A.B. MIREE FUNDAMENTAL ACADEMY
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2002

Auditor of State
Betty Montgomery

A.B. MIREE FUNDAMENTAL ACADEMY
HAMILTON COUNTY

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Betty Montgomery

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INDEPENDENT ACCOUNTANTS' REPORT

A.B. Miree Fundamental Academy
Hamilton County
1660 Sternblock Lane
Cincinnati, OH 45237

To the Board of Directors:

We have audited the accompanying Balance Sheet of A.B. Miree Fundamental Academy, Hamilton County, Ohio (the School), as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As of June 30, 2002, the School's current liabilities significantly exceeded its current assets, and the School was delinquent in retiring its notes payable. Management's subsequent actions, including actions taken to retire the notes, are described in Note 15.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Betty Montgomery

Betty Montgomery
Auditor of State

January 17, 2003

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A.B. MIREE FUNDAMENTAL ACADEMY
HAMILTON COUNTY

BALANCE SHEET
AS OF JUNE 30, 2002

Assets	
Current Assets	
Cash	$ 384,207
Intergovernmental Receivable	52,442
Total Current Assets	436,649
Noncurrent Assets	
Fixed Assets (Net of accumulated depreciation)	893,493
Total Assets	$ 1,330,142
Liabilities and Fund Equity	
Current Liabilities	
Account Payable	$ 40,313
Contract Payable	16,870
Accrued Wages and Benefits	159,538
Intergovernmental Payable	39,581
Capital Lease Payable	4,971
Loan Payable	602,399
Total Current Liabilities	863,672
Long-Term Liabilities	
Capital Lease Payable, net of current portion	4,802
Total Liabilities	868,474
Fund Equity	
Retained Earnings:	
Unreserved	461,668
Total Liabilities and Fund Equity	$ 1,330,142

The accompanying notes to the financial statements are an integral part of this statement.

A.B. MIREE FUNDAMENTAL ACADEMY
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002

Operating Revenues	
State Foundation Payments	$ 1,808,551
Disadvantaged Pupil Impact Aid	280,845
State Special Education	112,311
Other Operating Revenue	25,644
Total Operating Revenues	2,227,351
Operating Expenses	
Salaries	1,125,072
Fringe Benefits	297,107
Purchased Services	668,672
Materials and Supplies	88,611
Depreciation	292,551
Other Operating Expenses	5,620
Total Operating Expenses	2,477,633
Operating Loss	(250,282)
Non-Operating Revenues/(Expenses)	
Federal Grants	428,116
State Grants	14,757
Interest Expense	(48,496)
Total Non-Operating Revenues	394,377
Net Income	144,095
Retained Earnings at Beginning of Year	317,573
Retained Earnings at End of Year	$ 461,668

The accompanying notes to the financial statements are an integral part of this statement.

A.B. MIREE FUNDAMENTAL ACADEMY
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 2,231,387
Cash Payments to Employees for Services and Benefits	(1,375,328)
Cash Payments to Suppliers for Goods and Services	(740,577)
Other Operating Revenue	25,644
Net Cash Provided by Operating Activities	141,126
Cash Flows from Noncapital Financing Activities	
State and Federal Grants Received	497,911
Net Cash Provided by Noncapital Financing Activities	497,911
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(425,408)
Capital Lease Payments including interest	(5,997)
Debt Proceeds	300,000
Debt Payments including interest	(278,130)
Net Cash Used for Capital and Related Financing Activities	(409,535)
Net Increase in Cash and Cash Equivalents	229,502
Cash and Cash Equivalents at Beginning of Year	154,705
Cash and Cash Equivalents at End of Year	$ 384,207
Reconciliation of Operating Loss to Net Cash Provided for Operating Activities	
Operating Loss	$ (250,282)
Adjustments To Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	292,551
Changes in Assets and Liabilities:	
Decrease in Intergovernmental Receivable	29,680
Increase in Accounts Payable	10,867
Increase in Contracts Payable	13,169
Increase in Intergovernmental Payable	3,281
Increase in Accrued Wages	41,860
Total Adjustments	391,408
Net Cash Used for Operating Activities	$ 141,126

The accompanying notes to the financial statements are an integral part of this statement.

