

Dave Yost • Auditor of State

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of The Graham Expeditionary Middle School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2013, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider 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 to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of The Graham Expeditionary Middle School, Franklin County, Ohio, as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the 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 this presentation to include *Management's Discussion and Analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on 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.



Dave Yost
Auditor of State
Columbus, Ohio

March 19, 2014

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(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, 2013. 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 new 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

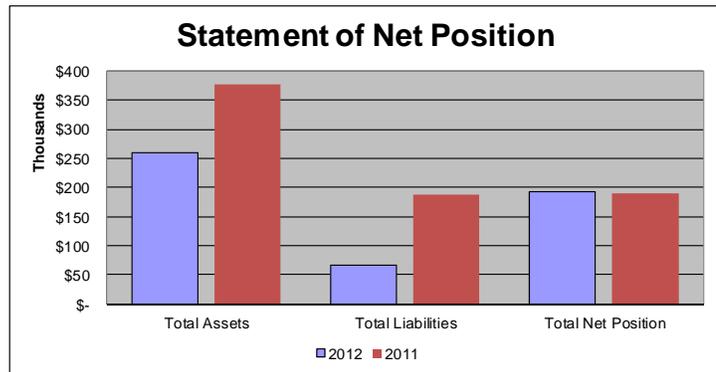
Key financial highlights for fiscal year 2013 are as follows:

- In total, net position increased by \$12,490. This is due to total income being greater than operating expenses.
- Total assets decreased by \$108,215. This was primarily due to intergovernmental receivable and capital assets.
- Liabilities were \$67,055 which was the result of accounts payable at year end.

USING THIS ANNUAL REPORT

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

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect how GEMS did financially during fiscal year 2013. 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 position and changes in that 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.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

Statement of Net Position

The Statement of Net Position answers the question of how GEMS did financially during 2013. 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 position for fiscal year 2013 compared to 2012.

(Table 1)
Statement of Net Position

	2013	2012
Assets		
Current Assets	\$ 122,851	\$ 186,324
Capital Assets, Net	146,134	190,876
Total Assets	\$ 268,985	\$ 377,200
Liabilities		
Current Liabilities	\$ 67,055	\$ 187,760
Net Position		
Net Investment in Capital		
Assets	\$ 146,134	\$ 190,876
Unrestricted	55,796	(1,436)
Total Net Position	\$ 201,930	\$ 189,440

Total assets were \$268,985, while total liabilities were \$67,055. Cash and cash equivalents were \$37,257 and capital assets, at net, were \$146,134. Intergovernmental receivables were \$27,967. Accounts receivable were \$57,627, which was the primary cause of the increase in overall net position due to monies owed back to GEMS from overpayments in management fees to The Graham School.

Statement of Revenues, Expenses and Change in Net Position

Table 2, below, demonstrates the net position for fiscal year 2013, 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.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(UNAUDITED)**

(Table 2)
Change in Net Position

	2013	2012
Operating Revenues		
State Aid	\$1,113,734	\$ 998,885
Casino Tax	3,431	
Food Service	8,338	4,851
Classroom Fees	1,713	1,965
Other Operating	84,300	33,349
Non-Operating Revenue		
Federal Grants	216,517	452,589
State Grants	960	444
Contributions & Donations	4,501	31,816
Investment Income	<u>21</u>	<u>60</u>
Total Revenues	1,433,515	1,523,959
Operating Expenses		
Purchased Services: Management Fees	836,257	734,904
Purchased Services: Rent and Property Services	189,865	99,644
Purchased Services: Professional Services	100,671	276,372
Purchased Services: Food Services	51,129	49,940
Purchased Services: Professional Development	50,659	69,431
Purchased Services: Other	96,460	83,825
Materials and Supplies	43,181	91,864
Depreciation	45,926	29,167
Other	<u>6,877</u>	<u>7,599</u>
Total Expenses	<u>1,421,025</u>	<u>1,442,746</u>
 Change in Net Position	 <u>\$ 12,490</u>	 <u>\$ 81,213</u>

