



**Auditor of State  
Betty Montgomery**



**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Balance Sheet as of June 30, 2003.....	3
Statement of Revenues, Expenses, and Changes in Retained Earnings for the Year Ended June 30, 2003.....	4
Statement of Cash Flows for the Year Ended June 30, 2003.....	5
Notes to the Financial Statements.....	7
Schedule of Federal Awards Expenditures.....	17
Notes to the Schedule of Federal Awards Expenditures.....	18
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	19
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control over Compliance in Accordance with OMB Circular A-133.....	21
Schedule of Findings and Questioned Costs.....	23
Schedule of Prior Audit Findings.....	27

**This page intentionally left blank.**



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

A.B. Miree Fundamental Academy  
Hamilton County  
1660 Sternblock Lane  
Cincinnati, Ohio 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, 2003, 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, 2003, 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, 2003, the School's current liabilities significantly exceeded its current assets. Management's subsequent actions are described in Note 17.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2004, 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.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole

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

**Betty Montgomery**  
Auditor of State

April 28, 2004

**A B MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**BALANCE SHEET  
AS OF JUNE 30, 2003**

**Assets**

**Current Assets:**

Cash and Cash Equivalents	\$ 148,162
Intergovernmental Receivable	75,963
	<hr/>
Total Current Assets	224,125

**Noncurrent Assets:**

Fixed Assets (Net of accumulated depreciation)	820,159
	<hr/>

<b>Total Assets</b>	<b><u><u>\$ 1,044,284</u></u></b>
---------------------	-----------------------------------

**Liabilities and Fund Equity**

**Current Liabilities:**

Account Payable	\$ 19,537
Contract Payable	139,775
Capital Lease Payable	2,321
Accrued Wages and Benefits	178,802
Intergovernmental Payable	37,081
Loan Payable	418,494
	<hr/>
Total Current Liabilities	796,010

**Long-Term Liabilities**

Capital Lease Payable, net of current portion	8,577
	<hr/>

<b>Total Liabilities</b>	<b>804,587</b>
--------------------------	----------------

**Fund Equity:**

Retained Earnings: Unreserved	239,697
	<hr/>

<b>Total Liabilities and Fund Equity</b>	<b><u><u>\$ 1,044,284</u></u></b>
--	-----------------------------------

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 FISCAL YEAR ENDED JUNE 30, 2003**

<b>Operating Revenues:</b>	
Foundation Payments	\$ 1,879,514
Disadvantaged Pupil Impact Aid	304,813
State Special Education Program	87,646
Other Operating Revenue	<u>18,076</u>
 Total Operating Revenues	 2,290,050
 <b>Operating Expenses:</b>	
Salaries	1,273,931
Fringe Benefits	366,615
Purchased Services	686,533
Materials and Supplies	123,465
Depreciation	392,416
Other Operating Expenses	<u>47,118</u>
 Total Operating Expenses	 <u>2,890,079</u>
 <b>Operating Loss</b>	 <u>(600,029)</u>
 <b>Non-Operating Revenues:</b>	
Federal Grants	404,487
Other State Grants	13,983
Interest Expense	<u>(40,411)</u>
 Total Non-Operating Revenues	 <u>378,058</u>
 <b>Net Loss</b>	 <u>(221,971)</u>
 Retained Earning at Beginning of Year	 <u>461,668</u>
 <b>Retained Earning at End of Year</b>	 <u><u>\$ 239,697</u></u>

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 PERIOD ENDED JUNE 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents:

**Cash Flows from Operating Activities:**

Cash Received from State of Ohio	\$2,271,976
Cash Payments to Employees for Services	(1,678,496)
Cash Payments to Suppliers for Goods and Services	(860,307)
Other Operating Revenue	29,994
	(236,833)

Net Cash Used by Operating Activities (236,833)

**Cash Flows from Noncapital Financing Activities:**

State and Federal Grants Received	401,135
	401,135

Net Cash Provided by Noncapital Financing Activities 401,135

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

Acquisition of Capital Assets	(158,360)
Proceeds of Loan	418,493
Capital Lease Principal	(14,784)
Capital Lease Interest	(3,333)
Repayment of Loan Including Interest	(642,363)
	(400,347)

