



**Auditor of State
Betty Montgomery**

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Dohn Community High School
Hamilton County
608 E. McMillan Avenue
Cincinnati, Ohio 45201

To the Board of Directors:

We have audited the accompanying Balance Sheet of Dohn Community High School, Hamilton County, Ohio (DCHS), 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 DCHS'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 Dohn Community High School, Hamilton County, Ohio, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2005, on our consideration of DCHS'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.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

January 10, 2005

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**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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

Assets:

Current Assets

Cash	\$ 10,167
Intergovernmental Receivable	4,371
Total Current Assets	<u>14,538</u>

Noncurrent Assets

Capital Assets net of depreciation	<u>601,439</u>
Total NonCurrent Assets	<u>601,439</u>
Total Assets	<u><u>\$ 615,977</u></u>

Liabilities and Fund Equity:

Current Liabilities

Accounts Payable	\$ 22,154
Intergovernmental Payable	7,835
Accrued Wages & Benefits	5,624
Loans Payable to Fiscal Officer	12,500
Line of Credit Payable	<u>98,400</u>

Total Liabilities	146,513
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Fund Equity

Retained Earnings	<u>469,464</u>
Total Liabilities and Fund Equity	<u><u>\$ 615,977</u></u>

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

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues:

State Foundation Payments	\$ 295,918
Other Operating Revenues	3,904
	<hr/>
Total Operating Revenues	299,822

Operating Expenses:

Salaries	295,446
Fringe Benefits	77,944
Purchased Services	97,016
Contracted Craft or Trade Service	19,462
Equipment	7,610
Materials and Supplies	29,974
Depreciation	24,385
Tuition Expense	171
Other Operating Expense	18,238
	<hr/>
Total Operating Expenses	570,246
	<hr/>
Operating Loss	(270,424)

Non-Operating Revenues:

Federal Grants	50,517
State Grants	4,725
Local Grants	53,000
Donations	27,995
Contributed Capital	576,200
	<hr/>
Total Non-Operating Revenues	712,437
	<hr/>
Net Income	442,013
	<hr/>
Retained Earnings at Beginning of Year	27,451
	<hr/>
Retained Earnings at End of Year	\$ 469,464

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

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash:

Cash Flows From Operating Activities:

Cash Received from State of Ohio - Foundation	\$ 297,594
Cash Payments to employees for services and benefits	(373,390)
Cash Payments to suppliers for goods and services	(138,825)
Other operating revenue	3,904
Net Cash Used for Operating Activities	<u>(210,717)</u>

Cash Flows From Non-Capital Financing Activities

Cash Received from State and Federal Grants	\$ 55,242
Local Grants Received (Foundations)	53,000
Donations	<u>7,996</u>

Net Cash Provided by Non-Capital Financing Activities 116,238

Cash Flows From Capital Financing Activities

Payments for Acquisition of Capital Assets	(12,530)
Net Proceeds from loans and line of credit	<u>96,400</u>

Net Cash Used for Capital Financing Activities 83,870

Net Increase in Cash (10,609)

Cash at Beginning of Year 20,776

Cash at End of Year **\$10,167**

**Reconciliation of Operating Loss to Net Cash
Used for Operating Activities**

Operating Loss \$ (270,424)

**Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities**

Depreciation & Reduction of Assets	\$ 24,385
Changes in Assets and Liabilities	
Increase in Intergovernmental Receivable	\$ (2,696)
Increase in Accounts Payable	8,996
Increase in Intergovernmental Payable	3,408
Increase in Accrued Wages & Benefits Payable	5,624
Total Adjustments	<u>39,717</u>

Net Cash Used for Operating Activities **(\$230,707)**

Supplemental Disclosure

Noncash Capital and Related Financing Transactions:
 Building Contributed to Capital \$ 576,200

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

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**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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

1. DESCRIPTION OF THE DCHS AND REPORTING ENTITY

Dohn DCHS, Hamilton County, Ohio (the DCHS), is a nonprofit corporation established pursuant to Ohio Revised Code, Chapters 3314 and 1702, to address the needs of students in grades nine through twelve who have been impacted by substance abuse. The DCHS's program includes a curriculum that provides academic credit coupled with substance abuse intervention. The target population of at-risk youth is those who have a problem with alcohol or other drugs, as well as those who have lived with a substance abusing relative or guardian. The DCHS, 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 DCHS may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the DCHS.

