

**The Graham Expeditionary Middle School**

Franklin County, Ohio

Audited Financial Statements  
for the Fiscal Year Ended June 30, 2016





# Dave Yost • Auditor of State

Board of Trustees  
Graham Expeditionary Middle School  
140 East 16th Street  
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, 2015 through June 30, 2016. 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 24, 2017

**This page intentionally left blank.**

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

**TABLE OF CONTENTS**

Independent Auditor's Report .....	1
Management's Discussion and Analysis.....	2
Statements of Net Position.....	7
Statement of Revenues, Expenses and Changes in Net Position.....	8
Statement of Cash Flows .....	9
Notes to the Basic Financial Statements .....	11
Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	18

February 21, 2017

To the Board of Directors  
The Graham Expeditionary Middle School  
140 E 16<sup>th</sup> 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, 2016, 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, 2016, 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 21, 2017, 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.*

Dublin, Ohio

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(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, 2016. 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**

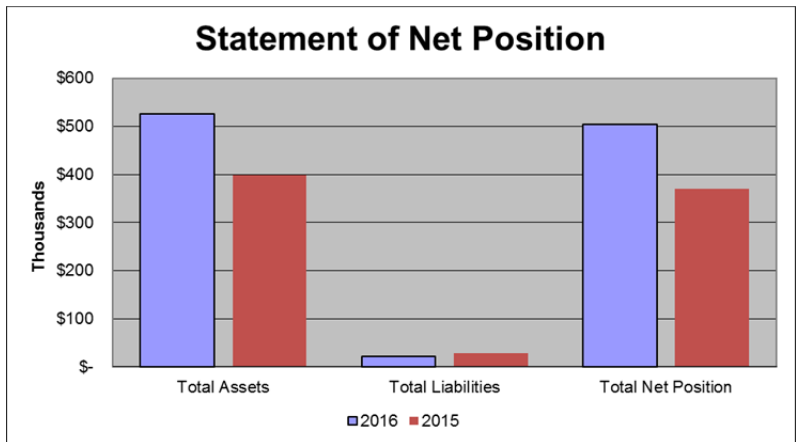
Key financial highlights for fiscal year 2016 are as follows:

- In total, net position increased by \$135,373. This is due to total expenses being less than total revenue.
- Total assets increased by \$128,404. This was primarily due to increases in receivables.
- Liabilities were \$21,375, which was the result of accounts payable at year end.

**USING THIS ANNUAL REPORT**

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

The Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position reflect how GEMS did financially during fiscal year 2016. 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, 2016  
(UNAUDITED)**

**Statement of Net Position**

The Statement of Net Position answers the question of how GEMS did financially during 2016. 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 2016 and 2015.

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

	2016	2015
<b>Assets</b>		
Current Assets	\$ 508,767	\$ 343,842
Capital Assets, Net	17,290	53,811
Total Assets	526,057	397,653
<b>Liabilities</b>		
Current Liabilities	21,375	28,344
<b>Net Position</b>		
Investment in Capital Assets	17,290	53,811
Unrestricted	487,392	315,498
Total Net Position	\$ 504,682	\$ 369,309

Total assets were \$526,057, while total liabilities were \$21,375. Cash and cash equivalents were \$63,628 and capital assets, at net, were \$17,290. Intergovernmental receivables were \$54,815. Accounts receivable were \$383,245. Accounts receivable increase based on overpayments to the management company as described in Note 13.

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

Table 2 below demonstrates the net position for fiscal year 2016, 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, 2016  
(UNAUDITED)**

(Table 2)  
**Change in Net Position**

	2016	2015
<b>Operating Revenues</b>		
State Aid	\$1,092,183	\$ 1,142,821
Casino Tax	7,114	8,565
Facilities Funding	18,905	13,695
Food Service	2,637	4,829
Classroom Fees	1,182	2,000
Other Operating	160,196	156,763
 <b>Non-Operating Revenue</b>		
Federal Grants	189,457	234,301
State Grants	5,951	1,395
Contributions & Donations	13,020	16,111
Total Revenues	1,490,645	1,580,480
 <b>Operating Expenses</b>		
Purchased Services: Management Fees	767,413	768,029
Purchased Services: Rent and Property Services	263,839	98,724
Purchased Services: Professional Services	102,433	149,047
Purchased Services: Food Services	4,326	85,578
Purchased Services: Professional Development	1,610	9,145
Purchased Services: Other	115,171	175,688
Materials and Supplies	62,472	69,596
Depreciation	36,521	46,162
Other	1,487	2,620
Total Expenses	1,355,272	1,404,589
 Change in Net Position	\$ 135,373	\$ 175,891

Operating revenues were \$1,282,217, which represents 86% of total revenue. Operating expenses were \$1,355,272, which represents 100% of total expenses. GEMS' most significant expense Purchased Services: Management Fees represents 57% 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 13 in the notes to the basic financial statements outlines this agreement. Decreases in both revenues and expenses are directly related to the decrease in enrollment.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(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 2016, GEMS had \$17,290 invested in capital assets, net of depreciation. The assets purchases were 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.

