



**Auditor of State  
Betty Montgomery**



**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Cincinnati College Preparatory Academy  
Hamilton County  
1141 Central Parkway  
Cincinnati, Ohio 45202

To the Victory Team (Board):

We have audited the accompanying Balance Sheet of Cincinnati College Preparatory Academy, Hamilton County, Ohio (the Academy), as 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 Academy'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 State 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 estimated 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 Academy as of June 30, 2002, and the results of its operations and cash flows for the year ended, in conformity with auditing standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 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 for the year ended June 30, 2002. 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 11, 2003

**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2002**

**Assets**

**Current Assets**

Cash and Cash Equivalents	\$ 392,045
Intergovernmental Receivable	<u>237,819</u>

Total Current Assets 629,864

**Noncurrent Assets**

Fixed Assets (Net of accumulated depreciation)	<u>335,431</u>
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**Total Assets** \$ 965,295

**Liabilities and Fund Equity**

**Current Liabilities**

Accounts Payable	\$ 115,740
Accrued Wages and Benefits	197,749
Intergovernmental Payable - SERS	30,773
Lease Payable - Short Term	<u>2,926</u>

Total Current Liabilities 347,188

**Long-Term Liabilities**

Compensated Absences	81,853
Long-Term Portion of Capital Lease	<u>7,439</u>

Total Liabilities 436,480

**Fund Equity**

Unreserved Retained Earnings	528,816
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Total Liabilities and Fund Equity \$ 965,295

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

**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

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

**Operating Revenues**

State Foundation Payments	\$ 2,330,635
Disadvantaged Pupil Impact Aid	401,482
State Education Programs	663,675
Other	<u>22,575</u>
Total Operating Revenues	<u>3,418,367</u>

**Operating Expenses**

Salaries	1,715,496
Fringe Benefits	292,198
Purchased Services	1,330,132
Materials and Supplies	109,509
Depreciation - Fixed Assets	49,883
Depreciation - Lease Hold	83,699
Other	<u>31,125</u>
Total Operating Expenses	<u>3,612,042</u>

Operating Loss (193,675)

**Non-Operating Revenues/(Expenses)**

Federal and State Grants	106,595
Lease Payment - Interest	<u>(1,674)</u>
Total Non-Operating Revenues	<u>104,921</u>

Net Loss (88,754)

Retained Earnings at Beginning of Year 617,570

Retained Earnings at End of Year \$ 528,816

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



**CINCINNATI COLLEGE PREPARATORY 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	\$3,383,722
Cash Payments to Employees for Services	(1,605,469)
Cash Payments for Employees Benefits	(280,938)
Cash Payments to Suppliers for Goods and Services	(1,412,215)
Other Operating Revenue	27,357
Net Cash Provided by Operating Activities	112,457

**Cash Flows from Noncapital Financing Activities**

Federal Grants Received	106,595
Net Cash Provided by Noncapital Financing Activities	106,595

**Cash Flows from Capital and Related Financing Activities**

Loan Principal Payment	(1,674)
Loan Interest Payment	(2,586)
Net Cash Used for Capital and Related Financing Activities	(4,260)

Net Increase in Cash and Cash Equivalents	214,792
Cash and Cash Equivalents at Beginning of Year	177,253
Cash and Cash Equivalents at End of Year	\$ 392,045

**Reconciliation of Operating Loss to Net Cash Provided  
by Operating Activities**

Operating Loss	\$ (193,675)
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**Adjustments To Reconcile Operating Loss to Net Cash Used for  
Operating Activities**

Depreciation	133,582
Changes in Assets and Liabilities	
Decrease in Prepaids	3,000
Decrease in Intergovernmental Receivable	324,493
Increase in Accounts Payable	62,580
Decrease in Trade Payable	(20,660)
Decrease in Intergovernmental Payable	(331,374)
Decrease in Lease Payable	(2,285)
Increase in Accrued Wages	123,125
Increase in Compensated Absences Payable	13,671
Total Adjustments	306,132
Net Cash Used for Operating Activities	\$ 112,457

