

The Graham Expeditionary Middle School

Franklin County, Ohio

Audited Financial Statements
for the Fiscal Year Ended June 30, 2017



Dave Yost • Auditor of State

Board of Directors
The Graham Expeditionary Middle School
140 East 16th Avenue
Columbus, Ohio 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, 2016 through June 30, 2017. 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 17, 2018

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

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April 12, 2018

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of The Graham Expeditionary Middle School, Franklin County, Ohio (the School), as of and for the year ended June 30, 2017, 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, 2017, 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.

Emphasis of Matter

As described in Note 15, the School has merged with its sister school The Graham Primary School, effective July 1, 2017. The combined school has changed its name to Graham Elementary and Middle School. Our opinion is not modified with respect to this matter.

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 April 12, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Kea & Associates, Inc.

Dublin, Ohio

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(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, 2017. The intent of this discussion and analysis is to look at GEMS' financial performance as a whole; readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the GEMS' financial performance.

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

FINANCIAL HIGHLIGHTS

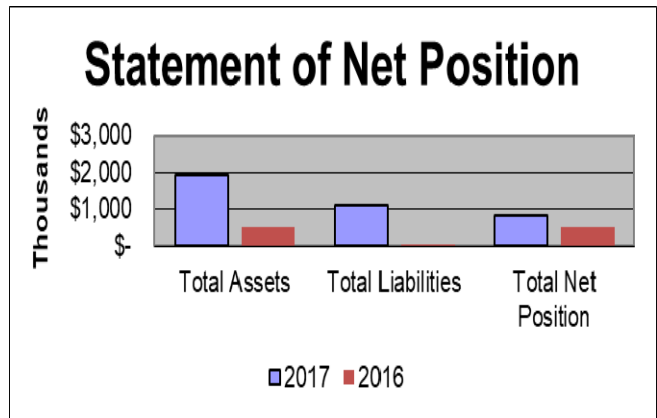
Key financial highlights for fiscal year 2017 are as follows:

- In total, net position increased by \$317,752. This is due to total expenses being less than total revenue.
- Total assets increased by \$1,412,555. This was primarily due to increases in capital assets for the acquisition of a building and land.
- Liabilities were \$1,116,178, which was the result of notes payable at year end for the purchase of the building and land.
- On July 1, 2017, GEMS merged with its sister school Graham Primary School to carry out its mission of providing a positive learning environment. The combined school changes its name to the Graham Elementary and Middle School.

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 2017. 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, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

Statement of Net Position

The Statement of Net Position answers the question of how GEMS did financially during 2017. 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 2017 and 2016.

(Table 1)
Statement of Net Position

| | 2017 | 2016 |
|----------------------------------|------------|------------|
| Assets | | |
| Current Assets | \$ 525,163 | \$ 508,767 |
| Capital Assets, Net | 1,413,449 | 17,290 |
| Total Assets | 1,938,612 | 526,057 |
| Liabilities | | |
| Current Liabilities | 73,015 | 21,375 |
| Non-Current Liabilities | 1,043,163 | - |
| Total Liabilities | 1,116,178 | 21,375 |
| Net Position | | |
| Net Investment in Capital Assets | 336,255 | 17,290 |
| Unrestricted | 486,179 | 487,392 |
| Total Net Position | \$ 822,434 | \$ 504,682 |

Total assets were \$1,938,612, while total liabilities were \$1,116,178. Cash and cash equivalents were \$319,051 and capital assets, at net, were \$1,413,449. Intergovernmental receivables were \$16,528. Accounts receivable were \$189,584. Capital assets non-current liabilities increased due to the purchase of land and building as described in Notes 6 for capital assets and 14 for the related debt.

Statement of Revenues, Expenses and Change in Net Position

Table 2 below demonstrates the change in net position for fiscal year 2017, 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, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