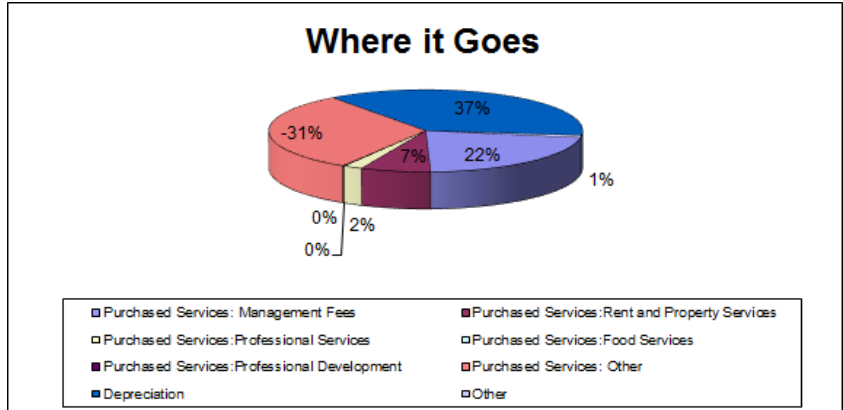
**DEBT**

At June 30, 2016, GEMS had \$21,375 in total liabilities, but no long term debt.

**OTHER INFORMATION**

**For the Future**

In conclusion, GEMS has committed itself to financial excellence. GEMS occupies a leased building from the Columbus City School District on East Sixteenth Avenue, effective July 1, 2011. Note 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.



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](mailto:cheryl@thegrahamschool.org).

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

**Statement of Net Position  
June 30, 2016**

**Assets**

Current Asset

Cash and Cash Equivalents	\$ 63,628
Accounts Receivable	383,245
Intergovernmental Receivable	54,815
Prepays	<u>7,079</u>

Total Current Assets 508,767

Noncurrent Assets

Depreciable Capital Assets, net 17,290

Total Assets 526,057

**Liabilities**

Current Liabilities

Accounts Payable 21,375

Total Liabilities 21,375

**Net Position**

Investment in Capital Assets 17,290  
Unrestricted 487,392

Total Net Position \$ 504,682

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, 2016**

<b>Operating Revenues</b>	
State Aid	\$1,092,183
Casino Tax	7,114
Facilities Funding	18,905
Food Service	2,637
Classroom Fees	1,182
Other Operating	<u>160,196</u>
 Total Operating Revenues	 <u>1,282,217</u>
<b>Operating Expenses</b>	
Purchased Services: Management Fees	767,413
Purchased Services: Rent and Property Services	263,839
Purchased Services: Professional Services	102,433
Purchased Services: Food Services	4,326
Purchased Services: Professional Development	1,610
Purchased Services: Other	115,171
Materials and Supplies	62,472
Depreciation	36,521
Other	<u>1,487</u>
 Total Operating Expenses	 <u>1,355,272</u>
 Operating Loss	 <u>(73,055)</u>
<b>Non-Operating Revenues</b>	
Federal Grants	189,457
State Grants	5,951
Contributions & Donations	<u>13,020</u>
 Total Non-Operating Revenues	 <u>208,428</u>
 Change in Net Position	 135,373
 Net Position Beginning of Year	 <u>369,309</u>
 Net Position End of Year	 <u>\$ 504,682</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, 2016**

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

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$1,070,137
Cash Received from Other Operating Sources	164,015
Cash Payments to Suppliers for Goods and Services	(1,422,825)
Other Cash Payments	<u>(1,487)</u>

Net Cash Used for Operating Activities (190,160)

**Cash Flows from Noncapital Financing Activities**

Cash Received from Grants	188,774
Cash Received from Contributions and Donations	<u>13,020</u>

Net Cash Provided by Noncapital Financing Activities 201,794

**Net Increase in Cash and Cash Equivalents** 11,634

**Cash and Cash Equivalents Beginning of Year** 51,994

**Cash and Cash Equivalents End of Year** \$ 63,628

**Reconciliation of Operating Loss to Net Cash  
Provided by (Used for) Operating Activities**

Operating Loss \$ (73,055)

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

Depreciation 36,521

Changes in Assets and Liabilities:

Accounts Receivable (91,513)

Intergovernmental Receivable (48,065)

Prepays (7,079)

Accounts Payable (6,969)

Net Cash Used for Operating Activities \$ (190,160)

See accompanying notes to the basic financial statements

**THIS PAGE INTENTIONALLY LEFT BLANK**

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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, 2015, another five 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 13).