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

A. B. Miree Fundamental Academy, Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Revised Code, Chapters 3314 and 1702, to address the needs of students by utilizing an approach to education involving the community. The School qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. The School's management is not aware of any course of action or series of events that have occurred that might adversely affect the School's exempt status. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The School was approved for operation under a contract with the State Board of Education (the Sponsor) for a period of five years commencing July 1, 2000. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a seven-member Board of Directors, which shall include a parent and community members. The 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. The Board of Directors controls the School's one instructional/support facility staffed by 13 non-certificated and 25 certificated full-time teaching personnel who provide services to a minimum of 374 students during the fiscal year 2002. The Treasurer is responsible for directing the financial affairs of the School including accounting, purchasing, insurance, housekeeping and maintenance and is responsible for reporting the progress of the School against those responsibilities.

Cincinnati Public Schools provide student transportation to and from the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of A. B. Miree Fundamental Academy have been prepared in conformity with generally accepted accounting principles 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. The School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below.

A. Basis Of Presentation

The School uses enterprise accounting to report its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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 they are 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 in the School's contract with its Sponsor. The contract between the School and its Sponsor does prescribe a budgetary process for the School, requiring that the Director, Treasurer, and the Board of Directors review the financial statements for the School monthly. In addition, the School is required to prepare a twelve-month cash forecast on a quarterly basis.

D. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions/and retirements during the year. Fixed assets were purchased during the year that warranted capitalization and depreciation. The School maintains a capitalization threshold of five hundred dollars. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets. The School's building, used to house their school, is leased and therefore, is not listed as a fixed asset. Improvements to the leased building are depreciated over the remainder of the five-year lease. The School does not possess any infrastructure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The School also participates in various federal programs through the Ohio Department of Education. Revenue received from these programs is recognized as non-operating revenue in the accounting period in which all the eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the school must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the school on a reimbursement basis.

The School participates in the Federal Charter School Sub-Grant Program through the Ohio Department of Education. Under this program, during the year ending June 30, 2002 the School received $150,000 to offset startup costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

3. CASH AND DEPOSITS

At June 30, 2002, the School had a cash balance of $384,207. The bank balance of the School's deposits was $418,604, of which $100,000 was covered through federal depository insurance (FDIC) and $318,604 which was uninsured and uncollateralized.

4. RECEIVABLES

Receivables at June 30, 2002, consisted of intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
National School Lunch Program	$ 1,266
Title I - Disadvantaged Children	22,663
Title II - Eisenhower Professional Development	599
Title IV - Safe, Drug-Free Schools	4,660
Title VI - Innovative Assistance Program	2,382
Title VI-B – Special Education Program	20,872
Total	$52,442

5. FIXED ASSETS

A summary of the Enterprise Fund's fixed assets at June 30, 2002, follows:

Leasehold Improvements – Building	$1,273,856
Furniture and Equipment	102,347
Less: Accumulated Depreciation	(482,710)
Net Fixed Assets	$ 893,493

6. RISK MANAGEMENT

A. Property and Liability

The School 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 2002, the School contracted with Olverson Insurance Company for property and general liability insurance. There is a $1,000 deductible with a one hundred percent blanket, all risk policy.

General liability is also protected by Olverson Insurance Company with a $1,000,000 single occurrence limit and $1,000,000 aggregate and $1,000 deductible.

B. Workers' Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion to fund pension obligation. The contribution rates are not determined actuarially, but are established by the SERS Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002 and 2001 was $12,294 and $7,746, respectively; 90 percent has been contributed for fiscal year 2002 and 100 percent has been contributed for fiscal year 2001. $1,395 represents the accrued contribution at June 30, 2002.

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2002 and 2001 was $73,980 and $54,116, respectively; 98 percent has been contributed for fiscal year 2002 and 100 percent has been contributed for fiscal year 2001. $1,937 represents the accrued contribution at June 30, 2002.

8. POST EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled $35,043 during the 2002 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) net health care costs paid by STRS were $300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at $12,400. For the School, the amount to fund health care benefits, including surcharge, equaled $19,228 during the 2002 fiscal year.