The DCHS was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing March 14, 2000. The Sponsor is responsible for evaluating the performance of The DCHS and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The DCHS operates under the direction of a nine member Board of Directors (the Board). The Board is responsible for carrying out the provisions of the contract with the Sponsor which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. Board members are actively involved in the development of the DCHS. The Board of Directors has formed several committees to carry out the governance functions of the DCHS. These include: 1) Board Development Committee; 2) Facility Committee; 3) Fundraising Committee; and 4) a Finance/ Audit Committee. The DCHS's Founder and Superintendent serve as a non-voting member of the Board of Directors.

The Board of Directors hires the Superintendent, who hires all other staff, and manages the day-to-day operations of the school: 2 certificated full-time teaching personnel, 2 part-time certificated teaching personnel and 4 part-time non certificated teaching personnel staff the instructional/support facility. A full-time administrative assistant and a part-time EMIS coordinator provide administrative assistance.

Several of the Board members made personal loans to the DCHS, to be repaid in the next fiscal year. See Note 14 for related party information.

The school provided services to 96 students for the fiscal year 2003.

2. MERGER

Dohn Community Real Estate, Inc. was formed to purchase the facility and to borrow money to renovate the facility on behalf of the school during fiscal 2001. The DCHS facility was purchased from Cincinnati Public Schools in June of 2001, using a private donation which was deposited into the checking account of Dohn Real Estate. In March of 2003, the Dohn Community Real Estate, Inc. was merged into Dohn Community High School. All assets held by Dohn Community Real Estate, Inc. have been transferred over as contributed capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Dohn DCHS 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.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The DCHS 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 DCHS's accounting policies are described below.

A. Basis of Presentation

Enterprise Accounting

The DCHS 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.

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, DCHSs are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in The DCHS's contract with its Sponsor. The contract between The DCHS and its Sponsor does not prescribe a budgetary process for the DCHS.

D. Fixed Assets

Fixed assets are capitalized at cost and updated for additions and retirements during the year. The DCHS maintains a capitalization threshold of three 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. The DCHS does not possess any infrastructure.

Buildings and Improvements and Furniture and Equipment are depreciated using the straight-line method, beginning the month of purchase over their estimated useful lives, which is generally 30 years for Buildings and Improvements and 3 years for Furniture and Equipment.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues

The DCHS currently participates in the State Foundation Program, 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 and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

The DCHS also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, The DCHS was awarded and received \$34,000 in the current fiscal year to offset startup costs of The DCHS. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

4. CASH AND CASH EQUIVALENTS

At June 30, 2003, The DCHS had a carrying value of deposits of \$10,167 which is reported as Cash and Cash Equivalents in the accompanying financial statements. The bank balance of The DCHS's deposits was \$18,671 which is covered through federal depository insurance (FDIC).

5. INTERGOVERNMENTAL RECEIVABLES

Receivables of \$4,371 at June 30, 2003, consisted of an overpayment of the employer matching contribution to STRS. The STRS overpayment will be applied to fiscal 2004's contribution.

6. FIXED ASSETS

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

Land	\$ 19,000
Building and Improvement	565,825
Furniture and Equipment	<u>53,182</u>
Less: Accumulated Depreciation	<u>(36,568)</u>
Net Fixed Assets Total	\$ <u>601,439</u>

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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

7. RISK MANAGEMENT

A. Property and Liability

The DCHS 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 DCHS contracted with Philadelphia Insurance for property and general liability insurance. There is a \$1,000 deductible with a one hundred percent blanket, all risk policy.

Professional liability is protected by Philadelphia Insurance Company with a \$1,000,000 single occurrence limit and a \$2,000,000 aggregate and no deductible.

B. Workers' Compensation

The DCHS paid the State Worker's Compensation System (the 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.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The DCHS 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, 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 DCHS is required to contribute 14 percent; for fiscal year 2003, 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 DCHS's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003 and 2002 was \$8,407 and \$ 8,098, respectively of which 100% has been paid.

B. State Teachers Retirement System

The DCHS 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.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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

8. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution 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 and 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 the 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 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 Combination 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 their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the members account balance.

For the fiscal year ended June 30, 2003, the plan members were required to contribute 9.3 percent of their annual covered salaries. The DCHS was required to contribute 14 percent, 9.5 percent was the portion used to fund pension obligations. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% members and 14% for employers. Chapters 3307 of the Ohio Revised Code provides statutory for member and employer contributions.