**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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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, 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 2016.

**E. Prepaid Items**

GEMS records payments made to vendors for services that will benefit future periods as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is recorded in the year in which the services are consumed.

**F. Capital Assets and Depreciation**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements (deletions) during the year. The capitalization threshold is \$1,000. Donated capital assets are recorded at their fair market values as of the date received.

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

Depreciation of computers 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, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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 2016 fiscal year totaled \$1,307,659.

**H. Net Position**

Net position represents the difference between assets and liabilities. Invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by 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, 2016, but the Statement of Net Position reports \$17,290 as 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, 2016**

**3. DEPOSITS AND INVESTMENTS**

**Deposits with Financial Institutions**

**Deposits:** The carrying value of GEMS's deposits are \$63,628, and the bank balance totaled \$67,499, 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, 2016.

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, 2016, GEMS had intergovernmental receivable in the amount of \$54,815 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 \$383,245 in accounts receivable due at June 30, 2016 due to an overpayment to the management company which is disclosed in Note 13.

**5. ACCOUNTS PAYABLE AND PREPAIDS**

Accounts payable of \$21,375 consists of obligations at June 30, 2016, incurred during the normal course of conducting operations. Prepaid rent of \$7,079 is listed on the Statement of Net Position.

**6. CAPITAL ASSETS**

For the year ended June 30, 2016, GEMS' capital assets consisted of the following:

	<b>Balance</b>			<b>Balance</b>
	<b>6/30/2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>6/30/2016</b>
<b>Capital Assets Being Depreciated:</b>				
Computers & Equipment	\$224,439	\$ -	\$ -	\$ 224,439
Improvements	6,370	-	-	6,370
<b>Total Capital Assets Being Depreciated</b>	<u>230,809</u>	<u>-</u>	<u>-</u>	<u>230,809</u>
<b>Less Accumulated Depreciation:</b>				
Computers & Equipment	(172,125)	(35,247)	-	(207,372)
Improvements	(4,873)	(1,274)	-	(6,147)
<b>Total Accumulated Depreciation</b>	<u>(176,998)</u>	<u>(36,521)</u>	<u>-</u>	<u>(213,519)</u>
<b>Total Capital Assets Being Depreciated Net</b>	<u>\$ 53,811</u>	<u>\$ (36,521)</u>	<u>\$ -</u>	<u>\$ 17,290</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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 2016, 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. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 and 2015 Foundation funding for the School; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School. The school has included \$48,065 in intergovernmental receivables related to the FY 16 FTE audit.

**9. OPERATING LEASES – LESSEE DISCLOSURE**

**Educational Facility**

GEMS leases a building for its educational facility located at 160 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 2016 is \$7,079 per month. Total rent expense for fiscal year 2016 was \$88,509 due to property related expenses paid for the school.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**10. RELATED PARTY**

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.

**11. 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.

**12. 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, 2016, GEMS paid \$30,154. On July 2015, a 3 year renewed agreement was approved through fiscal year ending June 30, 2017.

**13. 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. 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 \$ 767,413, as reported in the Statement of Revenues, Expenses and Changes in Fund Net Position. Of this fee, \$662,617 was for general fund related fees and the remaining was for grant related reimbursements. Accounts Receivable due from TGS in the amount of \$383,245 is listed on the Statement of Net Position due to an overpayment of management fees during the fiscal year.

**14. MANAGEMENT COMPANY EXPENSES**

For the year ended June 30, 2016, TGS paid the following expenses on-behalf of the GEMS:

<b>Expenses</b>	<u>GEMS</u>
<b>Direct Expenses:</b>	
Salaries & wages	\$ 637,304
Employees' benefits	98,464
<b>Indirect Expenses:</b>	
Overhead	<u>116,497</u>
<b>Total Expenses</b>	<u><u>\$ 852,265</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.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016**

**15. CHANGE IN ACCOUNTING PRINCIPLES**

For the fiscal year ended June 30, 2016, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments and GASB Statement No. 79, Certain External Investment Pools and Pool Participants.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

February 21, 2017

To the Board of Directors  
The Graham Expeditionary Middle School  
Franklin County, Ohio  
140 E 16<sup>th</sup> 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, 2016, 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 21, 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.

The Graham Expeditionary Middle School  
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*  
Page 2 of 2

### **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  
JUNE 20, 2017**