



**JIM PETRO**  
**AUDITOR OF STATE**  

---

**STATE OF OHIO**





**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  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State



**W. C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Report of Independent Accountants .....	1
Balance Sheet.....	3
Statement of Revenues, Expenses, and Changes in Retained Earnings/(Accumulated Deficit) .....	4
Statement of Cash Flows .....	5
Notes to the Financial Statements .....	7
Report on Compliance and on Internal Control Required By <i>Government Auditing Standards</i> .....	15
Schedule of Findings.....	17

**THIS PAGE INTENTIONALLY LEFT BLANK**



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street  
Columbus, Ohio 43215  
Telephone 614-466-3402  
800-443-9275  
Facsimile 614-728-7199  
www.auditor.state.oh.us

## REPORT OF INDEPENDENT ACCOUNTANTS

W.C. Handy Community Middle School of the Performing Arts  
Franklin County  
3400 Kohr Blvd.  
Columbus, Ohio 43224

To the Board of Trustees:

We have audited the accompanying Balance Sheet of the W.C. Handy Community Middle School of the Performing Arts, Franklin County, Ohio, (the School) as of June 30, 2002, 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 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 W.C. Handy Community Middle School of the Performing Arts, Franklin County, Ohio, as of June 30, 2002, and the results of operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the school will continue as a going concern. As shown in the financial statements, the School has incurred an operating loss in the amount of \$183,863 for the year ended June 30, 2002, has a working capital deficiency of \$26,253 as of June 30, 2002, and an accumulated deficit of \$23,193. Accordingly, there is substantial doubt about the School's ability to continue as a going concern. Management's plans in regards to these matters are discussed in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2002 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

**JIM PETRO**  
Auditor of State

November 27, 2002, except for Note 10, as to which the date is December 11, 2002.



**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

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

**Assets**

Current Assets

Cash with Fiscal Agent	\$ 27,128
Accounts Receivable	1,061
Intergovernmental Receivables	60,291
Prepaid Items	<u>1,165</u>
Total Current Assets	89,645

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	<u>3,060</u>
Total Assets	<u><u>\$ 92,705</u></u>

**Liabilities and Fund Equity**

Current Liabilities

Accounts Payable	\$ 15,803
Accrued Wages Payable	77,029
Intergovernmental Payable	<u>23,066</u>
Total Liabilities	115,898

Fund Equity

Accumulated Deficit	<u>(23,193)</u>
Total Liabilities and Fund Equity	<u><u>\$ 92,705</u></u>

The accompanying notes are an integral part of the financial statements

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

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

**Operating Revenues**

Foundation Payments	\$ 790,951
Disadvantaged Public Impact Aid	65,145
Intergovernmental Revenue	4,095
Food Services	10,103
Classroom Materials and Fees	1,704
Miscellaneous Operating Revenue	915
Total Operating Revenues	<u>872,913</u>

**Operating Expenses**

Salaries	557,610
Fringe Benefits	139,876
Purchased Services	225,142
Materials and Supplies	102,357
Depreciation	764
Other Operating Expenses	31,027
Total Operating Expenses	<u>1,056,776</u>
Operating Loss	<u>(183,863)</u>

**Non-Operating Revenues**

Operating Grants - Federal	159,431
Interest Income	1,018
Contributions and Donations	221
Total Non-Operating Revenues	<u>160,670</u>
Net Loss	(23,193)
Retained Earnings at Beginning of Year	<u>0</u>
Accumulated Deficit at End of Year	<u>\$ (23,193)</u>

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

**W.C. H ANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

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

**Cash Flows from Operating Activities**

Cash received from State of Ohio	\$	799,900
Cash received from Food Services		9,651
Cash received from Classroom Materials and Fees		1,704
Cash received from Other Sources		306
Cash Payments to Suppliers for Goods and Services		(311,930)
Cash Payments to Employees for Services		(480,416)
Cash Payments for Employee Benefits		(116,810)
Cash Payments for Other Operating Uses		(32,123)