(Table 2)
Change in Net Position

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Operating Revenues | | |
| State Aid | \$1,142,094 | \$ 1,092,183 |
| Casino Tax | 6,474 | 7,114 |
| Facilities Funding | 27,000 | 18,905 |
| Food Service | 4,149 | 2,637 |
| Classroom Fees | - | 1,182 |
| Other Operating | 174,430 | 160,196 |
| Non-Operating Revenue | | |
| Federal Grants | 169,746 | 189,457 |
| State Grants | 757 | 5,951 |
| Investment Income | 11 | - |
| Contributions & Donations | 366,445 | 13,020 |
| Total Revenues | 1,891,106 | 1,490,645 |
| Operating Expenses | | |
| Purchased Services: Management Fees | 885,197 | 767,413 |
| Purchased Services: Rent and Property Services | 265,828 | 263,839 |
| Purchased Services: Professional Services | 169,033 | 102,433 |
| Purchased Services: Food Services | 48,843 | 4,326 |
| Purchased Services: Professional Development | 16,888 | 1,610 |
| Purchased Services: Other | 78,853 | 115,171 |
| Materials and Supplies | 62,840 | 62,472 |
| Depreciation | 20,103 | 36,521 |
| Other | 7,347 | 1,487 |
| Non-Operating Expenses | | |
| Interest and Fiscal Charges | 18,422 | - |
| Total Expenses | 1,573,354 | 1,355,272 |
| Change in Net Position | <u>\$ 317,752</u> | <u>\$ 135,373</u> |

Operating revenues were \$1,354,147, which represents 72% of total revenue. Operating expenses were \$1,554,932, which represents 99% of total expenses. GEMS' most significant expense Purchased Services: Management Fees represents 56% 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 12 in the notes to the basic financial statements outlines this agreement. Increases in both revenues and expenses are directly related to an increase in contribution/donations.

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

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)**

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 2017, GEMS had \$1,413,449 invested in capital assets, net of depreciation. The assets purchases were land, buildings, computers and equipment as well as building improvements. For more information on capital assets, see Note 6 in the notes to the basic financial statements.

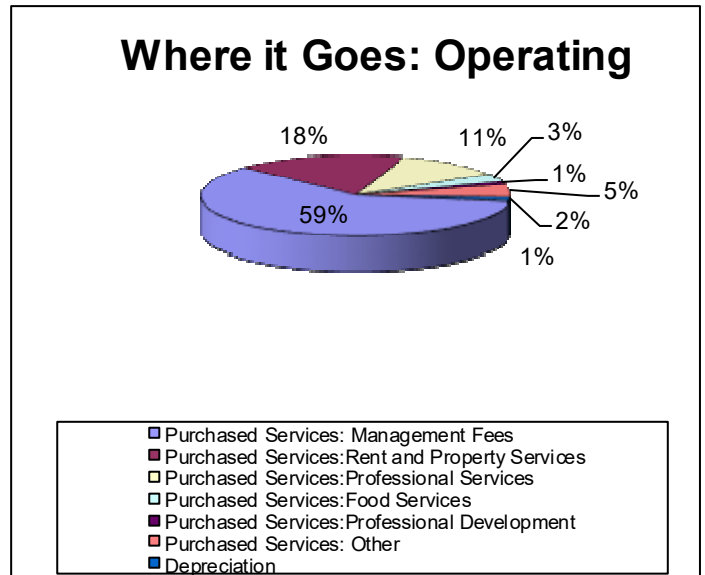
DEBT

At June 30, 2017, GEMS had \$1,077,194 in notes payable. For more information, see Note 14 in the notes to the basic financial statements.

OTHER INFORMATION

For the Future

In conclusion, GEMS has committed itself to financial excellence. GEMS occupies a leased building from the Columbus City School District on East Sixteenth Avenue, effective July 1, 2011. Note 9 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. Effective May 2017, the School purchased the building. In addition, effective July 1, 2017 the school merged with its sister school, The Graham Primary School.



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 School's finances and to show its accountability for the money received. If you have questions about this report or need additional information contact Ms. Cheryl Long of The Graham Expeditionary Middle School, 140 East Sixteenth Avenue, Columbus, Ohio 43201 or e-mail at cheryl@thegrahamschool.org.

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

**Statement of Net Position
June 30, 2017**

Assets

Current Asset

| | |
|------------------------------|------------|
| Cash and Cash Equivalents | \$ 319,051 |
| Accounts Receivable | 189,584 |
| Intergovernmental Receivable | 16,528 |
| | <hr/> |
| Total Current Assets | 525,163 |

Non Current Assets

| | |
|---------------------------------|-----------|
| Depreciable Capital Assets, net | 623,949 |
| Non-Depreciable Capital Assets | 789,500 |
| | <hr/> |
| Total Non Current Assets | 1,413,449 |

| | |
|--------------|-----------------------|
| Total Assets | <hr/> <hr/> 1,938,612 |
|--------------|-----------------------|

Liabilities

Current Liabilities

| | |
|---------------------------|--------|
| Accounts Payable | 38,984 |
| Notes Payable | 34,031 |
| | <hr/> |
| Total Current Liabilities | 73,015 |