8. POST EMPLOYMENT BENEFITS (Continued)

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were $161,439,934 and the target level was $242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefit of $315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

All employees who work more than 25 hours a week are given one personal day and five sick days each year. Administrative personnel receive vacation leave. No carry over of the personal day, sick days, and vacation leave is permitted. Therefore, there is no liability for benefits accrued at June 30, 2002.

B. Employee Medical and Dental Benefits

The School has purchased insurance from Olverson Insurance Agency to provide employee medical/surgical and dental benefits. The School pays 100% of the monthly premium.

10. OPERATING LEASE

The School leases their school building from Aledol, Inc., which is a company owned and operated by Alfred E. Olverson, Sr., a member of the Board of Directors. A lease was signed for five years beginning June 1, 2000. The lease payments were $15,543 per month for the period July 1, 2001 to June 30, 2002. The School recognized an expense of $201,516 for current year rent and has a payable of $15,000 at June 30, 2002. The landlord grants three options of five years each to extend this lease beyond the initial lease period at a lease rate to be negotiated with the landlord and consummated at least sixty days prior to the end of any lease period. The annual lease amount is adjusted by the average increase in the U.S. Consumer Price Index for the twelve months from June 1 to May 31 for each year of the lease.

11. CAPITALIZED LEASE - LESSEE DISCLOSURE

During fiscal year 2001, the School entered into a capital lease for the acquisition of a printer, copier, and fax machine. The terms of the agreement provide options to purchase the equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases,” which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Fixed assets acquired by a lease have been capitalized in the amount of $14,784, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded. Principal payments in fiscal year 2002 totaled $4,635.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2002:

Fiscal Year Ending June 30,	Long-Term Obligations
2003	$5,397
2004	4,970
Total	$10,367
Less: Amount Representing Imputed Interest	(594)
Present Value of Minimum Lease Payments	$9,773

12. SHORT-TERM OBLIGATIONS

		Amount Outstanding 7/1/01	Additions	Deductions	Amount Outstanding 6/30/02
Park National Bank Loan June 23, 2001	9.00%	$532,795	$0	$105,566	$427,229
Park National Bank LOC October 26, 2001	7.25%	0	100,000	100,000	0
Park National Bank Loan November 16, 2001	7.50%	0	200,000	24,830	175,170
Total Short-Term Obligations		$532,795	$300,000	$230,396	$602,399

On June 23, 2001, the School entered into a loan in the amount of $532,795 for the purpose of paying off a prior period loan of $560,000. The loan had an interest rate of 9.0% and matured on June 23, 2002. The amount outstanding at June 30, 2002 is delinquent. The loan is collateralized by personal and commercial properties owned by Alfred E. Olverson, Sr. and Pauline Olverson; and a security interest in the School’s equipment, inventory, accounts, chattel paper and general intangibles.

12. SHORT-TERM OBLIGATIONS (Continued)

On November 16, 2001, the School entered into a loan in the amount of $200,000 for the purpose of funding improvements to the School's leased school building. The loan had an interest rate of 7.5% and matured on June 23, 2002. The amount outstanding at June 30, 2002 is delinquent. The loan is collateralized by personal and commercial properties owned by Alfred E. Olverson, Sr. and Pauline Olverson; and a security interest in the School's equipment, inventory, accounts, chattel paper and general intangibles.

During fiscal year 2001, the School also entered into a line of credit with Park National Bank. The line of credit has a limit of $100,000 at an interest rate of the prime rate plus 0.50 percent maturing June 23, 2002. During fiscal year 2002, $100,000 was borrowed and repaid. Principal and interest for amounts outstanding are immediately due and payable on demand. Monthly payments shall be equal to accrued and unpaid financial charges and are to be paid each month until the principal is paid. The line of credit is collateralized by personal and commercial properties owned by Alfred E. Olverson, Sr. and Pauline Olverson; and a security interest in the School's equipment, inventory, accounts, chattel paper and general intangibles. The line of credit is not evidenced by notes.