Net Cash Used for Operating Activities		(129,718)
--	--	-----------

**Cash Flows from Noncapital Financing Activities**

Operating Grants - Federal		159,431
Contributions and Donations		221

Net Cash Provided by Noncapital Financing Activities		159,652
--	--	---------

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

Payments for Capital Acquisitions		(3,824)
-----------------------------------	--	---------

Net Cash Used for Capital and Related Financing Activities		(3,824)
--	--	---------

**Cash Flows from Investing Activities**

Cash Received from Interest on Investments		1,018
--	--	-------

Net Cash Provided by Investing Activities		1,018
---	--	-------

Net Increase in Cash		27,128
----------------------	--	--------

Cash at Beginning of Year		0
---------------------------	--	---

Cash at End of Year		\$ 27,128
---------------------	--	-----------

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

Operating Loss		\$ (183,863)
----------------	--	--------------

**Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities**

Depreciation		764
Changes in Assets and Liabilities:		
Increase in Accounts Receivable		(1,061)
Increase in Prepaid Items		(1,165)
Increase in Intergovernmental Receivables		(60,291)
Increase in Accounts Payable		15,803
Increase in Accrued Wages Payable		77,029
Increase in Intergovernmental Payable		23,066

Total Adjustments		54,145
-------------------	--	--------

Net Cash Used for Operating Activities		\$ (129,718)
--	--	--------------

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

**W.C. HANDY COMMUNITY MIDDLE SCHOOL  
FRANKLIN COUNTY**

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

---

**NOTE 1 - DESCRIPTION OF THE ENTITY**

W.C. Handy Community Middle School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The school is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. 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.

The school's mission is to build a community of scholars and stimulate academic achievement through an arts-based curriculum. By operating a school that provides a comprehensive educational experience for the students, the School's vision is to provide a model public community school that looks and behaves like a private school. The school teaches values-based learning opportunities to encourage positive life skills. The school, which is part of the State's education program, is independent of any school district and is non sectarian in its programs, admission policies, employment practices, and all other operations. The school may 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 Ohio State Board of Education (the Sponsor) for a period of five years effective for the 2001-2002 academic school year. 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 six-member Governing Board. The Governing 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 Governing Board controls the School's one instructional/support facility staffed by 12 non certified and 12 certificated full time teaching personnel who provide services to 145 students.

The School has entered into a service agreement with the Lucas County Educational Service Center, Lucas County, Ohio to provide certain financial and accounting services and the Treasurer of Lucas County ESC serves as the Chief Financial Officer of the School (See Note 12).

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below:

**A. BASIS OF PRESENTATION**

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.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL  
FRANKLIN COUNTY**

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

---

**B. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. 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 prescribe an annual budget requirement.

**D. CASH AND CASH EQUIVALENTS**

All monies received by the School are accounted for by the School's fiscal agent, the Lucas County Educational Service Center. All cash received by the fiscal agent is maintained in separate accounts in the School's name. Monies for the School are maintained in these accounts or temporarily used to purchase short-term investments.

**E. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

**F. 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 market value on the date received. The School maintains a capitalization policy of five hundred dollars. The School does not possess any infrastructure.

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. The School does not capitalize interest.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL  
FRANKLIN COUNTY**

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

---

**G. INTERGOVERNMENTAL REVENUES (NON EXCHANGE TRANSACTIONS)**

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

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

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

The School participated in the Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$150,000 to offset start-up costs of the school. Revenue from this program was recognized as non-operating revenue on the financial statements.

Amounts awarded under state and federal grants and entitlements for the 2002 school year totaled \$953,995.

**H. ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 3 – CASH**

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At June 30, 2002, the carrying amount of the School's deposits was \$27,128 and the bank balance was \$44,124. The bank balance was covered by federal depository insurance.

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2002, consisted of accounts (e.g. miscellaneous receipts) and intergovernmental (e.g. state and federal receipts) receivables. Accounts receivable consist of other miscellaneous types of receipts. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of federal funds.