Long-Term Liabilities:

| | |
|-------------------|-----------|
| Notes Payable | 1,043,163 |
| | <hr/> |
| Total Liabilities | 1,116,178 |

Net Position

| | |
|----------------------------------|------------------------|
| Net Investment in Capital Assets | 336,255 |
| Unrestricted | 486,179 |
| | <hr/> |
| Total Net Position | <hr/> <hr/> \$ 822,434 |

See accompanying notes to the basic financial statements

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

**Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017**

| | |
|--|------------------------------|
| Operating Revenues | |
| State Aid | \$1,142,094 |
| Casino Tax | 6,474 |
| Facilities Funding | 27,000 |
| Food Service | 4,149 |
| Other Operating | <u>174,430</u> |
| Total Operating Revenues | <u>1,354,147</u> |
| Operating Expenses | |
| Purchased Services: Management Fees | 885,197 |
| Purchased Services: Rent and Property Services | 265,828 |
| Purchased Services: Professional Services | 169,033 |
| Purchased Services: Food Services | 48,843 |
| Purchased Services: Professional Development | 16,888 |
| Purchased Services: Other | 78,853 |
| Materials and Supplies | 62,840 |
| Depreciation | 20,103 |
| Other | <u>7,347</u> |
| Total Operating Expenses | <u>1,554,932</u> |
| Operating Loss | <u>(200,785)</u> |
| Non-Operating Revenues (Expenses) | |
| Federal Grants | 169,746 |
| State Grants | 757 |
| Contributions & Donations | 366,445 |
| Interest and Fiscal Charges | (18,422) |
| Investment Income | <u>11</u> |
| Total Non-Operating Revenues (Expenses) | <u>518,537</u> |
| Change in Net Position | 317,752 |
| Net Position Beginning of Year | <u>504,682</u> |
| Net Position End of Year | <u><u>\$ 822,434</u></u> |

See accompanying notes to the basic financial statements

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

**Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

| | |
|---|---------------|
| Cash Received from State of Ohio | \$ 1,207,105 |
| Cash Received from Other Operating Sources | 178,579 |
| Cash Payments to Suppliers for Goods and Services | (1,309,133) |
| Other Cash Payments | (7,347) |
| Net Cash Provided by Operating Activities | <u>69,204</u> |

Cash Flows from Noncapital Financing Activities

| | |
|--|----------------|
| Cash Received from Grants | 177,252 |
| Cash Received from Contributions and Donations | 366,445 |
| Net Cash Provided by Noncapital Financing Activities | <u>543,697</u> |

Cash Flows from Investing Activities

| | |
|---|-----------|
| Interest Income | <u>12</u> |
| Net Cash Provided by Investing Activities | <u>12</u> |

Cash Flows from Capital and Related Financing Activities

| | |
|--|------------------|
| Cash Received from Note Payable | 1,080,000 |
| Cash Payments for Capital Assets | (1,416,262) |
| Interest and Fiscal Charges Paid | (18,422) |
| Principal Payments-Notes Payable | (2,806) |
| Net Cash Used for Capital and Related Financing Activities | <u>(357,490)</u> |

Net Increase in Cash and Cash Equivalents 255,423

Cash and Cash Equivalents Beginning of Year 63,628

Cash and Cash Equivalents End of Year \$ 319,051

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating Loss \$ (200,785)

Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities

| | |
|---|------------------|
| Depreciation | 20,103 |
| Changes in Assets and Liabilities: | |
| Accounts Receivable | 193,661 |
| Intergovernmental Receivable | 31,537 |
| Prepays | 7,079 |
| Accounts Payable | 17,609 |
| Net Cash Provided by Operating Activities | <u>\$ 69,204</u> |

See accompanying notes to the basic financial statements

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2014, another three year contract was approved which has been extended for an additional 2 year term. 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 12).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

C. Budgetary Process

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 prepare a five-year forecast and a yearly spending plan, 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 name and reflected as Cash and Cash Equivalents on the Statement of Net Position. GEMS did not have any investments during fiscal year 2017.

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 acquisition values as of the date received.

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

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

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

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

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

Amounts awarded under the programs listed above for the 2017 fiscal year totaled \$1,346,071.

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 its 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, 2017, but the Statement of Net Position reports \$336,255 as Net Investment in Capital Assets.

