented.

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The School received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School at June 30, 2012, if applicable, cannot be determined at this time.

**11. OPERATING LEASES – LESSEE DISCLOSURE**

**A. Educational Facility**

GEMS leases a building located at 140 East Sixteenth Avenue from the Columbus City Schools. The term of the lease is from July 1, 2011 to June 30, 2021. The initial base rent for fiscal year 2012 is \$3,539.60 (\$30,086.56 annually) with an increase to \$7,079.19 (\$84,950.28 annually) for the years thereafter. Total rent expense for fiscal year 2012 was \$13,080.81 due to property related expenses paid for the school.

**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 as of October 27, 2011. Management is not aware of any course of action or series of events that might adversely affect GEMS' tax exempt status.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012  
(continued)**

**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, 2012, GEMS paid \$18,093.20. The payments are reported in the Statement of Revenue, Expenses, and Change in Net Assets as part of Purchased Services – Professional Services.

**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 ran 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 \$734,904, as reported in the Statement of Revenues, Expenses and Changes in Net Assets. Of this fee, \$588,338 was for general fund related fees and \$146,566 was for grant related reimbursements.

**16. MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2012, TGS paid the following expenses on-behalf of the GEMS:

<b>Expenses</b>	<b>2012</b>
<b>Direct Expenses:</b>	
Salaries & wages	\$699,929
Employees' benefits	181,448
<b>Indirect Expenses:</b>	
Overhead	<u>113,728</u>
<b>Total Expenses</b>	<b>\$995,105</b>

Overhead charges are assigned to GEMS based on a percentage of full-time equivalent student enrollment. These charges represent the indirect cost of services provided in the operation of 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.



# 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, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 13, 2013. 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 March 13, 2013.

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

March 13, 2013



# 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 cursive script that reads "Dave Yost".

**Dave Yost**  
Auditor of State

March 13, 2013

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506  
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# 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  
JANUARY 9, 2014**