

The Graham Elementary and Middle School

Franklin County, Ohio

Audited Financial Statements
for the Fiscal Year Ended June 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER



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

We have reviewed the *Independent Auditor's Report* of the Graham Elementary and Middle School, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2018 through June 30, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Graham Elementary and Middle School is responsible for compliance with these laws and regulations.

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

Keith Faber
Auditor of State
Columbus, Ohio

January 27, 2020

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**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Statements of Net Position.....	7
Statement of Revenues, Expenses and Changes in Net Position.....	8
Statement of Cash Flows	9
Notes to the Basic Financial Statements	11
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	18

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December 27, 2019

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Graham Elementary and Middle School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2019, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Rea & Associates, Inc.

Dublin, Ohio

Graham Elementary and Middle School
Franklin County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

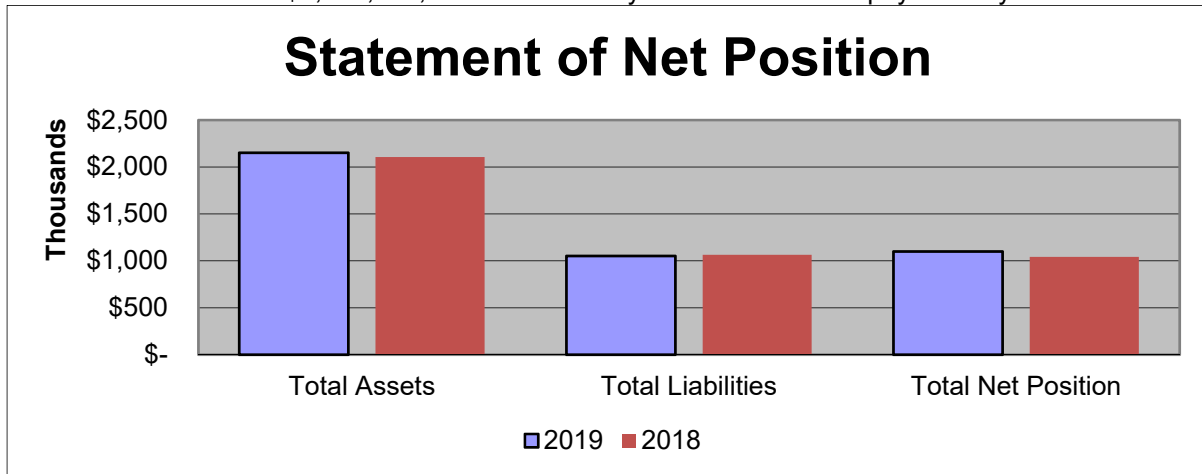
Our discussion and analysis of The Graham Elementary and Middle School (“GEMS”) financial performance provides an overall review of GEMS’ financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at GEMS’ financial performance as a whole; readers 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 2019 are as follows:

- In total, net position increased by \$57,017 or 5.5%. This is due to an increase in receivables and decrease in notes payable.
- Total assets increased by \$46,595 or 2.2%. This was primarily due to increases in receivables.
- Liabilities were \$1,052,725, which was mostly the result of notes 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 Position, a Statement of Revenues, Expenses, and Change in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how GEMS did financially during fiscal year 2019. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

Graham Elementary and Middle School
Franklin County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

These statements report GEMS' net position and changes in net position. This change in net position 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.

Statement of Net Position

The Statement of Net Position answers the question of how GEMS did financially during 2019. This statement includes all assets and liabilities, financial and capital, as well as 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 position for fiscal year 2019 and 2018.

