CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2001

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

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 the Cincinnati College Preparatory Academy, Inc., Hamilton County, Ohio, as of and for the fiscal year ended June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings/Accumulated Deficit, and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Cincinnati College Preparatory Academy, Inc.'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 Cincinnati College Preparatory Academy, Inc., Hamilton County, Ohio as of June 30, 2001, and the results of its operations and 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 December 26, 2001, on our consideration of the Cincinnati College Preparatory Academy, Inc.'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.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Cincinnati College Preparatory Academy, Hamilton County, Ohio, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of 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 financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Jim Petro
Auditor of State

December 26, 2001

CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

BALANCE SHEET
As of June 30, 2001

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	177,253
Intergovernmental Receivable		562,312
Prepaid Expenses		3,000
Total Current Assets		742,565
Non-Current Assets		
Fixed Assets (Net of Accumulated Depreciation)		440,843
TOTAL ASSETS	$	**1,183,408**
LIABILITIES & FUND EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable	$	53,160
Leases Payable		2,586
Trade Payable		20,660
Intergovernmental Payable-Foundation		336,562
Accrued Wages and Benefits		74,624
Total Current Liabilities		487,592
Long-Term Liabilities		
Compensated Absences		68,182
Long-Term Portion of Captial Lease		10,064
Total Liabilities		565,838
Fund Equity		
Retained Earnings		617,570
TOTAL LIABILITIES & EQUITY	$	**1,183,408**

The accompanying 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/ ACCUMULATED DEFICIT
For the Year Ended June 30, 2001

Operating Revenues		
Foundation Payments	$	2,059,557
Disadvantaged Pupil Impact Aid		267,229
State Education Programs		55,974
Total Operating Revenues		2,382,760
Operating Expenses		
Salaries		1,187,573
Fringe Benefits		191,449
Purchased Services		795,416
Materials and Supplies		26,656
Depreciation - Fixed Assets		47,725
Depreciation - Lease Hold		87,656
Other Operating Expenses		15,665
Total Operating Expenses		2,352,140
Operating Income		30,620
Non-Operating Revenues (Expenses)		
Federal and State Grants		669,481
Interest Expense		(1,975)
Total Non-Operating Revenues (Expenses)		667,506
Net Income		698,126
Accumulated Deficit at Beginning of Year		(80,556)
Retained Earnings at End of Year	$	**617,570**

The accompanying 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, 2001

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash Flows from Operating Activities		
Cash Received from State of Ohio	$	2,211,047
Cash Payments to Suppliers for Goods and Services		(982,975)
Cash Payments to Employees for Services		(1,134,283)
Cash Payments for Employee Benefits		(426,611)
Other Operating Revenue		20,216
Net cash used by Operating Activities		(312,606)
Cash Flows from Noncapital Financing Activities		
Federal Grants Received		669,481
Net cash provided by Noncapital Financing Activities		669,481
Cash Flows from Capital and Related Financing Activities		
Loan Principal Payment		(2,285)
Loan Interest Payment		(1,975)
Payments for Capital Acquisitions		(250,481)
Net cash used for Capital and Related Financing Activities		(254,741)
Cash Flows from Investing Activities		-
Net increase in Cash and Cash Equivalents		102,134
Cash and cash equivalents at the Beginning of the Year		75,119
Cash and cash equivalents at the end of the Year	$	**177,253**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	$	30,620
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Depreciation		135,381
Changes in Assets and Liabilities:		
Increase in Prepaids		(3,000)
Increase Intergovernmental Receivable		(512,312)
Decrease in Accounts Payable		(84,349)
Decrease in Trade Payable		(53,629)
Decrease in Lease Payable		(4,260)
Decrease in Accounts Receivable		24,253
Decrease in Accrued Wages Payable		(14,892)
Increase in Compensated Absences Payable		979
Increase in Intergovernmental Payable		168,603
Total Adjustments		(343,226)
Net Cash Used by Operating Activities	$	**(312,606)**

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

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Cincinnati College Preparatory Academy (the School) was established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School'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 School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The School was approved for operation under contract with the State Board of Education for a period of five years commencing July 1, 1999. 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 (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 School. The Board of Directors controls the School's one instructional/support facility staffed by 9 non-certified and 21 certificated full-time teaching personnel who provide services to 363 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of Cincinnati College Preparatory Academy have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental non-profit 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

The School uses enterprise accounting to track and 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.

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 School's contract with its Sponsor. The contract between the School and its Sponsor does not prescribe a budgetary process for the School.