At the option of Park National Bank, the following shall be considered an item of default and all obligations shall become immediately due and payable without notice or demand upon failure of the undersigned or any endorser or guarantor to: (a) furnish the Bank within 90 days after year end current financial statements; or (b) furnish the Bank with financial statements as provided in any loan agreement(s) executed with this note by borrower. The School did not provide the Bank with financial statements as required; however, as described in Note 15, Park National Bank renewed this debt in October, 2002.

Ohio law requires debt issued to mature at the end of the fiscal year the obligation was issued if the debt is obligated by State Foundation monies received by the School under Ohio Law. The $532,795 and $200,000 loans above did not specifically exclude State Foundation monies and extended past year end, contrary to State statutes.

13. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

14. CONTINGENCIES

A. Grants

The School received 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2002.

14. CONTINGENCIES (Continued)

B. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the state constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data 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. This information was not available as of the date of this report. The review resulted in an immaterial overpayment to the School in the amount of $138. This amount is being deducted from school foundation payments in fiscal year 2003.

15. SUBSEQUENT EVENTS

In October 2002, two loans were issued in the amount of $427,166 and $175,146 with Park National Bank to pay debt outstanding at June 30, 2002. Each loan had an interest rate of 7.5% and each loan matures June 23, 2003. The loan is collateralized by personal and commercial properties owned by Alfred E. Olverson, Sr. and Pauline Olverson; and a security interest in the School's equipment, inventory, accounts, chattel paper and general intangibles.

The loans also require the School, at the option of Park National Bank, (a) to furnish the Bank within 90 days after year end current financial statements; or (b) to furnish the Bank with financial statements as provided in any loan agreement(s) executed with this note by borrower. The above shall be considered an item of default and all obligations shall become immediately due and payable without notice or demand upon failure of the undersigned or any endorser or guarantor.

16. RELATED PARTY TRANSACTIONS

The School paid $186,516 in lease payments and has a payable of $15,000 to ALEDOL, Inc, which is owned by School Board Member Alfred E. Olverson, Sr.

The School paid $85,000 in custodial and maintenance services and has a payable of $10,000 to Forty Acres, which is co-owned by School Board Members Alfred E. Olverson Sr and Alfred Olverson Jr.

The School paid $1,100 for insurance premiums to A. E. Olverson Insurance Agency which is owned by School Board Member Alfred E. Olverson Sr.

The School obtained a $532,795 one-year loan in June 2001 and a $200,000 one-year loan in November 2001, in which ALEDOL, LLC, Pauline Olverson, School Superintendent/Director and Alfred Olverson, Sr., Board Members, were also named borrowers. The proceeds of this loan along with other funds were used to retire the $560,000 March 2001 loan which matured June 23, 2001 and to fund building improvements, respectively.

17. PURCHASED SERVICES

For the year ended June 30, 2002, purchased service expenses were comprised of the following:

Student Testing & Evaluation	$14,175
Legal	15,355
Accounting	31,408
Payroll Processing	4,795
Bank Charges	106
EMIS Computer Services	9,445
Audit Fees	14,694
Insurance	10,988
Utilities	47,454
Staff Development & Services	28,949
Food Service Contract	128,526
Repair and Maintenance	28,375
Printing and Advertising	1,363
Student Transportation	6,443
Janitorial Services	95,750
Security Services	2,519
Property Taxes	26,811
Building Lease	201,516
Total Purchased Services	$668,672

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

A.B. Miree Fundamental Academy
Hamilton County
1660 Sternblock Lane
Cincinnati, OH 45237

To the Board of Directors:

We have audited the financial statements of A.B. Miree Fundamental Academy, Hamilton County, Ohio (the School), as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated January 17, 2003, which emphasizes the School's current liabilities exceeding current assets and its delinquency in retiring its notes payable. 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.

