

# The Graham Expeditionary Middle School Franklin County, Ohio

## *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2014





# Dave Yost • Auditor of State

Board of Directors  
The Graham Expeditionary Middle School  
140 E 16th Street  
Columbus, OH 43201

We have reviewed the Independent Auditor's Report of The Graham Expeditionary Middle School, Franklin County, prepared by Rea & Associates, Inc., for the audit period July 1, 2013 through June 30, 2014. 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 Expeditionary Middle School is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

May 21, 2015

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**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY, OHIO**

**TABLE OF CONTENTS**

<b><u>TITLE</u></b>	<b><u>PAGE</u></b>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	8
Notes to the Basic Financial Statements	12
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 <i>Government Auditing Standards</i>	22
Independent Accountant's Report on Applying Agreed Upon Procedures	24

February 23, 2015

To the Board of Directors  
The Graham Expeditionary Middle School  
140 E 16<sup>th</sup> Street  
Columbus, OH 43201

## **INDEPENDENT AUDITOR'S REPORT**

### **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, 2014, 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, 2014, 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 February 23, 2015 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 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.*

Medina, Ohio

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(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, 2014. 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.

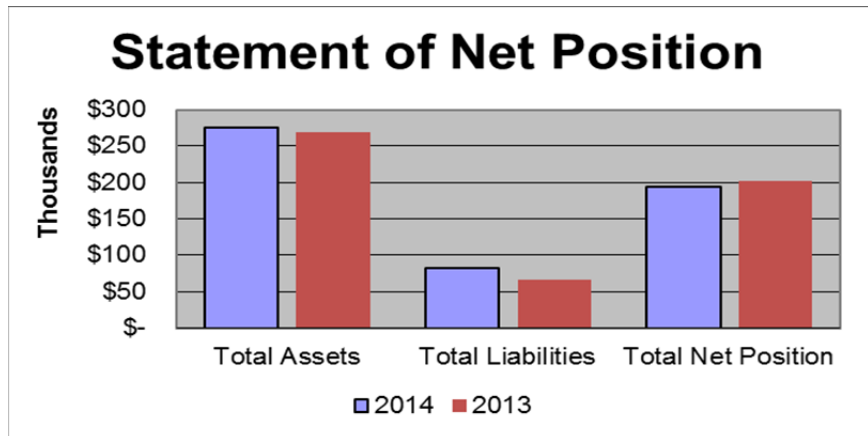
**FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2014 are as follows:

- In total, net position decreased by \$8,512. This is due to total expenses being greater than total revenue.
- Total assets increased by \$6,419. This was primarily due to increases in cash and receivables, offset by decreases in capital assets, net.
- Liabilities increased \$14,931 which was the result of increases in 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 2014. 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 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.



**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(UNAUDITED)**

**Statement of Net Position**

The Statement of Net Position answers the question of how GEMS did financially during 2014. 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 2014 and 2013.

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

	2014	2013
<b>Assets</b>		
Current Assets	\$ 175,431	\$ 122,851
Capital Assets, Net	99,973	146,134
Total Assets	275,404	268,985
<b>Liabilities</b>		
Current Liabilities	81,986	67,055
<b>Net Position</b>		
Invested in Capital Assets	99,973	146,134
Unrestricted	93,445	55,796
Total Net Position	\$ 193,418	\$ 201,930

Total assets were \$275,404, while total liabilities were \$81,986. Cash and cash equivalents were \$50,587 and capital assets, at net, were \$99,973. Intergovernmental receivables were \$6,312. Accounts receivables increased based on overpayments to the management company, see note 15.

**Statement of Revenues, Expenses and Changes in Net Position**

Table 2, below, demonstrates the net position for fiscal year 2014, 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, 2014  
(UNAUDITED)**

(Table 2)