(Table 1)
Statement of Net Position

	2019	2018
Assets		
Current Assets	\$ 766,236	\$ 700,680
Capital Assets, Net	1,385,889	1,404,850
Total Assets	2,152,125	2,105,530
Liabilities		
Current Liabilities	82,441	55,596
Long-Term Liabilities	970,284	1,007,551
Total Liabilities	1,052,725	1,063,147
Net Position		
Net Investment in Capital		
Assets	378,338	361,687
Unrestricted	721,062	680,696
Total Net Position	\$ 1,099,400	\$1,042,383

Total assets were \$2,152,125, while total liabilities were \$1,052,725. Cash and cash equivalents were \$101,032 and capital assets, at net, were \$1,385,889. Intergovernmental receivables were \$50,518. Accounts receivable were \$614,686. Current assets increased \$65,556 due to an increase in accounts and intergovernmental receivables, but cash decreased due to overpayment of management fees, which created an offsetting increase in accounts receivable.

Graham Elementary and Middle School
Franklin County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

Statement of Revenues, Expenses and Change in Net Position

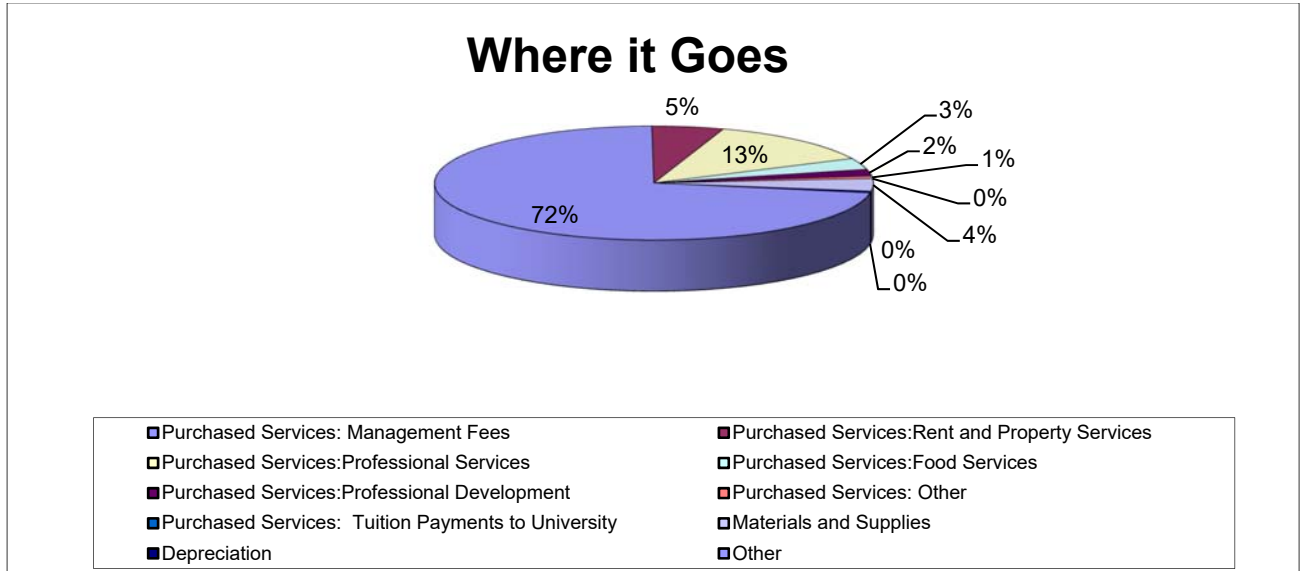
Table 2 below demonstrates the net position for fiscal year 2019, as well as a listing of revenues and expenses. This change in net position is important because it tells the reader that, for GEMS as a whole, the financial position of GEMS has improved or diminished. The cause of this may be the result 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.