Compliance

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 grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-10431-001 through 2002-10431-003. We also noted other matters involving noncompliance that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated January 17, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2002-10431-001 and 2002-10431-004 through 2002-10431-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2002-10431-001 and 2002-10431-005 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School in a separate letter dated January 17, 2003

This report is intended for the information and use of the finance committee, management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

January 17, 2003

SCHEDULE OF FINDINGS
JUNE 30, 2002

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2002-10431-001

Material Noncompliance/Material Weakness

Article 3, Section B of the Charter, states that "The Governing Authority agrees to comply with the policies and procedures regarding internal financial controls of the A.B. Miree Fundamental Academy as set forth in the Financial Plan." The Academy did not maintain the following documentation as described in the financial plan of the Academy's Charter:

- All disbursements other than payroll will require a purchase order or check request signed by the Co-Directors and Treasurer/Business Manager;

- A computerized accounting system will be utilized to track all financial transactions and prepare monthly financial statements, which will be presented the governing board by the Treasurer/Business Manager for review;

- The School will incorporate the Uniform School Accounting System Chart of Accounts in accordance with the Ohio Revised Code. Outstanding Purchase Orders will be recorded as encumbrances in the financial records;

- The School will prepare 12 month cash forecast on a quarterly basis;

- The Co-Directors, Business Manager, and the Board of Directors of the A.B. Miree Fundamental Academy will review the financial statements for the school monthly.

The School did not comply with the above requirements. We recommend that the School maintain all documents and perform all duties as listed in the Financial Plan per the Charter.

Furthermore, an effective monitoring control system has not been implemented to assist management in detecting material misstatements in financial or other information. The School should develop and implement a monitoring system to reduce the risk of not detecting material misstatements.

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. These controls should address operational, legal compliance, and financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action. There was no documentation in the minutes that the Board reviews financial information on a regular basis.

Monitoring controls may be in the nature of ongoing activities or separate periodic evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be more overview in nature.

FINDING NUMBER 2002-10431-001
(Continued)

Monitoring controls should assist management in detecting material misstatements in financial or other information and can include:

- regular review of budget and actual expenditures;
- regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports);
- review of key performance indicators;
- review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.);
- review of unusual or significant items, long outstanding items, etc.;
- identification of unusual fluctuations;
- ensuring an adequate segregation of duties exist;
- review of monthly reconciliations, and;
- approval of grants.

If no review or approval of the Budget or Financial Plan is performed, incorrect amounts may not be detected and could result in a negative fund balance. By having a system in place for review and approval, errors and discrepancies can be noted and corrected in a timely manner.

An effective monitoring control system should be implemented to assist management in detecting material misstatements in financial or other information. The Academy should develop and implement a monitoring control system to reduce the risk of not detecting material misstatements. This would include the Board review and approve monthly financial information, a bank reconciliation, cash balances, detailed listing of bills paid, and budget-to-actual data. Additionally the Board should review and approve the Budget and Financial Plan for each school year. These review and approvals should be denoted in the minutes of the Board.

FINDING NUMBER 2002-10431-002

Material Noncompliance

Ohio Revised Code, Section 3314.08(J), states a community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payments to be received by the school pursuant to division (D) of this section. The School may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money was borrowed. The School has two notes, in the amounts of $427,229 and $175,170 with Park National Bank that required final payments by June 23, 2002. These final payments were not made by fiscal year end. However payment was made in September 2002.

These notes do not specifically exclude the School's Ohio Revised Code, Section 3314.08(D)(State Foundation monies), funds from the general collateral provision, the notes obligate these monies. Therefore, Ohio Revised Code, Section 3314.08(J), would require paying the notes by June 30, 2002.

FINDING NUMBER 2002-10431-002
(Continued)

We recommend the School review the Ohio Revised Code and its loan agreements and structure its payments to be in compliance.

FINDING NUMBER 2002-10431-003

Material Noncompliance

The financial statement section of the loan agreements for Loan Number 500545428, Loan Number 500545943, and Loan Number 500545427 with Park National Bank states the following:

At the option of the Bank, the following shall be considered an item of default and all obligations shall become immediately due and payable without notice or demand upon failure of the undersigned or any endorser or guarantor to: (a) furnish the Bank within 90 days after year end current financial statements; or (b) furnish the Bank with financial statements as provided in any loan agreement(s) executed with this note by borrower.

The School did not provide the Bank with financial statements as required; however, the Bank has not called the debt. We recommend the School review its debt agreements and comply with the agreement.