Operating revenues were \$1,211,516, which represents 85% of total revenue. Foundation receipts increased due to a slight increase in enrollment, while other operating receipts increased due to lease payments received from the Graham Primary School, who rented a portion of the building for its first year of school. Operating expenses were \$1,421,025, which represents 100% of total expenses. GEMS' most significant expense Purchased Services: Management Fees represents 59% 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, 2013
(UNAUDITED)**

Budgeting Highlights

Unlike other 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 the 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 2013, GEMS had \$146,134 invested in capital assets, net of depreciation. The assets purchases were computers and equipment. For more information on capital assets, see Note 6 in the notes to the basic financial statements. Capital Assets decreased by \$44,742, which is primarily due to the depreciation cost and the School not purchasing as many new assets as in the prior year.

DEBT

At June 30, 2013, GEMS had \$67,055 in total liabilities, but no long-term debt.

OTHER INFORMATION

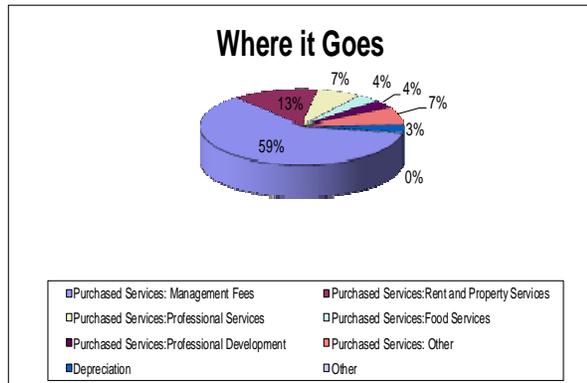
For the Future

In conclusion, GEMS has committed itself to financial excellence. GEMS occupies a leased building from the Columbus City School District on East Sixteenth Avenue Ave, effective July 1, 2011. Note 11 describes the conditions and terms of the lease agreement. This building is expected to ensure that the GEMS can meet its enrollment projections and give students a positive learning environment.

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

CONTACTING THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL'S FINANCIAL MANAGEMENT

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



**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2013**

Assets

Current Assets

Cash and Cash Equivalents	\$ 37,257
Accounts Receivable	57,627
Intergovernmental Receivable	<u>27,967</u>

Total Current Assets 122,851

Noncurrent Assets

Depreciable Capital Assets, net	<u>146,134</u>
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Total Assets \$ 268,985

Liabilities

Current Liabilities

Accounts Payable	<u>\$ 67,055</u>
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Total Liabilities \$ 67,055

Net Position

Net Investment in Capital Assets	146,134
Unrestricted	<u>55,796</u>

Total Net Position \$ 201,930

See accompanying notes to the basic financial statements

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Operating Revenues	
State Aid	\$1,113,734
Casino Tax	3,431
Food Service	8,338
Classroom Fees	1,713
Other Operating	<u>84,300</u>
 Total Operating Revenues	 1,211,516
 Operating Expenses	
Purchased Services: Management Fees	836,257
Purchased Services: Rent and Property Services	189,865
Purchased Services: Professional Services	100,671
Purchased Services: Food Services	51,129
Purchased Services: Professional Development	50,659
Purchased Services: Other	96,460
Materials and Supplies	43,181
Depreciation	45,926
Other	<u>6,877</u>
 Total Operating Expenses	 <u>1,421,025</u>
 Operating Loss	 <u>(209,509)</u>
 Non-Operating Revenues	
Federal Grants	216,517
State Grants	960
Contributions & Donations	4,501
Investment Income	<u>21</u>
 Total Non-Operating Revenues	 <u>221,999</u>
 Change in Net Position	 <u>12,490</u>
 Net Position Beginning of Year	 189,440
 Net Position End of Year	 <u>\$ 201,930</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, 2013**