(Table 2)
Change in Net Position

	2019	2018
Operating Revenues		
State Aid	\$3,731,718	\$ 3,605,724
Casino Tax	22,692	20,803
Facilities Funding	84,203	82,508
Food Service	26,472	11,186
Other Operating	32,561	49,922
Non-Operating Revenue		
Grants	584,287	455,371
Investment Income	22	33
Contributions & Donations	16,727	35,523
Total Revenues	4,498,682	4,261,070
 Operating Expenses		
Purchased Services: Management Fees	3,166,794	2,835,670
Purchased Services: Property Services	232,245	176,787
Purchased Services: Professional Services	562,219	620,251
Purchased Services: Food Services	140,470	166,014
Purchased Services: Professional Development	82,640	46,616
Purchased Services: Other	31,773	92,806
Materials and Supplies	156,294	118,231
Depreciation	20,425	24,898
Other	391	46,165
Non-Operating Expenses		
Interest and Fiscal Charges	48,414	48,785
Total Expenses	4,441,665	4,176,223
 Change in Net Position	\$ 57,017	\$ 84,847

Operating revenues were \$3,897,646, which represents 87% of total revenue. Operating expenses were \$4,393,251, which represents 99% of total expenses. GEMS' most significant expense Purchased Services: Management Fees represents 71% 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 10 in the notes to the basic financial statements outline this agreement. Increases in both revenues and expenses are directly related to an increase in enrollment and additional grants.

Graham Elementary and Middle School
Franklin County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019



CAPITAL ASSETS

At the end of fiscal year 2019, GEMS had \$1,385,889 invested in capital assets, net of depreciation. The assets purchases were land, buildings, 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, 2019, GEMS had \$1,007,551 in notes payable. For more information, see Note 12 in the notes to the basic financial statements.

OTHER INFORMATION

For the Future

In conclusion, the School has committed itself to financial excellence. The School owns a building on East Sixteenth Avenue. This building is expected to ensure that the School can meet its enrollment projections and give students a positive learning environment. GEMS received donations and private grants to assist in financing the operations and development of curriculum; this practice is expected to continue.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

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

**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**Statement of Net Position
June 30, 2019**

Assets

Current Asset

Cash and Cash Equivalents	\$ 101,032
Accounts Receivable	614,686
Intergovernmental Receivable	<u>50,518</u>
Total Current Assets	<u>766,236</u>

Non-Current Assets

Depreciable Capital Assets, net	596,389
Non-Depreciable Capital Assets	<u>789,500</u>
Total Non-Current Assets	<u>1,385,889</u>

Total Assets	<u>2,152,125</u>
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Liabilities

Current Liabilities

Accounts Payable	16,082
Intergovernmental Payable	29,092
Notes Payable	<u>37,267</u>
Total Current Liabilities	<u>82,441</u>

Long-Term Liabilities:

Notes Payable	<u>970,284</u>
Total Liabilities	<u>1,052,725</u>

Net Position

Net Investment in Capital Assets	378,338
Unrestricted	<u>721,062</u>
Total Net Position	<u>\$ 1,099,400</u>

See accompanying notes to the basic financial statements

**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2019**

Operating Revenues	
State Aid	\$3,731,718
Casino Tax	22,692
Facilities Funding	84,203
Food Service	26,472
Other Operating	<u>32,561</u>
 Total Operating Revenues	 <u>3,897,646</u>
 Operating Expenses	
Purchased Services: Management Fees	3,166,794
Purchased Services: Property Services	232,245
Purchased Services: Professional Services	562,219
Purchased Services: Food Services	140,470
Purchased Services: Professional Development	82,640
Purchased Services: Other	31,773
Materials and Supplies	156,294
Depreciation	20,425
Other	<u>391</u>
 Total Operating Expenses	 <u>4,393,251</u>
 Operating Loss	 (495,605)
 Non-Operating Revenues (Expenses)	
Grants	584,287
Contributions & Donations	16,727
Interest and Fiscal Charges	(48,414)
Investment Income	<u>22</u>
 Total Non-Operating Revenues (Expenses)	 <u>552,622</u>
 Change in Net Position	 57,017
 Net Position Beginning of Year	 <u>1,042,383</u>
 Net Position End of Year	 <u><u>\$ 1,099,400</u></u>

See accompanying notes to the basic financial statements

**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$3,700,766
Cash Received from Other Operating Sources	59,033
Cash Payments to Suppliers for Goods and Services	(4,347,245)
Other Cash Payments	(391)
Net Cash Provided by Operating Activities	<u>(587,837)</u>