**NOTE 5 – FIXED ASSETS**

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

Furniture & Equipment	3,824
Less Accum. Dep.	<u>(764)</u>
Net Fixed Assets	<u>\$ 3,060</u>

**W.C. HANDY COMMUNITY MIDDLE SCHOOL  
FRANKLIN COUNTY**

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

---

**NOTE 6 – RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. For fiscal year 2002, the School contracted with Colonial Insurance and United National Insurance Companies for its insurance coverage as follows:

General liability	\$ 2,000,000
Educators Professional Liability	1,000,000
Excess Liability	4,000,000

Both the general and the excess liability have a \$5,000 deductible per claim. The School owns no real estate, but leases a facility located at 3400 Kohr Boulevard, Columbus, Ohio.

**B. Worker's Compensation**

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

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

The School has contracted through United Healthcare to provide employee medical, dental, vision, life, and disability insurance to its full time employees who work 25 or more hours per week. The School pays a portion of the monthly premiums for all selected coverage (medical, dental, vision, life, and/or disability)

**NOTE 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 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, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street - Suite 100, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the year ended June 30, 2002 was \$10,348; 88.88 percent has been contributed for fiscal year 2002. The unpaid contribution for fiscal year 2002, in the amount of \$1,150 is recorded as a liability.



**W.C. HANDY COMMUNITY MIDDLE SCHOOL  
FRANKLIN COUNTY**

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

---

**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 public available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio, 43215-3771, or by calling (614)-227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The school's required contributions for pension obligations to STRS for the year ended June 30, 2002 was \$26,371; 64.04 percent has been contributed for fiscal year 2002. The unpaid contribution for fiscal year 2002, in the amount of \$9,483 is recorded as a liability.

**NOTE 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 certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation 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.

The State Teachers Retirement Board has 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 the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$8,000 for the fiscal year ended June 30, 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

For this fiscal period, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal year 2002, the minimum pay had been established at \$12,400. For the School, the amount to fund health care benefits, including the surcharge, was \$25,049 for the fiscal year ended June 30, 2002.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL  
FRANKLIN COUNTY**

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

---

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, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits as \$315.7 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

**NOTE 9 – LINE OF CREDIT**

During fiscal year 2002, the school entered into a line-of-credit agreement with Fifth Third Bank for a period of one year in the amount of \$40,000. The purpose of the line-of-credit was to provide working capital in the event of timing gaps experienced in awaiting state funding. At June 30, 2002 there was no outstanding balance on the line of credit.

**NOTE 10 – 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 District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**NOTE 11 - CONTINGENCIES**

**A. Grants**

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the school. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2002.

**B. Pending 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 Law. The effect of this suit, if any, on the school is not presently determinable.

**C. State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the school. 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 results of this review could result in state funding being adjusted. For the fiscal year 2002, the School does not anticipate revenue adjustments based on the results of any such review.

**NOTE 12 – FISCAL AGENT**

The service agreement states the Treasurer of the Lucas County Educational Service Center shall serve as the Chief Fiscal Officer of the School. As part of this agreement, the School shall compensate the Lucas County Educational Service Center two percent (2%) of the per pupil allotments paid to the School from the State of Ohio. The total contract payment was \$13,177,541; \$5,471 was paid during the year, and the remainder, \$7,706, is recorded in accounts payable.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL  
FRANKLIN COUNTY**

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

The Treasurer shall perform all of the following functions while serving as the Chief Fiscal Officer of the School:

- A. Maintain custody of all funds received by the School in segregated accounts separate from Lucas County ESC or any other Community School's funds;
- B. Maintain all books and accounts of the School;
- C. Maintain all financial records of all state funds of the School and follow State Auditor procedures for receiving and expending state funds;
- D. Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- E. Invest funds of the School in the same manner as the funds of Lucas County ESC are invested, but the Treasurer shall not commingle the funds with any of Lucas County ESC or any other community school; and
- F. Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the School so long as the proposed expenditure is within the approved budget and funds are available.