Net Cash Used Capital and Related Financing Activities (400,347)

Net Decrease in Cash and Cash Equivalents (236,045)

Cash and Cash Equivalents at Beginning of Year 384,207

Cash and Cash Equivalents at End of Year \$ 148,162

Reconciliation of Operating Loss to Net Cash Provided

Used for Operating Activities:

Operating Loss \$ (600,029)

Adjustments To Reconcile Operating Loss to Net Cash

Provided (Used) for Operating Activities:

Depreciation	392,416
Changes in Assets and Liabilities:	
Increase in Intergovernmental Receivable	(23,521)
Decrease in Accounts Payable	(22,464)
Increase in Accrued Wages	19,264
Decrease in Intergovernmental Payable	(2,499)
	363,196

Total Adjustments 363,196

Net Cash Used by Operating Activities \$ (236,833)

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

**This page intentionally left blank.**

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003**

**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 Rev. 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 educational 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 18 non-certified and 29 certificated full-time teaching personnel who provide services to a minimum of 380 students during the fiscal year 2003. The Treasurer is responsible for reporting the progress of the School with the Board authorized financial course of operations.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of A. B. Mired Fundamental 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 School 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 School's accounting policies are described below.

**A. Basis of Presentation**

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.

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

**B. Measurement Focus and Basics 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. 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**

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 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. Cash and Deposits**

All monies received by the School are accounted for by the School's Chief Financial Officer. For cash management, all cash received by the chief financial officer is pooled in a non-interest bearing central bank account. Total cash for the School is presented as "cash" on the accompanying balance sheet.

The school had no investments during the fiscal year.

**E. 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 the 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.

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

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

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact (DPIA) 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 schools 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.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

**3. CASH AND DEPOSITS**

At June 30, 2003, the school had a cash balance of \$148,162, which is presented as a cash and cash equivalent in the accompanying financial statements. The bank balance of the School's deposits was \$151,940 of which \$100,000 was covered through federal depository insurance (FDIC) and \$51,940 is uninsured and uncollateralized.

**4. RECEIVABLES**

Receivables at June 30, 2003 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:

National School Lunch Program	\$ 9,341
Title I - Disadvantaged Children	49,924
Title IIA - Class Size reduction	11,801
Title IID - USAS 599	441
Title V - Innovative Programs	809
Title IV - Safe, Drug-Free Schools	124
Title VI - Innovative Assistance Program	<u>3,523</u>
Total	<u><u>\$ 75,963</u></u>

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**5. FIXED ASSETS**

A summary of the School's fixed assets at June 30, 2003 follows:

Leasehold Improvements	\$ 1,536,005
Furniture and Equipment	154,268
Less: Accumulated Depreciation	<u>(870,114)</u>
Net Fixed Assets	<u><u>\$ 820,159</u></u>

**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 2003, the School contracted with Olverson Insurance Agency 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 provided 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 Workers 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 defined benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone, financial report that includes financial statements and required statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, OH 43215-3476.

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. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2003, 2002, and 2001 were \$27,246, \$12,294, and \$7,746, respectively; 100 percent has been contributed for fiscal year 2003.

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**B. State Teachers Retirement System**

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations for the fiscal year ended June 30, 2003, 2002, and 2001 were \$124,259, \$73,980, and \$54,116, respectively; 100 percent has been contributed for fiscal year 2003.

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**8. POSTEMPLOYMENT 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 law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$9,558.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 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.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 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 2003, the minimum pay has been established at \$14,500. For the School, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$19,443.

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 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits was \$335.2 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, 2003.



**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**9. OTHER EMPLOYEE BENEFITS (Continued)**

**B. Employee Medical, Dental, and Vision 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. OPERATION LEASE**

The School leases their school building from Aledol, Inc., which is a company owned and operated by Alfred E. Elverson, Sr., a member of the Board of Directors. A lease was signed for five years beginning June 1, 2000. The lease payments were \$15,725 per month for the period July 1, 2002 to June 30, 2003. The School recognized an expense of \$188,712 for current year rent. 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 2003, the School successfully terminated the 2001 lease for a printer/copier/fax machine and replaced it with new equipment financed by a capital lease. The terms of the Agreement provide options to purchase the equipment.