Cash Flows from Noncapital Financing Activities

Cash Received from Grants	550,877
Cash Received from Contributions and Donations	16,727
Net Cash Provided by Noncapital Financing Activities	<u>567,604</u>

Cash Flows from Investing Activities

Interest Income	<u>22</u>
Net Cash Provided by Investing Activities	<u>22</u>

Cash Flows from Capital and Related Financing Activities

Cash Payments for Capital Assets	(1,464)
Interest and Fiscal Charges Paid	(48,414)
Principal Payments-Notes Payable	(35,612)
Net Cash Used for Financing Activities	<u>(85,490)</u>

Net Decrease in Cash and Cash Equivalents	(105,701)
Cash and Cash Equivalents Beginning of Year	<u>206,733</u>
Cash and Cash Equivalents End of Year	<u><u>\$ 101,032</u></u>

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating Loss	\$ (495,605)
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Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities

Depreciation	20,425
Changes in Assets and Liabilities:	
Accounts Receivable	(135,460)
Intergovernmental Receivable (Operating)	(2,387)
Accounts Payable	(673)
Intergovernmental Payable	25,863
Net Cash Provided by Operating Activities	<u><u>\$ (587,837)</u></u>

See accompanying notes to the basic financial statements

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**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

1. DESCRIPTION OF THE REPORTING ENTITY

The Graham Elementary and 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. 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) commencing July 1, 2009. A three year extension has been approved ending on June 30, 2022. 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 10).

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. Following are the more significant of GEMS’ accounting policies.

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources and all liabilities and deferred inflows of resources are included on the Statement of Net Position. The operating statement presents increases and decreases in net position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of

**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

C. Budgetary Process

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

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 Position. GEMS did not have any investments during fiscal year 2019.

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.

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.

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

**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

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

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

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.

H. Net Position

Net position represents the difference between assets and liabilities. Invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The School does not have any net position restricted for enabling legislation.

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 ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

3. DEPOSITS AND INVESTMENTS

Deposits with Financial Institutions

Deposits: The carrying value of GEMS's deposits are \$101,032 and the bank balance totaled \$124,895, 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, 2019.

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

4. INTERGOVERNMENTAL RECEIVABLE AND ACCOUNTS RECEIVABLE

At June 30, 2019, GEMS had intergovernmental receivable in the amount of \$50,518 for monies for Foundation FTE audit, and other federal grants due, but not received by year end. The intergovernmental receivable is collectable in the next operating cycle. The School had an additional \$614,686 in accounts receivable due at June 30, 2019, due to an overpayment of calculated management fees resulting from the management company paying more expenses on-behalf of GEMS.

5. ACCOUNTS PAYABLE

Accounts payable of \$16,082 consists of obligations at June 30, 2019, incurred during the normal course of conducting operations.

6. CAPITAL ASSETS

For the year ended June 30, 2019, GEMS' capital assets consisted of the following:

	<u>Balance 6/30/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2019</u>
Capital Assets Not Being Depreciated:				
Land	\$ 789,500	\$ -	\$ -	\$ 789,500
Capital Assets Being Depreciated:				
Building	615,500		-	615,500
Computers & Equipment	295,188	1,464	-	296,652
Improvements	6,370	-	-	6,370
	<u>917,058</u>	<u>1,464</u>	<u>-</u>	<u>918,522</u>
Less Accumulated Depreciation:				
Building	(17,295)	(15,782)	-	(33,077)
Computers & Equipment	(278,043)	(4,643)	-	(282,686)
Improvements	(6,370)	(0)	-	(6,370)
	<u>(301,708)</u>	<u>(20,425)</u>	<u>-</u>	<u>(322,133)</u>
Total Capital Assets Being Depreciated, Net	<u>615,350</u>	<u>(18,961)</u>	<u>-</u>	<u>596,389</u>
Total Capital Assets, Net	<u>\$ 1,404,850</u>	<u>\$ (18,961)</u>	<u>\$ -</u>	<u>\$ 1,385,889</u>

**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

7. RISK MANAGEMENT

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 fiscal year 2019, 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 any of the past three years nor has there been any reduction in coverage from the prior year.