D. Cash and Cash Equivalents

The School's Treasurer accounts for all monies received by the School. For cash management, all cash received by the Treasurer is pooled in a checking account. Total cash for the School is presented as "cash and cash equivalents" on the accompanying balance sheet.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair values as of the dates received. The School 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment is 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.

Assets	Years
Building Improvements	Remainder of Five Year Lease
Vehicles	5
Furniture and Equipment	5

F. Intergovernmental Revenues

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

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded $50,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accounting period in all eligibility requirements have been met. Amounts awarded under the above named programs for the 2001 school year total $2,876,491.

G. Compensated Absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School 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 School's termination policy. The School immediately records a liability for accumulated unused sick leave for all employees.

The entire amount of compensated absences is reported as a liability.

3. RECEIVABLES

Receivables at June 30, 2001 consisted of accounts and intergovernmental (e.g., Federal Charter School Grant Program. All intergovernmental receivables are collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

4. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2001 follows:

Leasehold Improvements	$405,710
Furniture and Equipment	238,625
Subtotal	644,335
Less: Accumulated Depreciation	(203,492)
Net Fixed Assets	$440,843

5. INTERGOVERNMENTAL PAYABLE-FOUNDATION

The Ohio Department of Education (ODE) calculated an amount of Foundation Payments that is to be refunded by the School to the ODE. This refund is based on the difference in the actual student fulltime equivalent enrollment as determined at the end of the 2000 fiscal year, compared to the enrollment that the School's monthly funding was based upon. The "Intergovernmental Payable-Foundation" reflects that the School was funded on a higher estimated enrollment figure throughout the year that the actual enrollment figure that was calculated at the end of the 2000 fiscal year. As of October 2001, the refund is being withheld in monthly installments from the School's monthly foundation payment.

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risk 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 2001, the School contracted with A. E. Olverson Insurance Agency for property, general liability, automobile, umbrella, boiler and machinery, and employee benefit insurance. There is a $1,000 deductible, a $1,000,000 single occurrence limit and $2,000,000 aggregate limit.

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 public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS.

7. DEFINED BENEFIT PENSION PLANS (Continued)

That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal year 2001, 5.5 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 School's required contribution for pension obligation to SERS for the fiscal year ended June 30, 2001 was $40,845.

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2001 was $90,931.

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 on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled $53,200 during the 2001 fiscal year.

8. POSTEMPLOYMENT BENEFITS (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2001, the allocation rate is 9.8%, an increase of 1.3% from fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2001, the minimum pay has been established as $12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available) were $140,696,340 and the target level was $211.0 million. At June 30, 2000, the Retirement System's net assets available for payment of health care benefits was $252.3 million.

The number of benefit recipients currently receiving health care benefits is approximately 50,000.

The portion of the School's contributions that are to be used to fund post-employment benefits was $26,032.

9. 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. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated without limit. Upon retirement, payment is made for one-half of the total sick leave accumulation.

B. Insurance Benefits

The School District 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 School has contracted with a private carrier to provide employee medical/vision benefits. The School pays 100% of the monthly premium.

9. OTHER EMPLOYEE BENEFITS (Continued)

The School has also contracted with private carriers to provide dental insurance. As with medical benefit premiums, the School pays 100% of the monthly premium.

10. CAPITALIZED LEASES – LESSEE DISCLOSURE

During fiscal year 2000, the School 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 30, 2001.

Fiscal Year Ending June 30	
2002	2,586
2003	2,926
2004	3,311
2005	3,747
2006	2,055
Total minimum lease payments	14,625
Less amount representing interest	(1,975)
Present value of future minimum lease payments	$12,650

11. OPERATING LEASE

The School has a five-year lease for 50,000 square feet of building space to be used for educational purposes. In fiscal year 2001, the School paid $23,282 per month, plus utilities and insurance. The School has an option for 2 consecutive 5-year lease renewals.

12. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including;

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time for distribution is not specified.

- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

12. STATE SCHOOL FUNDING DECISION (Continued)

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of NEED DATE, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and re-determine any issue upon such reconsideration.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

13. CONTINGENCIES

A. The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2001.

B. Lawsuit

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

14. RELATED PARTY TRANSACTIONS

An initial Board member provided accounting services to the School. The Board member was paid $4,453 for her services in fiscal year 2001.

A Board member provides insurance services to the School through his agency. The School paid $1,482 in insurance premiums in fiscal year 2001.

Principal/Board Member/Developer received payment of $81,320 as founder and developer of the academy.