**Change in Net Position**

	2014	2013
<b>Operating Revenues</b>		
State Aid	\$1,357,008	\$ 1,113,734
Casino Tax	9,337	3,431
Facilities Funding	17,487	-
Food Service	7,255	8,338
Classroom Fees	1,193	1,713
Other Operating	110,009	84,300
<b>Non-Operating Revenue</b>		
Federal Grants	199,145	216,517
State Grants	1,332	960
Contributions & Donations	5,175	4,501
Investment Income	-	21
Total Revenues	1,707,941	1,433,515
<b>Operating Expenses</b>		
Purchased Services: Management Fees	987,407	836,257
Purchased Services: Rent and Property Services	149,382	189,865
Purchased Services: Professional Services	323,299	100,671
Purchased Services: Food Services	71,416	51,129
Purchased Services: Professional Development	8,925	50,659
Purchased Services: Other	87,538	96,460
Materials and Supplies	32,474	43,181
Depreciation	46,162	45,926
Other	9,850	6,877
Total Expenses	1,716,453	1,421,025
Change in Net Position	\$ (8,512)	\$ 12,490

Operating revenues were \$1,502,289, which represents 88% of total revenue. Operating expenses were \$1,716,453, which represents 100% of total expenses. GEMS' most significant expense Purchased Services: Management Fees represents 58% 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. Increases in both revenues and expenses are directly correlated to the increase in enrollment.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
(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 2014, GEMS had \$99,973 invested in capital assets, net of depreciation. The assets purchases were computers and equipment as well as building improvements. Capital assets decreased during the year as a result of depreciation of \$46,162 reported in the financial statements. For more information on capital assets, see Note 6 in the notes to the basic financial statements.

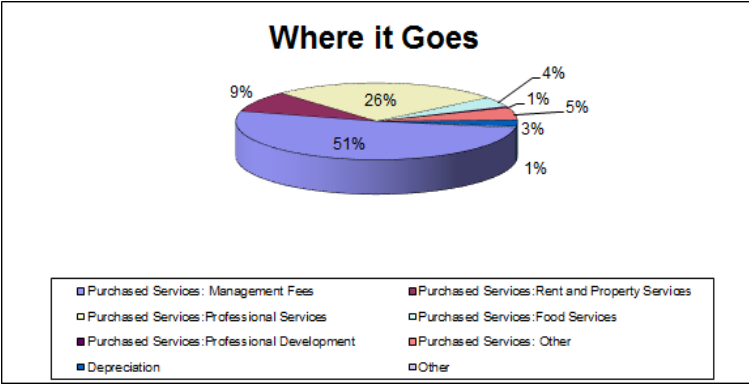
**DEBT**

At June 30, 2014, GEMS had \$81,986 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](mailto:cheryl@thegrahamschool.org).

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**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**Statement of Net Position  
June 30, 2014**

**Assets**

Current Asset

Cash and Cash Equivalents	\$ 50,587
Accounts Receivable	118,532
Intergovernmental Receivable	<u>6,312</u>
Total Current Assets	<u>175,431</u>

Noncurrent Assets

Depreciable Capital Assets, net	<u>99,973</u>
Total Assets	<u>275,404</u>

**Liabilities**

Current Liabilities

Accounts Payable	<u>81,986</u>
Total Liabilities	<u>81,986</u>

**Net Position**

Invested in Capital Assets	99,973
Unrestricted	<u>93,445</u>
Total Net Position	<u>\$ 193,418</u>

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, 2014**

<b>Operating Revenues</b>	
State Aid	\$1,357,008
Casino Tax	9,337
Facilities Funding	17,487
Food Service	7,255
Classroom Fees	1,193
Other Operating	<u>110,009</u>
<b>Total Operating Revenues</b>	<u>1,502,289</u>
<b>Operating Expenses</b>	
Purchased Services: Management Fees	987,407
Purchased Services: Rent and Property Services	149,382
Purchased Services: Professional Services	323,299
Purchased Services: Food Services	71,416
Purchased Services: Professional Development	8,925
Purchased Services: Other	87,538
Materials and Supplies	32,474
Depreciation	46,162
Other	<u>9,850</u>
<b>Total Operating Expenses</b>	<u>1,716,453</u>
<b>Operating Loss</b>	<u>(214,164)</u>
<b>Non-Operating Revenues</b>	
Federal Grants	199,145
State Grants	1,332
Contributions & Donations	<u>5,175</u>
<b>Total Non-Operating Revenues</b>	<u>205,652</u>
<b>Change in Net Position</b>	(8,512)
<b>Net Position Beginning of Year</b>	<u>201,930</u>
<b>Net Position End of Year</b>	<u>\$ 193,418</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, 2014**