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

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**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY**

Cincinnati College Preparatory Academy, Hamilton County, Ohio (the Academy), was established pursuant to Ohio Revised Code, Chapters 3314 and 1702. The Academy's mission is to holistically guide and direct students in the development of personal character and academic potential through top quality teaching and child-centered programs in a safe, positive environment. The Academy, 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 Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The Academy was approved for operation under contract with the state Board of Education (the Sponsor) for a period of five years commencing July 1, 1999. The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The Academy operates under the direction of a seven member Board of Directors (The Victory Team). The Board is the decision/policy making body for the academy. The victory Team members have the primary role of representing the constituency and providing communication between the Board and the constituency. All members have equal input and voting power. Decisions that cannot reach a consensus are made on a two-thirds majority rule vote. The Victory Team is accountable to the State Board of Education for the efficient and effective operation of the Academy. The Board of Directors controls the Academy's one instructional/support facility staffed by 6 non-certified and 29 certificated full-time teaching personnel who provide services to 435 students.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Academy 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. The Academy also applies Financial Accounting Standards Board (FASB) 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 Academy's accounting policies are described below.

**A. Basis of Presentation**

Enterprise Accounting

The Academy uses enterprise accounting to report on 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.

**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

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

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present 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 Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe a budgetary process for the Academy, requiring the provision of an estimated Academy budget for each year of the period of the contract.

**D. Cash and Cash Equivalents**

The Academy's treasurer accounts for all monies received by the Academy. For cash management, all cash received by the Treasurer is pooled in an interest bearing checking account. Total cash for the Academy is presented as "cash and cash equivalents" on the accompanying balance sheet. Interest earned during the fiscal year resulted from this interest bearing account.

**E. Fixed Assets and Depreciation**

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. Donated fixed assets are recorded at their fair values as of the dates received. The Academy maintains a capitalization threshold of one hundred dollars.

Improvements are capitalized. The costs of-normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

<u>Assets</u>	<u>Years</u>
Building Improvements	Remainder of Five Year Lease
Vehicles	5
Furniture and Equipment	5

**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**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.

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

**G. Compensated Absences**

Sick leave benefits are accrued as a liability. The liability includes the employees who are currently eligible to receive termination benefits and those the Academy has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Academy's termination policy. The Academy immediately records a liability for accumulated unused sick leave for certificated employees.

**3. CASH**

At June 30, 2002, the Academy had a carrying value of deposits of \$391,545 which is reported as Cash and Cash Equivalents in the accompanying financial statements. The bank balance of the Academy's deposits was \$402,360. Deposits are either (1) insured by the Federal Deposit Insurance Corporation, (2) collateralized the financial institution's public entity pool.

**4. FIXED ASSETS**

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

Leasehold Improvements	\$ 421,978
Furniture and Equipment	<u>250,527</u>
Subtotal	672,505
Less: Accumulated Depreciation	<u>(337,074)</u>
Net Fixed Assets	\$ <u>335,431</u>

**5. RISK MANAGEMENT**

**A. Property and Liability**

The Academy 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 Academy contracted with A.E. Olverson Insurance Agency for property and general liability insurance. There is a \$1000 deductible, \$1,000,000 single occurrence limit and \$2,000,000 aggregate.

**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**5. RISK MANAGEMENT (Continued)**

**B. Workers' Compensation**

The Academy 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.

**6. DEFINED BENEFIT PENSION PLANS**

**A. Academy Employees Retirement System**

The Academy 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 and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute 14 percent; for fiscal year 2002, 5.46 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The academy's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2002 was \$ 44,642, for 2001 was \$40,845, and for 2000 was \$46,897.

**B. State Teachers Retirement System**

The Academy 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 Academy 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 Academy's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2002 was \$ 85,292, for 2001 was \$90,931, and for 2000 was \$83,275.