Cash Flows from Operating Activities	
Cash Received from State of Ohio	\$1,117,165
Cash Received from Other Operating Sources	94,351
Cash Payments to Suppliers for Goods and Services	(1,546,554)
Other Cash Payments	<u>(6,877)</u>
Net Cash Used for Operating Activities	(341,915)
Cash Flows from Noncapital Financing Activities	
Cash Received from Grants	369,229
Cash Received from Contributions and Donations	<u>4,501</u>
Net Cash Provided by Noncapital Financing Activities	373,730
Cash Flows from Capital and Related Financing Activities	
Cash Payments for Capital Assets	<u>(1,184)</u>
Net Cash Used for Capital Financing Activities	(1,184)
Cash Flows from Investing Activities	
Interest Income	<u>21</u>
Net Cash Provided by Investing Activities	<u>21</u>
Net Increase in Cash and Cash Equivalents	<u>30,652</u>
Cash and Cash Equivalents Beginning of Year	6,605
Cash and Cash Equivalents End of Year	<u>\$ 37,257</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	\$ (209,509)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Depreciation	45,926
Changes in Assets and Liabilities:	
Accounts Receivable	(57,627)
Accounts Payable	<u>(120,705)</u>
Net Cash Used for Operating Activities	<u>\$ (341,915)</u>

See accompanying notes to the basic financial statements

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**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

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. 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 five years commencing July 1, 2009. The Sponsor is responsible for evaluating the performance of GEMS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 and all liabilities are included on the Statement of Net Position. The operating statement presents increases and decreases in net total position. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Unlike other 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 Position. GEMS did not have any investments during fiscal year 2013.

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, 2013.

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. GEMS' capitalization threshold is one thousand dollars.

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

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to capital assets are depreciated over the remaining useful lives.

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 Changes in Net Position.

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

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues (Continued)

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 program for the 2013 school year total \$1,334,642.

H. Net Position

Net position represents the difference between assets and liabilities. Net investment 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 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 position at June 30, 2013, but the Statement of Net Position reports \$146,134 in Net Investment in Capital Assets.

GEMS applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is 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.

3. DEPOSITS AND INVESTMENTS

Deposits with Financial Institutions

Deposits: The carrying value of GEMS's deposits are \$37,257, and the bank balance totaled \$55,388, 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, 2013.

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.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits with Financial Institutions (Continued)

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 AND ACCOUNTS RECEIVABLE

At June 30, 2013, GEMS had intergovernmental receivable in the amount of \$27,967 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 collectable in the next operating cycle.

The School had an additional \$57,627 in accounts receivable due at June 30, 2013 incurred during the normal course of operations.

5. ACCOUNTS PAYABLE

Accounts Payable consists of obligations at June 30, 2013 incurred during the normal course of operations.

6. CAPITAL ASSETS

For the year ended June 30, 2013, GEMS' capital assets consisted of the following:

	Balance			Balance
	<u>6/30/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2013</u>
Capital Assets Being Depreciated:				
Computers & Equipment	\$223,255	\$ 1,184	\$ -	\$ 224,439
Improvements	<u>6,370</u>	<u>-</u>	<u>-</u>	<u>6,370</u>
Total Capital Assets Being Depreciated	<u>229,625</u>	<u>1,184</u>	<u>-</u>	<u>230,809</u>
Less Accumulated Depreciation:				
Computers & Equipment	(37,696)	(44,654)	-	(82,350)
Improvements	<u>(1,051)</u>	<u>(1,274)</u>	<u>-</u>	<u>(2,325)</u>
Total Accumulated Depreciation	<u>(38,747)</u>	<u>(45,928)</u>	<u>-</u>	<u>(84,675)</u>
Total Capital Assets Being Depreciated Net	<u>\$190,878</u>	<u>\$ (44,744)</u>	<u>\$ -</u>	<u>\$ 146,134</u>

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 the year ended 2012, GEMS contracted with the Philadelphia Insurance Company for the following insurance coverage:

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

7. RISK MANAGEMENT (Continued)

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the 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 by the SERS' Retirement Board 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, 2013, the allocation to pension and death benefits is 13.10 percent. The remaining .90 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, 2013, 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.