The DCHS's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2003 and 2002 was \$20,751 and \$ 2,469, respectively of which 100% has been paid.

9. POST EMPLOYMENT BENEFITS

The DCHS 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.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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

9. POST EMPLOYMENT BENEFITS (Continued)

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 DCHS, this amount equaled \$1,596 during the 2003 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.011 billion at June 30, 2002 (the latest information available). For year ended June 30, 2003, net health care costs paid by STRS were \$354.7 million 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 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 DCHS, the amount to fund health care benefits, including surcharge, equaled \$7,414, during the 2003 fiscal year.

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 benefit of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. OTHER EMPLOYEE BENEFITS

Full-time teachers are entitled to six days of sick leave a year. Administrative staffs including the administrative assistant are entitled to ten days of sick leave a year. Full-time employees receive two personal days per calendar year. Part-time employees receive one personal day per calendar year. Unused personal days are forfeited.

The School provides life insurance to all employees through a private carrier. Coverage in the amount of \$10,000 is provided to all full-time certified and non-certified employees.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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

11. 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 DCHS is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

12. CONTINGENCIES

A. Grants

The DCHS 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 a condition 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 DCHS at June 30, 2003.

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 DCHS 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 DCHS does not anticipate any material adjustments to state funding for fiscal year 2003, as a result of such review.

13. RELATED PARTY TRANSACTIONS

The Vice President and two other members of the Board of Directors issued promissory notes to the DCHS totaling \$12,500. Of the \$12,500, \$10,000 was forgiven in fiscal, 2004. The remaining promissory notes are to be repaid in the next fiscal year.

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

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

14. CONTRIBUTED CAPITAL

Dohn Community Real Estate, Inc. owned the facility in which the high school conducted their day-to-day operations. Dohn Community Real Estate, Inc. was merged into Dohn Community High School Health High School, Inc., in March 2003. As a result of this merger, a building contribution in the amount of \$576,200, which represents the fair market value of the facility as of the merger date was recorded as contributed capital in the financial statements. During the year ended June 30, 2003, Dohn Real Estate, Inc. did not charge the school for the use of the facility.

15. FEDERAL EXEMPT STATUS

The DCHS 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 school's tax exempt status.

16. CONTRACTED SERVICES

Contracted services were composed of the following

Social Worker – Gentry	\$ 5,581
Auditor of State of Ohio	<u>13,881</u>
	<u>\$ 19,462</u>

17. PURCHASED SERVICES

Purchased services were composed of the following

Computer Consulting	\$ 12,951
Legal Fees	4,354
Temporary Employees	16,022
Payroll Processing	6,152
Accounting Consulting	7,428
Drug Testing	2,005
Building Maintenance	14,436
Employee Training	2,426
Counseling Services	2,956
Telephone	4,019
Utilities	21,288
Postage	1,101
Advertising	<u>1,878</u>
	<u>\$ 97,016</u>

18. LINE OF CREDIT

In August 2002, a line of credit of \$100,000 was secured with U.S. Bank. The line bears interest at a rate of prime plus one percent and is payable on demand. The line of credit is secured by a mortgage on the property.



Auditor of State Betty Montgomery

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

Dohn Community High School
Hamilton County
608 E. McMillan Avenue
Cincinnati, Ohio 45201

To the Board of Directors:

We have audited the financial statements of Dohn Community High School, Hamilton County, Ohio (DCHS), as of and for the year ended June 30, 2003, and have issued our report thereon dated January 10, 2005. 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 DCHS'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 and questioned costs as items 2003-001 and 2003-003.

We also noted an immaterial instance of noncompliance that we have reported to the management of DCHS in a separate letter dated January 10, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered DCHS'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 DCHS'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 and questioned costs as items 2003-002, 2003-004 and 2003-005.

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. We consider finding number 2003-005 as a material weakness.

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 DCHS in a separate letter dated January 10, 2005.

This report is intended for the information and use of the audit committee, management, Board of Directors, 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

January 10, 2005

**DOHN COMMUNITY HIGH SCHOOL
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Noncompliance – Record Retention

Ohio Rev. Code, Section 149.351, provides that no public record shall be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provide by law or under the rules adopted by the records commissions provided for under Ohio Rev. Code, Section 149.38 to 149.42

DCCHS was either missing or had misfiled many documents. For example, DCCHS was unable to locate the following:

- Proper supporting documentation for 13% of expenditures tested;
- State Tax Forms for 29% of employees;
- Certifications for 69% of teachers;
- Retirement Forms for 24% of employees;
- Background checks for 29% of employees and board members.