**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**7. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining sick leave components are derived from negotiated agreements and State laws. Classified employees earn 20 to 30 days of vacation per year, depending upon duties. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who are not on a twelve-month contract do not earn vacation time.

**B. Insurance Benefits**

The Academy provides life insurance to all employees through a private carrier. Coverage in the amount of \$15,000 is provided for all certified and non-certified employees.

**C. Employee Medical, Dental, and Vision Benefits**

The Academy has contracted with a private carrier to provide employee medical/surgical, dental, and vision benefits. The Academy pays 100 of the monthly premium for employees that participate in the plan. Employees have the option to add other family members upon payment of the additional premium amount.

**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 funded on a pay-as-you-go basis. All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. The STRS Board currently allocates employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$40,401 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, and to 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 2001, the minimum pay has been established at \$12,400. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$69,825 during the 2002 fiscal year.

**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**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. 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-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.

**10. CONTINGENCIES**

**A. Grants**

The Academy 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 are 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.

**B. Litigation**

A suit was filed in Franklin County Commons 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 School does not have any material adjustments to state funding for fiscal year 2002, as a result of this review.



**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**11. RELATED PARTY TRANSACTIONS**

A Board member provides insurance services to the School through his agency. The School paid \$2,484 in insurance premiums in fiscal year 2002.

**12. CAPITALIZED LEASES**

During fiscal year 2000, the Academy entered into a capitalized lease for a van. 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. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 20, 2002.

Fiscal Year Ending June 30		
	2003	\$ 2,926
	2004	3,311
	2005	3,747
	2006	<u>2,055</u>
Total minimum lease payments		12,039
Less amount representing interest		<u>(1,674)</u>
Present value of future minimum Lease Payments		\$ <u>10,365</u>

**13. OPERATING LEASE**

During the year ended June 30, 2001, the Academy leased classroom facilities and offices for a period of five years. The lease also grants the Academy an option to renew the lease for an additional five years.

**14. FEDERAL EXEMPT STATUS**

The Academy has obtained their 501(c)(3) tax exempt status. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax-exempt status.

**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**15. PURCHASED SERVICES**

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

Insurance	5,762
School Psychology	27,286
Travel and Meetings	35,718
Legal and Consulting	23,610
Utilities	84,503
Building and Equipment Leases	304,870
Field Trips	4,452
Food Service	162,035
Communication	449,951
Advertising	82,179
Professional Education Services	20,253
Data Processing	21,945
Repairs/Maintenance	35,280
Vehicle Lease	4,260
Staff Service	33,787
Other	<u>34,241</u>
Total Purchase Services	<u>\$1,330,132</u>



**Auditor of State  
Betty Montgomery**

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

Cincinnati College Preparatory Academy  
Hamilton County  
1141 Central Parkway  
Cincinnati, Ohio 45202

To the Victory Team (Board):

We have audited the financial statements of Cincinnati College Preparatory Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2002, and have issued our report thereon dated June 11, 2003. 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 Academy'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* as items 2002-10431-001. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated June 11, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Academy'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. A reportable condition is described in the accompanying schedule of findings as item 2002-10431-002.

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, we believe none of the reportable conditions described above is a material weakness. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated June 11, 2003.

This report is intended for the information and use of the Victory Team (Board), audit committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 11, 2003

**CINCINNATI COLLEGE PREPARATORY ACADEMY  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2002-10431-001**

**Material Noncompliance/Reportable Condition**

The Academy did not comply with Article 3, Section B, Exhibit 2, of the contract with the Ohio Department of Education. The contract states that the chief financial officer will initiate all purchases, and use a purchase order signed/approved by the director and chief financial officer to initiate the process. In addition, the person receiving an order will verify the quantity and process on the invoice to the information contained on the purchase order and any deliveries that cannot be matched to an open purchase order will be refused. The original invoice is to be matched to the purchase order and entered into the computer system for payment upon the terms granted by the vendor. Of the expenditures reviewed, 70% did not have a purchase order or documentation of prior authorization of purchases by the Treasurer or Director as required per the contract. However, board approval was given for the expenditures.