8. CONTINGENCIES

A. Grants

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

B. School Foundation

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the GEMS for fiscal year 2019.

As of the date of this report, all ODE adjustments for fiscal year 2019 have been completed.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2019 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

9. SPONSOR

On July 1, 2009, a sponsorship agreement was executed between the School and the Educational Service Center of Central Ohio for a five (5) year period beginning July 1, 2009. A three year extension has been approved ending on June 30, 2022. The School shall pay annually 3% of its state funding per pupil as provided by the State of Ohio. For fiscal year ending June 30, 2019, the School paid \$111,769.

10. MANAGEMENT AGREEMENT WITH THE GRAHAM SCHOOL (TGS)

Effective July 1, 2015, GEMS entered into a Management Agreement (the Agreement) with TGS. The Agreement's terms ran through June 30, 2016, and was subsequently renewed for an additional one year terms. In June, 2018, the Agreement was renewed for a three year term. Per the contract, TGS receives a base fee of three (3) percent of GEMS' state foundation, and reimbursement of all direct costs for expenses incurred under the Federal Title programs. TGS also receives ninety-five (95) percent of GEMS' remaining revenues after GEMS pays its direct expenses. GEMS management fee expense for the fiscal year was \$3,166,794, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$2,739,151 was for general fund related fees, and \$314,313 was for grant related reimbursements. The remainder of the expense was for base licensing fees in the amount of \$113,330.

11. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2019, TGS paid the following expenses on-behalf of the GEMS:

Expenses	GEMS
Direct Expenses:	
Salaries & wages	
Regular Instruction	\$ 1,229,103
Other Instruction	337,321
Support Services	443,901
Employees' benefits	
Regular Instruction	435,202
Other Instruction	116,439
Support Services	157,177
Indirect Expenses:	
Overhead	603,130
Total Expenses	\$ 3,322,273

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.

**THE GRAHAM ELEMENTARY AND MIDDLE SCHOOL
FRANKLIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

12. LONG-TERM OBLIGATIONS

The changes in the School's long-term obligations during fiscal year 2019 were as follows:

	Principal Outstanding 6/30/2018	Additions	Deductions	Principal Outstanding 6/30/2019	Amount Due in One Year
Direct Borrowing:					
Notes Payable	\$1,043,163	\$ -	\$ (35,612)	\$ 1,007,551	\$ 37,267

During 2017, the School entered into a loan with Huntington National Bank for the purchase of a new school building. The total amount of the loan was \$1,080,000 with an annual interest rate of 4.55% to be paid over a 10-year period and amortized over a 20-year period. The School has a balloon payment that is due in the tenth year. The Graham School and The Charles School of Ohio Dominican University act as guarantors of the loan. The loan agreement also includes a provision that in an event of default, outstanding amounts may become immediately due if GEMS is unable to make payment. The note is secured by an interest in the School's building.

Future principal obligations of the notes are as follows:

Fiscal Years Ending June 30,	Principal	Interest
2020	\$ 37,267	\$ 48,754
2021	38,999	46,874
2022	40,810	44,908
2023	42,707	42,850
2024	44,691	40,696
2025-2028	803,077	122,587
Total	<u>\$ 1,007,551</u>	<u>\$ 346,669</u>

13. SUBSEQUENT EVENTS

In September, 2019, GEMS approved a 2 year loan in the amount of \$75,000 for emergency building repairs with an annual interest rate of 7%.

December 27, 2019

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Graham Elementary and Middle School, Franklin County, Ohio (the School) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 27, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Dublin, Ohio

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OHIO AUDITOR OF STATE KEITH FABER



GRAHAM ELEMENTARY AND MIDDLE SCHOOL

FRANKLIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY, 6 2020**