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

**Cash Flows Used For Operating Activities**

Cash Received from State of Ohio	\$1,383,832
Cash Received from Other Operating Sources	118,457
Cash Payments to Suppliers for Goods and Services	(1,706,414)
Other Cash Payments	<u>(9,850)</u>

Net Cash Used for Operating Activities (213,975)

**Cash Flows from Noncapital Financing Activities**

Cash Received from Grants	222,130
Cash Received from Contributions and Donations	<u>5,175</u>

Net Cash Provided by Noncapital Financing Activities 227,305

**Net Increase in Cash and Cash Equivalents** 13,330

**Cash and Cash Equivalents Beginning of Year** 37,257

**Cash and Cash Equivalents End of Year** \$ 50,587

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

Operating Loss \$ (214,164)

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

Depreciation 46,162

Changes in Assets and Liabilities:

Accounts Receivable (60,904)

Accounts Payable 14,931

Net Cash Used For Operating Activities \$ (213,975)

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, 2014**

**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. In July of 2014, another three year contract was approved. 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. 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.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Measurement Focus and Basis of Accounting**

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and 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 accounting is used for reporting purposes. Revenues are recognized when earned and expenses are recognized when they are incurred.

**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 2014.

**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. 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 computer 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.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. Intergovernmental Revenues**

GEMS currently participates in the state foundation 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 "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 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 programs listed above for the 2014 fiscal year total \$1,557,485.

**H. Net Position**

Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation. 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, 2014.

**I. Operating Revenues and Expenses**

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

**J. Estimates**

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

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014  
(Continued)**

**3. DEPOSITS AND INVESTMENTS**

**Deposits with Financial Institutions**

**Deposits:** The carrying value of GEMS's deposits are \$50,587, and the bank balance totaled \$57,272, 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, 2014.

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

**4. INTERGOVERNMENTAL RECEIVABLE AND ACCOUNTS RECEIVABLE**

At June 30, 2014, GEMS had intergovernmental receivables in the amount of \$6,312 for monies for food service 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 \$118,532 in accounts receivable due at June 30, 2014 incurred during the normal course of conducting business.

**5. ACCOUNTS PAYABLE**

Accounts Payable consists of obligations at June 30, 2014 incurred during the normal course of conducting operations.

**6. CAPITAL ASSETS**

For the year ended June 30, 2014, GEMS' capital assets consisted of the following:

	<b>Balance</b>			<b>Balance</b>
	<b><u>6/30/2013</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>6/30/2014</u></b>
<b>Capital Assets Being Depreciated:</b>				
Computers & Equipment	\$224,439	\$ -	\$ -	\$ 224,439
Improvements	<u>6,370</u>	-	-	<u>6,370</u>
<b>Total Capital Assets Being Depreciated</b>	<u>230,809</u>	-	-	<u>230,809</u>
<b>Less Accumulated Depreciation:</b>				
Computers & Equipment	(82,350)	(44,887)	-	(127,237)
Improvements	<u>(2,325)</u>	<u>(1,274)</u>	-	<u>(3,599)</u>
<b>Total Accumulated Depreciation</b>	<u>(84,675)</u>	<u>(46,161)</u>	-	<u>(130,836)</u>
<b>Total Capital Assets Being Depreciated Net</b>	<u>\$146,134</u>	<u>\$ (46,161)</u>	<u>\$ -</u>	<u>\$ 99,973</u>

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014  
(Continued)**

**7. RISK MANAGEMENT**

**A. Insurance Coverage**

GEMS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the year ended 2014, 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. 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](http://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, 2014, 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, 2014, 2013 and 2012 was zero; all contributions were paid and reported under TGS.

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

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

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014  
(Continued)**

**8. DEFINED BENEFIT PENSION PLANS (continued)**

**B. State Teachers Retirement Systems (STRS) (continued)**

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

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

**Funding Policy** - For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salaries. The GEMS was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2014, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

GEMS' required contributions for pension obligations to STRS for the fiscal year ending June 30, 2014, 2013 and 2012 was \$0; all employee contributions were paid and reported under the 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, 2014, no employee has elected to participate in Social Security.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS**

**A. School Employee Retirement System**

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

**Medicare Part B**

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 2014 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 2014, the actuarial required allocation is .74 percent GEMS contributions for the year ending June 30, 2014, 2013 and 2012 was zero. All contributions were paid and reported under TGS.