We recommend that DCCHS retain all source documents and organize them so that important records are secure, organized and accessible to management.

FINDING NUMER 2003-002

Reportable Condition – Payroll Expenditures

We noted the following control weaknesses relating to payroll:

- DCCHS does not document a reconciliation of hours employees worked and their respective pay rates included on DCCHS's payroll records and time/sign-in sheets to Paychex payroll reports. This may be attributed to the changes of and/or lack of a business manager or treasurer.
- A member of management or the Board did not review or approve payroll summaries received from Paychex.
- DCCHS did not maintain complete personnel files during the audit period. The following items were missing from employee files:
 - Federal W-4 forms were not on file for 24% of employees;
 - State IT-4 forms were not on file for 29% of employees;
 - Teacher certifications were not on file for 69% of teachers employed.

Failure to establish suitable control activities could result in a material misstatement, overpayment, or unauthorized payment relating to payroll expenditures. DCCHS should implement the following procedures to ensure that suitable control activities are in place to identify misstatements either as they occur or through the review process:

**FINDING NUMBER 2003-002
(Continued)**

- The business manager/treasurer should approve payroll summaries sent to Paychex;
- The business manager/treasurer should reconcile DCHS payroll summaries of employee hours worked and their respective pay rates to the Paychex reports that include the rate and number of hours worked for which an employee was paid;
- Obtain management, supervisory, or Board approval of monthly payroll expenditures;
- Obtain employee contracts, W-4 forms, State IT-4 forms, retirement forms, and teacher certifications to keep on file at the school.

FINDING NUMBER 2003-003

Noncompliance – Teachers Certification

Ohio Rev. Code, Section 3314.03(A)(10), requires all community school classroom teachers to be licensed in accordance with Ohio Rev. Code Section 3319.22 to 3319.31. A permit must be issued by the Ohio Department of Education to “non-certified” persons to teach.

The DCHS employed 9 teachers during the audit period that did not have a certification on file.

We recommend DCHS employ only teachers with the proper licenses or certifications and properly maintain the licenses on file for each teacher in accordance with the Ohio Rev. Code.

FINDING NUMBER 2003-004

Reportable Condition – Non-payroll disbursements

The following items were noted during non-payroll tests of details:

- 61% of expenditures tested did not have a purchase order issued before the purchase date;
- 13% of expenditure tested did not have proper supporting documentation to properly support the expenditure.

We recommend DCHS issued purchase orders upon incurring commitments for goods and services. We recommend the school maintain all documentation that properly supports the expenditure such as the original invoice, receipt of purchase, credit card statements, and billing statements for utilities.

FINDING NUMBER 2003-005

Material Weakness – SAS 70 Paychex

The DCHS has delegated payroll processing to a third-party administrator, Paychex, Inc. Paychex, Inc. has Tier I SAS 70 report as of December 31, 2003. The DCHS did not establish procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that payroll transactions made are completely and accurately processed and reported. In addition, DCHS did not have proper internal controls in place and operating effectively over the school's portion of payroll responsibility during the audit period.

We recommend the DCHS specify in their contract with the third-party payroll administrator that an annual Tier II SAS 70 report be performed. The DCHS should be provided a copy of the SAS 70 report timely and should review the report's content. A SAS 70 audit report should be standards by a firm registered and considered in "good standing" with the Accountancy Board of the Representative State. If the third-party administrator refuses to proved you with a Tier II SAS 70 report, we recommend you contract with a third-party payroll administrator the will provide such a report.

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**DOHN COMMUNITY HIGH SCHOOL
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: <i>Explain:</i>
2002-001	Noncompliance -record retention	No	Repeated as finding 2003-001.
2002-002	Noncompliance -Payroll withholdings not correct.	Yes	
2002-003	Noncompliance - BCI checks, the school failed to obtain BCI checks as required.	Yes	
2002-004	Reportable condition- Payroll expenditures, lack of reconciliations, oversight, and complete personnel files.	No	Reissued as finding 2003-002



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**DOHN COMMUNITY HIGH SCHOOL
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
FEBRUARY 10, 2005**