15. PURCHASED SERVICES

Purchased Services were composed of Insurance ($12,506), School Psychology Services ($3,173), Travel and Meetings ($36,753), Payments to payroll processing vendor ($86,833), Legal and Consulting ($463), Utilities ($81,416), Building and Equipment Lease ($270,703), Field Trips ($11,684), Food Service ($135,816), Communication ($35,329), and Advertising ($89,369), Professional Education Services ($20,019), Data Processing ($11,352).

16. TAX EXEMPT STATUS

The School has not obtained approval for its tax-exempt status under 501(c)(3) of the Internal Revenue code. Management completed and filed the required forms on March 30, 2001, and provided additional information to the Internal Revenue Service (IRS) in December 2001. The School is engaged in ongoing communication with the IRS and anticipates approval of the exempt status. The Academy has made no provisions for any potential future tax liability, which could result from not obtaining the 501(c)(3) tax exempt status.

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CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Ohio Department of Education:				
Nutrition Cluster:				
National School Lunch Program	05-PU-01	10.555	86,983	86,983
			86,983	86,983
School Breakfast/Special Milk Program	03-PU-01	10.553	26,114	26,114
			26,114	26,114
Total U.S. Department of Agriculture - Nutrition Cluster			113,097	113,097
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education:				
Innovation Education Program Strategies (Title VI)	C2-S1-01	84.298	4,971	4,971
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-01	84.010	428,177	428,177
Drug-Free Schools Grant (Title IV)	DR-S1-01	84.186	7,179	7,179
Title II	MS-S1-01	84.281	8,431	8,431
Public Charter School Grant	CH-S1-00	84.282	50,000	50,000
Class Size Reduction Grant (Title VI-R)	CR-S1-01	84.340	57,607	57,607
Total Department of Education			556,365	556,365
Totals			$669,462	$669,462

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

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

250 West Court Street
Suite 150 E
Cincinnati, Ohio 45202
Telephone 513-361-8550
800-368-7419
Facsimile 513-361-8577
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS 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 accompanying financial statements of the Cincinnati College Preparatory Academy, Inc., Hamilton County, Ohio, as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated December 26, 2001. 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 Cincinnati College Preparatory Academy, Inc.'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* as items 2001-10431-001 and 2001-10431-002. We also noted a certain immaterial instance of noncompliance that we have reported to the management of the Academy in a separate letter dated December 26, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cincinnati College Preparatory Academy, Inc.'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 judgement, 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. Reportable conditions are described in accompanying schedule of findings as items 2001-10431-001 through 2001-10431-003.

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 is a material weakness.

In addition, we did note other matters involving the internal control over Cincinnati College Preparatory Academy, Inc., Hamilton County, financial reporting that do not require inclusion in this report, that we have reported to the management of Cincinnati College Preparatory Academy, Inc. in a separate letter dated December 26, 2001.

This report is intended for the information and use of the Victory Team (Board) and management, 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.

Jim Petro
Auditor of State

December 26, 2001

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Facsimile 513-361-8577
www.auditor.state.oh.us

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

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

To the Victory Team (Board):

Compliance

We have audited the compliance of the Cincinnati College Preparatory Academy 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 program for the year ended June 30, 2001. the Cincinnati College Preparatory Academy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Cincinnati College Preparatory Academy's management. Our responsibility is to express an opinion on the Cincinnati College Preparatory Academy'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 the Cincinnati College Preparatory Academy'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 Cincinnati College Preparatory Academy's compliance with those requirements.

In our opinion, the Cincinnati College Preparatory Academy complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001.

Internal Control Over Compliance

The management of the Cincinnati College Preparatory Academy 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 Cincinnati College Preparatory Academy'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. We noted a matter involving the internal controls over federal compliance that does not require inclusion in this report that we have reported to the management of the Academy in a separate letter dated December 26, 2001.

This report is intended for the information and use of the Victory Team (Board) and management, 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.

Jim Petro
Auditor of State

December 26, 2001

CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2001

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):**	*Title I,* CFDA 84.010
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

FINDING NUMBER 2001-10431-001

Material Noncompliance/Reportable Condition

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

The Academy could not locate 15% of the invoices requested for review, and the third quarter federal tax return (Form 941). However, alternative auditing procedures were used to address these issues.

FINDING NUMBER 2001-10431-002

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 as follows:

- 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 prices 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 terms granted by the vendor. Of the expenditures reviewed 99% did not have a purchase orders or documentation of prior authorization of purchases by the Treasurer or Director as required per the contract.