I. Operating Revenues and Expenses

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

J. Estimates

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

3. DEPOSITS AND INVESTMENTS

Deposits with Financial Institutions

Deposits: The carrying value of GEMS' deposits are \$319,051, and the bank balance totaled \$321,734. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$71,734 of GEMS' bank balance was not covered by Federal Deposit Insurance.

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, 2017, GEMS had intergovernmental receivable in the amount of \$16,528 for monies for food service, Foundation FTE audit, and other federal grants due, but not received by year end. The intergovernmental receivable is collectable in the next operating cycle. The School had an additional \$189,584 in accounts receivable due at June 30, 2017 due to an overpayment to the management company which is disclosed in Note 12.

5. ACCOUNTS PAYABLE

Accounts payable of \$38,984 consists of obligations at June 30, 2017, incurred during the normal course of conducting operations.

6. CAPITAL ASSETS

For the year ended June 30, 2017, GEMS' capital assets consisted of the following:

| | <u>Balance 6/30/2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/2017</u> |
|--|------------------------------|---------------------|------------------|------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ - | \$ 789,500 | \$ - | \$ 789,500 |
| Total Capital Assets Not Being Depreciated | <u>-</u> | <u>789,500</u> | <u>-</u> | <u>789,500</u> |
| Capital Assets Being Depreciated: | | | | |
| Building | - | 615,500 | - | 615,500 |
| Computers & Equipment | 224,439 | 11,262 | - | 235,701 |
| Improvements | <u>6,370</u> | <u>-</u> | <u>-</u> | <u>6,370</u> |
| Total Capital Assets Being Depreciated | <u>230,809</u> | <u>626,762</u> | <u>-</u> | <u>857,571</u> |
| Less Accumulated Depreciation: | | | | |
| Building | - | (1,513) | - | (1,513) |
| Computers & Equipment | (207,372) | (18,366) | - | (225,738) |
| Improvements | <u>(6,146)</u> | <u>(224)</u> | <u>-</u> | <u>(6,370)</u> |
| Total Accumulated Depreciation | <u>(213,518)</u> | <u>(20,103)</u> | <u>-</u> | <u>(233,621)</u> |
| Total Capital Assets Being Depreciated, Net | <u>17,291</u> | <u>606,659</u> | <u>-</u> | <u>623,950</u> |
| Total Capital Assets, Net | <u>\$ 17,291</u> | <u>\$ 1,396,159</u> | <u>\$ -</u> | <u>\$1,413,450</u> |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

7. RISK MANAGEMENT

Insurance Coverage

GEMS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2017, GEMS contracted with the Philadelphia Insurance Company for the following insurance coverage:

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

The amount of settlements did not exceed insurance coverage for any of the past three years nor has there been any reduction in coverage from the prior year.

8. CONTINGENCIES

A. Grants

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

B. Full-Time Equivalency Reviews

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

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. ODE did not perform such a review on the GEMS for fiscal year 2017.

In September and December 2017, additional ODE adjustments for fiscal year 2017 were completed. As a result, the impact of future FTE adjustments on the fiscal year 2017 financial statements have been determined and reflected on the face of the financials as a receivable in the amount of \$16,528. As of the date of this report, all ODE adjustments through fiscal year 2017 have been completed.

In addition, GEMS contracts with their Sponsor and Management Company that requires payment based on revenues received from the State. As discussed above, all ODE adjustments through

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

8. CONTINGENCIES (Continued)

B. Full-Time Equivalency Reviews (continued)

fiscal year 2017 have been completed. A reconciliation between payments previously made and the FTE adjustments that have taken place with these contracts.

9. OPERATING LEASES – LESSEE DISCLOSURE

Educational Facility

GEMS leases a building for its educational facility located at 140 East Sixteenth Avenue from the Columbus Public Schools. The term of the lease is from July 1, 2001 through June 30, 2021. The initial base rent for fiscal year 2017 is \$7,079 per month. Total rent expense for fiscal year 2017 was \$76,765 due to property related expenses paid for the school. In May 2017, GEMS purchased this property.

10. 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.

11. 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 3% of its state funding per pupil as provided by the State of Ohio. For fiscal year ending June 30, 2017, GEMS paid \$33,767. On July 2014, a 3 year renewed agreement was approved through fiscal year ending June 30, 2017. An additional 2 year term has been extended through June 30, 2019.