**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, 2014, the health care allocation is .16. 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, 2014, the minimum compensation level was established at \$35,800. The surcharge added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. GEMS contributions assigned to health care for the year ending June 30, 2014, 2013 and 2012 was zero. All contributions were paid and reported under TGS.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (continued)**

**A. School Employee Retirement System ( continued)**

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

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

**B. State Teachers Retirement System**

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

**Funding Policy** – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2014, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The GEMS' contribution for health care for the fiscal year ending June 30, 2014, 2013 and 2012 was \$0. These amounts were paid by TGS as part of both TGS and GEMS contribution to the Health Care Fund.

**10. CONTINGENCIES**

**A. Grants**

GEMS receives financial assistance from federal and state agencies in the form of grants. 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.

**B. Full-Time Equivalency Reviews**

The Ohio Department of Education conducts reviews of enrollment and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusions of this review could result in state funding being adjusted. Adjustments to the state funding received during fiscal year 2014 are immaterial and will be included in the financial activity for fiscal year 2015.



**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**(Continued)**

**11. OPERATING LEASES – LESSEE DISCLOSURE**

**A. Educational Facility**

GEMS leases a building located at 160 East Sixteenth from the Columbus Public Schools. The term of the lease is from July 1, 2001 and ending on June 30, 2021. The initial base rent for fiscal year 2014 is \$7,079 with an increase for the years thereafter. Total rent expense for fiscal year 2014 was \$88,509 due to property related expenses paid for the school.

**12. RELATED PARTY TRANSACTION**

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

**13. TAX EXEMPT STATUS**

GEMS was approved under § 501(c)(3) of the Internal Revenue Code as a tax exempt organization. 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, 2014, GEMS paid \$33,310. On July 1, 2014, a 3 year renewal was approved through fiscal year ending June 30, 2017.

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**(Continued)**

**15. MANAGEMENT AGREEMENT WITH THE GRAHAM SCHOOL**

Effective July 1, 2013, GEMS entered into a one year Management Agreement (the Agreement) with TGS. The Agreement's terms ran through June 30, 2014, and was subsequently renewed for an additional one year term. 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 \$987,407, as reported in the Statement of Revenues, Expenses and Changes in Net Position. Of this fee, \$866,340 was for general fund related fees and \$121,067 was for grant related reimbursements. Accounts Receivable due from TGS in the amount of \$118,532 is listed on the Statement of Net Position

**16. MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2014, TGS paid the following expenses on-behalf of the GEMS:

<b>Expenses</b>	<u>2014</u>
<b>Direct Expenses:</b>	
Salaries & wages	\$649,784
Employees' benefits	180,658
<b>Indirect Expenses:</b>	
Overhead	<u>156,584</u>
<b>Total Expenses</b>	<u><u>\$987,026</u></u>

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.

February 23, 2015

To the Board of Directors  
The Graham Expeditionary Middle School  
140 East 16<sup>th</sup> Street  
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 Expeditionary Middle School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated February 23, 2015.

**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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. 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.

The Graham Expeditionary Middle School  
Independent Auditors 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*  
Page 2

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

Medina, Ohio

February 23, 2015

To the Board of Directors  
The Graham Expeditionary Middle School  
Franklin County, Ohio  
140 E 16<sup>th</sup> Street  
Columbus, OH 43201

### **Independent Accountant's Report on Applying Agreed-Upon Procedures**

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 was agreed to by the Board, solely to assist the Board in evaluating whether The Graham Expeditionary Middle School, Franklin County, Ohio (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures 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 the prior report dated March 19, 2014, we noted the Board adopted an anti-harassment policy on August 20, 2012. However, this policy did not include all matters required by Ohio Rev. Code Section 3313.666.
2. The Board amended the policy on October 21, 2013. We read the amended policy, noting it now includes all the requirements listed in Ohio Rev. Code Section 3313.666.

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

*Rea & Associates, Inc.*

Medina, Ohio

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# Dave Yost • Auditor of State

**THE GRAHAM EXPEDITIONARY MIDDLE SCHOOL**

**FRANKLIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 2, 2015**