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 GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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, 2013, plan members were required to contribute 10 percent of their annual covered salaries. The GEMS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

GEMS' required contributions for pension obligations to STRS for the fiscal years ending June 30, 2013, 2012, and 2011 were \$0; all employee contributions were paid and reported under TGS.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2013, no employee has elected to participate in Social Security.

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.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

Medicare Part B

Medicare B plan reimburse Medicare B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefits recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90; 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 2013, the actuarial required allocation is .74 percent GEMS contributions for the years ending June 30, 2013, 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, 2013, the health care allocation is .16 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, 2013, the minimum compensation level was established at \$20,525. 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, 2013, 2012, and 2011 were zero. All contributions were paid and reported under The Graham School.

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 GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

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

B. State Teachers Retirement System

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The GEMS' contribution for health care for the fiscal years ending June 30 2013, 2012, and 2011 were \$0. These amounts were paid by The Graham School as part of both the Graham 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. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the operating fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of GEMS at June 30, 2013.

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 2012-2013 school year. The adjustments for FTE did not have a material effect on the accompanying financial statements presented.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

11. OPERATING LEASES – LESSEE DISCLOSURE

Educational Facility

GEMS leases a building located at 160 East Sixteenth from the Columbus City Schools. The term of the lease is from July 1 2001 and ending on June 30, 2021. The initial base rent for fiscal year 2013 is \$7,079.19 with an increase for the years thereafter. Total rent expense for fiscal year 2013 was \$88,508.87 due to property related expenses paid for the school.

12. RELATED PARTY TRANSACTION

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

Additionally, Sara Neikirk serves as the Board President of both GEMS and The Charles School at Ohio Dominican University.

13. TAX EXEMPT STATUS

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

14. SPONSOR

On July 1, 2009, a sponsorship agreement was executed between GEMS and the Educational Service Center of Central Ohio for a five (5) year period beginning July 1, 2009. 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, 2013, GEMS paid \$33,309.62.

15. MANAGEMENT AGREEMENT WITH THE GRAHAM SCHOOL

Effective July 1, 2011, GEMS entered into a two year Management Agreement (the Agreement) with TGS. The Agreement's terms ran through June 30, 2013. 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 \$836,257, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$677,734 was for general fund related fees and \$158,523 was for grant related reimbursements.

16. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2013, TGS paid the following expenses on-behalf of the GEMS:

Expenses	FY 13
Direct Expenses:	
Salaries & wages	711,654
Employees' benefits	192,337
Indirect Expenses:	
Overhead	164,353
Total Expenses	<u>1,068,344</u>

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)**

16. MANAGEMENT COMPANY EXPENSES (Continued)

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

17. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2013, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity: Omnibus," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and Statement No. 65, "Items Previously Reported as Assets and Liabilities."

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. These changes were incorporated in the School's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the School's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the School's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows or resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the School's fiscal year 2013 financial statements; however, there was no effect on beginning net position/fund balance.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, OH 43201

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of The Graham Expeditionary Middle School, Franklin County, (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 19, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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*.

88 East Broad Street, Tenth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-3402 or 800-443-9275 Fax: 614-728-7199

www.ohioauditor.gov

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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
Columbus, Ohio

March 19, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON APPLYING AGREED-UPON PROCEDURE

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

To the Board of Directors:

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 procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether The Graham Expeditionary Middle School (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. In our report dated March 13, 2013, we noted the Board adopted an anti-harassment policy. However, this policy did not include all matters required by Ohio Rev. Code 3313.666.
2. The Board amended the policy on August 20, 2012. We read the amended policy, noting it still does not include the following requirements listed in Ohio Rev. Code 3313.666.

(1) A statement prohibiting harassment, intimidation, or bullying of any student on a school bus.

Ohio Rev. Code Section 3313.666 required the Board to amend its policy by November 4, 2012.

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, and is not intended to be and should not be used by anyone other than these specified parties.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 19, 2014



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
APRIL 8, 2014**