12. MANAGEMENT AGREEMENT WITH THE GRAHAM SCHOOL (TGS)

Effective July 1, 2015, GEMS entered into a one year Management Agreement (the Agreement) with TGS. The Agreement's terms ran through June 30, 2016, and was subsequently renewed for an additional one year term. The Agreement has been renewed for an additional one year term through June 30, 2018. Per the contract, TGS receives a base fee of three (3) percent of GEMS' federal and state awards. TGS also receives ninety-five (95) percent of GEMS' remaining revenues after GEMS pays its direct expenses. GEMS management fee expense for the fiscal year total \$885,197, as reported in the Statement of Revenues, Expenses and Changes in Fund Net Position. Of this fee, \$795,725 was for general fund related fees and \$93,472 was for grant related reimbursements. Accounts Receivable due from TGS in the amount of \$189,584 is listed on the Statement of Net Position due to an overpayment of management fees during the fiscal year.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

13. MANAGEMENT COMPANY EXPENSES

For the year ended June 30, 2017, TGS paid the following expenses on-behalf of the GEMS:

| Expenses | GEMS |
|-------------------------------------|-------------------|
| Direct Expenses: | |
| Salaries & wages | |
| Regular Instruction | \$ 336,401 |
| Other Instruction | 69,080 |
| Support Services | 132,074 |
| Employees' benefits | |
| Regular Instruction | 51,974 |
| Other Instruction | 10,673 |
| Support Services | 20,405 |
| Indirect Expenses(Overhead): | |
| Support Services | 126,341 |
| Total Expenses | \$ 746,948 |

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.

14. LONG-TERM OBLIGATIONS

The changes in the School's long-term obligations during fiscal year 2017 were as follows:

| | Principal Outstanding 6/30/2016 | Additions | Deductions | Principal Outstanding 6/30/2017 | Amount Due in One Year |
|---------------|---------------------------------------|--------------|------------|---------------------------------------|------------------------------|
| Notes Payable | \$ - | \$ 1,080,000 | \$ (2,806) | \$ 1,077,194 | \$ 34,031 |

The School entered into a loan with Huntington National Bank for the purchase of a school building and land. The total amount of the loan is \$1,080,000 with an annual interest rate of 4.55% to be paid over a 10-year period and the loan amortized over 20 years. The School has a balloon payment that is due in the tenth year. The Graham School and The Charles School at Ohio Dominican University act guarantors of this loan.

Future principal obligations of the notes are as follows:

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

14. LONG-TERM OBLIGATIONS (Continued)

| Fiscal Years Ending June 30, | <u>Principal</u> | <u>Interest</u> |
|------------------------------|---------------------|-------------------|
| 2018 | \$ 34,031 | \$ 52,266 |
| 2019 | 35,612 | 50,550 |
| 2020 | 37,267 | 48,754 |
| 2021 | 38,999 | 46,874 |
| 2022 | 40,810 | 44,908 |
| 2023-2028 | <u>890,475</u> | <u>206,133</u> |
| Total | <u>\$ 1,077,194</u> | <u>\$ 449,490</u> |

15. SUBSEQUENT EVENTS-SCHOOL MERGER

On July 1, 2017, Graham Primary School merged with its sister school Graham Expeditionary Middle School to carry out its mission of providing a positive learning environment. Effective July 1 2017, the merged entity will be called Graham Elementary and Middle School.

16. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2017, the School implemented GASB Statement No. 77 “Tax Abatement Disclosures” which improves disclosure of tax abatement information, such as how the tax abatements affect their financial statements and operations and the government’s ability to raise resources in the future, by reporting (1) the government’s own tax abatement agreements; and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented GASB Statement No. 78 “Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans” which amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The implementation of this statement did not have an effect on the financial statements of the School.

For fiscal year 2017, the School implemented GASB Statement No. 80 “Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14” which amends the blending requirements for the financial statement presentation of component units of all state and local governments to enhanced the comparability of financial statements among governments. The implementation of this statement did not have an effect on the financial statements of the School.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

16. CHANGES IN ACCOUNTING PRINCIPLES (Continued)

For fiscal year 2017, the School implemented GASB Statement No. 82 "Pension Issues – An Amendment of GASB Statements No. 67, 68, and 73" which addresses issues regarding (1) the presentation of payroll related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The implementation of this statement during the year did not have an effect on beginning net position.

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April 12, 2018

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Graham Expeditionary Middle School, Franklin County, Ohio (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated April 12, 2018, wherein we noted the School merged with another School effective July 1, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rea & Associates, Inc.

Dublin, Ohio



Dave Yost • Auditor of State

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
MAY 31, 2018**