This 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 fixed assets acquired have been capitalized in the amount of \$12,548 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 2003 totaled \$ 1,651.

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, 2003.

<u>Fiscal Year Ending June 30,</u>	<u>Obligations</u>
2004	\$ 2,911
2005	2,911
2006	2,911
2007	<u>3,639</u>
Total	\$ 12,372
Less: Amount Representing Imputed Interest	<u>(1,475)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 10,897</u></u>

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**12. SHORT-TERM OBLIGATIONS**

	Amount Outstanding 07/01/02	Additions	Deductions	Amount Outstanding 06/30/03
Park National Bank Loan June 23, 2001      5.75%	\$ 427,229	\$ 295,703	\$ 427,229	\$ 295,703
Park National Bank Loan November 16, 2001   5.75%	<u>175,170</u>	<u>122,791</u>	<u>175,170</u>	<u>122,791</u>
Total Short-Term Obligations	<u>\$ 602,399</u>	<u>\$ 418,494</u>	<u>\$ 602,399</u>	<u>\$ 418,494</u>

On June 23rd, 2003, the \$175,170 outstanding July 1, 2002, was retired and subsequently reissued for the amount outstanding as of June 30, 2003. Likewise, the \$427,229 outstanding July 1, 2002, was retired and subsequently reissued for the June 30, 2003 amount outstanding. Both loans contained maturity dates of June 24, 2004 and carried interest rates of 5.75%.

The loans are 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.

**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 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, 2003.

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**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. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18th, 2003. The effect of this suit, if any, on the School is not presently determinable.

**15. RELATED PARTY TRANSACTIONS**

The School paid \$188,712 in lease payments to ALEDOL, Inc. which is owned by School Board Member Alfred E. Olverson, Sr.

The School paid \$120,000 in custodial and maintenance services to Forty Acres, which is co-owned by School Board Member Alfred E. Olverson 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 one-year loans in June 2003 in the amounts of \$295,703 and \$122,791 in which ALEDOL, LLC Pauline Olverson, School Superintendent/Director and Alfred Olverson, Sr. Board Member, were also named borrowers. The proceeds of these loans along with other funds were used to retire the \$427,299 June 23, 2002 loan that matured June 23, 2003, the \$175,170 June 23, 2002 loan that matured on June 23, 2003, respectively.

The School's Program Director, Valerie Dukes, dba Success For All, provides staff development classes for the School's teachers. During the audit period, the School paid \$27,100 for these workshops funded entirely by the Title IIA (Improving Teacher Quality) Federal Program.

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2003  
(Continued)**

**16. PURCHASED SERVICES**

For the year ended June 30, 2003, purchased service expenses were comprised of the following:

Staff Development	\$ 29,214
Date Processing Service	11,966
Legal	29,446
Accounting	33,041
Payroll Processing	5,107
Janitorial Service	118,241
School Site Lease	188,712
Utilities	46,868
Repair & Maintenance	66,872
Food Service Contract	134,032
Communications	11,527
Advertising	5,379
Postage	1,676
Security Service	1,814
All Other	2,638
Total Purchased Services	<u>\$ 686,533</u>

**17. MANAGEMENT'S PLANS REGARDING CURRENT LIABILITIES EXCEEDING CURRENT ASSETS**

The District's current liabilities significantly exceeded its current assets at June 30, 2003. On January 15, 2004, ODE completed an audit of the School's enrollment. As a result, ODE reimbursed the School \$139,617 on February 16, 2004. The School's unaudited cash balance as of February 29, 2004 is \$472,467. The School plans to refinance the loan payable in June 2004. The School has not yet discussed the refinancing of the notes with the lender and is aware of no significant delinquent payments as of April 28, 2004.