FINDING NUMBER 2002-10431-004

Reportable Condition

Payroll Cycle

The following control weaknesses and errors were noted in the payroll disbursement process:

- The minutes stated the Board approved 2001-2002 staff salaries, but there was no documentation of the actual salary amounts approved. The School paid employees in accordance with the individual contracts in the employees' personnel files.

- New hires were not documented in the minutes as approved by the Board. The Board retroactively approved new hires and their salaries.

- Reports received from the School's third party payroll processor Paychex (until March 31, 2002) and ADP, Inc. (starting April 1, 2002), were not approved by the Treasurer and/or Superintendent.

- One employee's first pay did not have retirement withheld from her pay. However retirement was withheld from the rest of her pays.

- An employee was approved a raise in March 2002, but according to payroll records, the raise was initiated in December 2001. On December 4, 2002, the Board retroactively approved for the employee's raise to begin in December 2001.

These control weaknesses could result in errors or misstatements in the financial records and the possible unauthorized overpayment to employees. The control environment for payroll processing may include, but are not limited to these procedures.

- Pay rates and bonuses should be approved by the Board and documented in the minutes.

- New hires should be approved by the Board and documented in the minutes.

- ADP, Inc. Reports should be reviewed and approved by the Treasurer and/or Superintendent.

FINDING NUMBER 2002-10431-005

Reportable Condition/Material Weakness

<u>Disbursement Cycle</u>

The following control weaknesses were noted in the non-payroll disbursement process:

- There was no indication that expenditures were approved by the Superintendent prior to purchases being made nor were purchase orders used.

- The School does not approve their invoices before payment is made to the vendor.

These control weaknesses could result in errors or misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of School assets. The processing of non-payroll disbursements should include:

- Prior authorization of a purchase, through the use of a purchase order which documents approval by the appropriate members of management and includes appropriate coding of expenditures.

- A detailed review of the invoice and supporting documentation indicating descriptions of the goods/services received and documentation on the invoice that the goods/services were received.

FINDING NUMBER 2002-10431-006

Reportable Condition

Fixed Asset Policy

The School has not developed a detailed fixed asset accounting system. The School maintains its fixed asset listing by vendor. A fixed asset accounting system would maintain total fixed asset listings by location with tag identification numbers and other supplemental information. The School, also, has not developed and implemented procedures to assist in recording assets as additions (when purchased) and deletions (when disposed of) throughout the fiscal year. Also, procedures have not been implemented to perform periodic physical inventories of assets as listed on the fixed asset accounting system. Failure to maintain records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets. A listing of all fixed assets owned by the School should be maintained and updated to reflect additions of assets acquired and deletions of assets sold or disposed of throughout the year.

A.B. MIREE FUNDAMENTAL ACADEMY
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
001	Finding for Recovery – Overpayment on work completed	N/A	Referred to Attorney General and Hamilton County Prosecutor.
002	ORC 3309.47 & 3309.49 – Contributions to SERS	Yes	
003	Article 3, Section B of the School's charter – noncompliance with financial plan	No	Reissued in the Schedule of Findings as Finding Number 2002-10431-001.
004	AOS Bulletin 2000-005 – Lease Agreements with no fiscal funding or cancellation clause	No	Reissued in the Management Letter.
005	ORC 3314.08(J) – Debt beyond the fiscal year	No	Reissued in the Schedule of Findings as Finding Number 2002-10431-002.
006	OAC 117-2-02 – File Financial Statements with Auditor of State	Yes	
007	No Tier II SAS 70 report for Paychex	N/A	No Longer Valid. School switched to ADP, Inc.
008	Control Weaknesses in non-payroll disbursements	No	Partially Corrected. Reissued parts of the material weakness in the Schedule of Findings as Finding Number 2002-10431-005.
009	Control Weaknesses in payroll cycle	No	Partially Corrected. Reissued parts of the reportable condition in the Schedule of Findings as Finding Number 2002-10431-004.
010	No listing of fixed assets	No	Reissued in the Schedule of Findings as Finding Number 2002-10431-006.

Auditor of State
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A.B. MIREE FUNDAMENTAL ACADEMY

HAMILTON 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
MARCH 6, 2003