- The contract requires the Academy to attach property tags to each asset when received, maintain a physical asset listing, completion of an approved disposal form when assets are disposed and removal of the property tag at the time of disposal, updating of the physical asset listing, and year end inventory counts to reconcile actual assets to the inventory on the books.

  The Academy has not attached property tags to any fixed assets, developed a fixed asset accounting system which maintains total fixed asset listings by location with tag identification numbers and other supplemental information nor has the school 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 obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

FINDING NUMBER 2001-10431-002
(Continued)

A listing of all fixed assets owned by the Academy should be maintained and updated to reflect additions of assets acquired and deletions of assets sold or disposed of throughout the year.

To promote adequate safeguards over their fixed assets, and to reduce the risk that the Academy's fixed assets will be misstated, the Academy should establish an updated listing of all fixed assets owned and develop and implement appropriate procedures to be performed throughout the year. These procedures should include tagging all assets meeting the Academy's capitalization criteria when received and recording the fixed asset tag number, the development of addition and disposal forms to be completed by the staff at the Academy and approved by management when assets are acquired or disposed recording such information as the tag number, a description, the cost, the acquisition date, reference for supporting documentation such as an invoice and proper approval, and whose funds were expended for the asset. The Academy should also develop and implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in the location should be compared to the list provided and any assets no longer used should be deleted and any asset not included on the listing should be added.

FINDING NUMBER 2001-10431-003

Reportable Condition

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

- 95% of the payment documentation reviewed did not have requisitions.

- 9% of the payment documentation reviewed did not have a purchase order, invoice, or requisition, with only the cancelled check on file.

- The amount recorded on 23% of the checks reviewed did not agree with the invoice amounts, with the check amounts being less than the invoice amount.

- 15% of the payments tested that were made for commitments before the fiscal year end did not have a properly executed purchase order as required by the Academy's contract.

These control weaknesses could result in errors or misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of school assets. The processing of non-payroll disbursements should include, but is not limited to:

- Prior authorization of a purchase should be utilized, through the use of requisitions and purchase orders which should be approved and documented through appropriate members of management and which should include appropriate coding of expenditures.

- All appropriate supporting documentation (requisitions, original invoices, verification of receipt of purchase and agreement to invoice) prior to authorization for payment should be accumulated and filed. This will also assist in affirming that all supporting documentation has been reviewed.

- A review of the invoices, purchase orders and related check, when applicable, should be performed by the Treasurer on a monthly basis to determine if payments were made for the full amount of the expense and if a commitment exists that is required to be encumbered.

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CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2000-10431-001	ORC. 149.351, destruction of records	No	Partially corrected, missing invoices and one form 941 missing for the current audit. Reissued as finding 2001-10431-001.
2000-10431-002	ORC 3314.10 (A)(2), payment into appropriate retirement system.	Yes	The Academy corrected this matter.
2000-10431-003	ORC 3314.03 (A)(10), licensing of teachers.	Yes	The Academy corrected this matter.
2000-10431-004	Article 3, Section B, Exhibit 2 of contract with ODE, use of purchase orders, competitive search for purchases in excess of $1,000, and fixed asset tracking.	No	Partially corrected, the use of purchase orders continues to be applicable to the current audit. Finding no longer valid for competitive search for purchases exceeding $1,000 for the current audit. A detailed fixed asset listing still is not being maintained. Reissued as finding 2001-10431-002.
2000-10431-005	Lack of a travel policy and supporting documentation for all expenditures related to travel.	Yes	The Academy adopted a policy once discussed with them in the prior year audit. It was adopted prior to fiscal year end. The Academy corrected this matter.
2000-10431-006	Control weaknesses noted in the processing of payroll.	No	Partially corrected, still need to maintain complete leave records. Other issues noted in the prior audit were corrected and do not apply to the current audit. We reported this issue in the management letter.
2000-10431-007	Numerous control weaknesses noted in non-payroll processing.	No	Some improvement has been made, however, and supporting documentation continues to either not be consistently used and not maintained. Reissued as finding 2001-10431-003.
2000-10431-008	Lack of a policy for the issuance and use of credit cards.	Yes	The Academy adopted a policy once discussed with them in the prior year audit. It was adopted prior to fiscal year end. The Academy corrected this matter.
2000-10431-009	Lack of a policy for employee reimbursements for purchases made for the Academy.	Yes	The Academy adopted a policy once discussed with them in the prior year audit. It was adopted prior to fiscal year The Academy corrected this matter.

STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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

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
MAY 9, 2002