**NOTE 13 - PURCHASED SERVICES**

For the period July 1, 2001 through June 30, 2002, purchased service expenses were payments for services rendered by various vendors, as follows:

Professional and Technical Services	\$ 85,092
Property Services	111,445
Travel Mileage/Meeting Expense	4,132
Communications	23,477
Utilities	250
Contracted Craft or Trade Services	444
Transportation Services	<u>302</u>
Total Purchased Services	<u>\$ 225,142</u>

**NOTE 14 - OPERATING LEASES**

The school entered into a lease agreement with New Covenant Believers Church for use of space on property located at 3400 Kohr Boulevard. The terms of the lease commenced August 25, 2001 and terminate June 30, 2002, and can be renewed from year to year. Under the lease agreement, rent charges are \$10,000 a month during August through May and \$5,000 from June to July each year. Rent expense for the fiscal year 2002 totaled \$100,000.

**NOTE 15 - RELATED PARTY**

Lamont Tillman is financial manager of the School and is also financial assistant for New Covenant Believers Church. Separate Boards of Trustees exist for both the School and New Covenant Believers Church.

**NOTE 16 - DEFICIT FUND EQUITY**

At year end, the school had a deficit fund equity balance and net loss of (\$79,389). It is management's plan to seek alternative funding sources and to decrease expenses, although nothing specific has been planned.

**W.C. HANDY COMMUNITY MIDDLE SCHOOL  
FRANKLIN COUNTY**

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

---

**NOTE 17 - SUBSEQUENT EVENT**

In July 2002, a draw on the line of credit was made in the amount of \$40,000. The school repaid the \$40,000 draw on the line of credit on November 15, 2002.

**NOTE 18 - FULLTIME EQUIVALENCY**

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 review for fiscal year 2002 was completed and resulted in the State owing the School \$56,196. This amount has been included in Intergovernmental Receivables on the accompanying balance sheet.



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street  
Columbus, Ohio 43216-1140  
Telephone 614-466-3402  
800-443-9275  
Facsimile 614-728-7199  
www.auditor.state.oh.us

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

W.C. Handy Community School of the Performing Arts  
Franklin County  
3400 Kohr Blvd  
Columbus, Ohio 43224

To the Board of Trustees:

We have audited the financial statements of the W.C. Handy Community School of the Performing Arts, Franklin County, Ohio, (the School), as of and for the year ended June 30, 2002, and have issued our report thereon dated November 27, 2002, except for Note 10, as to which the date was December 11, 2002. In this report we indicated substantial doubt about the School's ability to continue as a going concern. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated November 27, 2002.

**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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10625-001.

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 the reportable condition described above is 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 the School in a separate letter dated November 27, 2002.

W.C. Handy Community Middle School of the Performing Arts  
Franklin County  
Report On Compliance And On Internal Control Required  
BY GOVERNMENT AUDITING STANDARDS  
Page 2

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a horizontal line extending to the right.

**JIM PETRO**  
Auditor of State

November 27, 2002

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2002**

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

<b>Finding Number</b>	2002-10625-001
-----------------------	----------------

**Expenditure Authorization**

Authorization to execute expenditure transactions was limited to approval from the School's Fiscal Officer designating that monies are available to make the purchase. Approval from the Executive Director of the School was not obtained prior to making purchases. Lack of proper authorization by the chief executive officer, or a certain other designated official who is familiar with the day-to-day operations of the School, may result in improper expenditures for goods or services that are not consistent with the purpose and objectives of the School.

We recommend the Board establish procedures whereby all expenditure transactions must be reviewed and approved by the Executive Director or a certain other designated purchasing agent prior to making the purchase.







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

**W.C. HANDY COMMUNITY MIDDLE SCHOOL OF THE PERFORMING ARTS**

**FRANKLIN 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 11, 2003**