We recommend the Academy obtain approved purchase orders in accordance with their contract with the ODE, and retain all supporting documentation related to purchases.

**FINDING NUMBER 2002-10431-002**

**Reportable Condition**

During the year ended June 30, 2002, the Academy made payments of approximately \$100,000 for charges to the Academy credit card. These payments were made for charges incurred by Academy employees. However, the Academy policy does not define: circumstances under which the credit card should be used; authorization procedures, and required documentation. At the request of the Auditor of State, the Board and Superintendent signed affidavits after the audit period stating that these purchases were authorized and made for a proper public purpose.

Control weaknesses related to non-payroll expenditures could result in errors or misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of the Academy's assets.

We noted the following control weaknesses in the non-payroll process:

- 70% of the payment documentation reviewed did not have purchase orders.
- Board minutes did not show dollar amount for most approved tested expenditures.
- The Academy did not have a policy to control payments made for credit card purchases and reimbursements to employees that by-passed the purchase order process.
- Gifts for students and Academy employees were purchased on the school credit card and reimbursement deposits were made at a later date.
- The Academy minutes document Board approval for some of the activities which relate to the credit card charges and employee reimbursement, but there was no documentation of an authorized dollar limit.
- The Academy reimbursement and travel policies need to be more specific.

**FINDING NUMBER 2002-10431-002  
(Continued)**

We recommend that the Academy establish policies and procedures to monitor and control expenses:

- Establish a board-approved written policy governing non-payroll disbursements. Requisitions and purchase orders should be approved and documented through appropriate members of management and should provide the appropriate coding of the anticipated expense. Purchase orders should be authorized before the Academy orders goods or services.
- Require Board approval of dollar amount of purchase orders over a threshold established by the Board (\$1,000 for travel & \$ 500 for all other non-payroll expenditures).
- Compile and maintain all appropriate supporting documentation (requisitions, original invoices, verification of receipt of purchase and agreement to invoice, authorization of payment) related to expenses.
- Establish a policy related to credit card purchases. This policy should define when purchases of goods or services can be charged to the credit card, and how to record the subsequent transaction and authorize payment. The policy should also provide guidance on documenting the description of the items being charged; the purpose for the purchase; the amount of the purchase; the account code to be charged; the person requesting the purchase; and the person authorizing the purchase.
- Establish a policy related to employee reimbursements. This policy should provide guidance on prior authorization for all purchases made, completion of reimbursement forms with the employee's signature indicating the items for which the employee is being reimbursed, requirements for submitting receipts, and obtaining approval from an appropriate authority authorizing the reimbursement.
- Establish a policy related to employee travel. This policy should define acceptable purposes for incurring travel related expenses, and define the approval process for travel related expenses and related documentation of that approval (documentation of travel approval in the minutes prior to attendance, persons attending, the cost of the conference, approximate amount of housing, travel, and food allowances, and other related expenses deemed appropriate by the Board). Upon return from the conference, all receipts should be submitted to the Treasurer for reimbursement approval and verification that expenses are within authorized limits.

**CINCINNATI COLLEGE PREPARATORY 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; <b>Explain:</b>
2001-10431-001	ORC 149.351, destruction of records	Yes	Corrected
2001-10431-002	Article 3, Section B, Exhibit 2 of contract with ODE, use of purchase orders.	No	Partially corrected. Reissued as finding 2002-10431-001
2001-10431-003	Control weaknesses noted in non-payroll processing.	No	Partially corrected. Reissued as finding 2002-10431-002







**Auditor of State  
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**CINCINNATI COLLEGE PREPARATORY 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  
JUNE 26, 2003**