**AB MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
National School Lunch Program	LL-P4	10.555	\$63,467	\$134,066
Total U.S. Department of Agriculture - Nutrition Cluster			<b>63,467</b>	<b>134,066</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Special Education Grants to States				
IDEA Part B	6B-SF (FY03)	84.027	20,391	21,349
IDEA Part B	6B-SX (FY02)	84.027	20,872	0
Total Special Education Cluster			<b>41,263</b>	<b>21,349</b>
Grants to Local Educational Agencies				
Title I	C1-S1	84.010	146,270	241,001
Title IV-Safe & Drug Free Schools	DR-S1	84.186	4,115	360
Eisenhower Professional Development	MS-S1 (FY01)	84.281	257	0
Start-Up Grant	CH-S1	84-282A	-	53,853
Title V/VI-Innovative Educational Programs	C2-S1	84.298	2,206	392
Title II D - Technology Literacy Challenge	TJ-S1	84.318	3,963	4,913
FERP - School Renovation	N/A	84.352A	88,190	70,400
Title II-A - Improving Teacher Quality	TR-S1	84.367	38,575	38,024
Total Department of Education			<b>324,839</b>	<b>430,292</b>
<b>Totals</b>			<b>\$ 388,306</b>	<b>\$ 564,358</b>

*The accompanying notes to this schedule are an integral part of this schedule.*

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B—CHILD NUTRITION CLUSTER**

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



## **Auditor of State Betty Montgomery**

### **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, Ohio 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 year ended June 30, 2003, and have issued our report thereon dated April 28, 2004, which emphasizes the School's current liabilities exceeding current assets. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001.

We also noted an immaterial instance of noncompliance that we have reported to the management of School in a separate letter dated April 20, 2004.

#### **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 School's ability to record, process, summarize and report financial data with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-001 through 2003-003.

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 are 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 management of the School in a separate letter dated April 20, 2004.

This report is intended for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

April 28, 2004





**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL  
OVERCOMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Board of Directors:

**Compliance**

We have audited the compliance of A.B. Miree Fundamental Academy, Hamilton County, Ohio (the School), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the School complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

### **Internal Control Over Compliance**

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

April 28, 2004

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2003**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA# 84.010 CFDA# 84.282A
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: \$300,000 Type B: > \$100,000
(d)(1)(ix)	Low Risk Auditee?	No

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

**FINDING NUMBER 2003-001**

**Noncompliance/Reportable Condition – Purchase Orders/Encumbering**

The School's Charter, Article III, Section B 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 Financial Plan specifies that all disbursements other than payroll require a purchase order or check request signed by the Co-Directors and the Treasurer/Business Manager. The School failed to obtain both Co-Director's and the Treasurer/Business Manager's signatures on 100% of disbursements tested. Failure to execute purchase orders or check requests in the manner required by the charter could result in improper or unnecessary expenditures.

We recommend the School obtain the signatures of both Co-Directors and the Treasurer/Business Manager when executing a purchase order or check request.

The Financial Plan further requires that outstanding purchase orders be recorded as encumbrances in the financial records. During the audit period, the School did not record outstanding purchase orders as encumbrances in the financial records. Failure to record and monitor encumbrances could result in the Schools incurring liabilities in excess of available cash.

We recommend the School record encumbrances as they are incurred to ensure there are adequate resources to cover the expenses when they become due.

**FINDING NUMBER 2003-002**

**Reportable Condition – Payroll Cycle**

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

- The minutes stated the Board approved 2002-2003 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 ADP, Inc. were not reviewed and approved by the Treasurer and/or Superintendent.

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, including the Payroll Audit report and Master Control form, should be reviewed and approved by the Treasurer and/or Superintendent.

**FINDING NUMBER 2002-003**

**Reportable Condition – Fixed Asset Policy**

The School has not developed a detailed fixed asset accounting system. 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.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

None.

**This page intentionally left blank.**

**A.B. MIREE FUNDAMENTAL ACADEMY  
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
001	Article 3, Section B of the School's charter – noncompliance with financial plan	No	Partially Corrected. Reissued parts of the material noncompliance in the Schedule of Findings as finding number 2003-001.
002	ORC 3314.08(J) – Debt beyond the fiscal year	Yes	
003	Failure to furnish financial statements to bank.	Yes	
004	Control Weaknesses in payroll cycle	No	Partially Corrected. Reissued parts of the material noncompliance in the Schedule of Findings as finding number 2003-002.
005	Control Weaknesses in non-payroll disbursements	Yes	
006	No listing of fixed assets	No	Reissued in the Schedule of Findings as finding number 2003-003

**This Page is Intentionally Left Blank.**





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**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  
MAY 13, 2004**