**CINCINNATI COLLEGE PREPARATORY ACADEMY**
**HAMILTON COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2003**

**Auditor of State**
**Betty Montgomery**

**CINCINNATI COLLEGE PREPARATORY ACADEMY**
**HAMILTON COUNTY**

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**Auditor of State**
**Betty Montgomery**

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Victory Team (Board):

We have audited the accompanying Balance Sheet of Cincinnati College Preparatory Academy, Hamilton County, Ohio (the Academy), as 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 Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant 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 Cincinnati College Preparatory Academy, Hamilton County, Ohio as of June 30, 2003, and the results of its operations and cash flows for the year ended, in conformity with auditing standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2004, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2003. 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.

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

Betty Montgomery

**Betty Montgomery**
Auditor of State

January 13, 2004

**CINCINNATI COLLEGE PREPARATORY ACADEMY**
**HAMILTON COUNTY**

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

| | |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash and Cash Equivalents | $ 524,704 |
| Intergovernmental Receivable | 451,771 |
| Total Current Assets | 976,475 |
| **Noncurrent Assets** | |
| Capital Assets (Net of accumulated depreciation) | 193,826 |
| **Total Assets** | $ 1,170,301 |
| **Liabilities and Fund Equity** | |
| **Current Liabilities** | |
| Accounts Payable | $ 21,019 |
| Accrued Wages and Benefits | 77,751 |
| Total Current Liabilities | 98,770 |
| **Long-Term Liabilities** | |
| Compensated Absences | 81,853 |
| Total Liabilities | 180,623 |
| **Fund Equity** | |
| Retained Earnings | 989,678 |
| Total Liabilities and Fund Equity | $ 1,170,301 |

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

**CINCINNATI COLLEGE PREPARATORY ACADEMY**
**HAMILTON COUNTY**

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

| | |
|---|---|
| **Operating Revenues** | |
| State Foundation Payments | $ 2,057,897 |
| Disadvantaged Pupil Impact Aid | 427,641 |
| State Education Programs | 46,414 |
| Charges for Services | 14,370 |
| Other | 10,744 |
| Total Operating Revenues | 2,557,067 |
| **Operating Expenses** | |
| Salaries | 1,022,470 |
| Fringe Benefits | 342,592 |
| Purchased Services | 763,910 |
| Materials and Supplies | 336,059 |
| Depreciation - Furniture and Supplies | 49,673 |
| Depreciation - Lease Hold | 81,040 |
| Other | 72,889 |
| Total Operating Expenses | 2,668,633 |
| Operating Loss | (111,566) |
| **Non-Operating Revenues/(Expenses)** | |
| Federal and State Grants | 572,429 |
| Total Non-Operating Revenues | 572,429 |
| Net Income | 460,862 |
| Retained Earnings at Beginning of Year | 528,816 |
| Retained Earnings at End of Year | $ 989,678 |

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

**CINCINNATI COLLEGE PREPARATORY ACADEMY**
**HAMILTON COUNTY**

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

| | |
|---|---|
| **Increase (Decrease) in Cash and Cash Equivalents** | |
| **Cash Flows from Operating Activities** | |
| Cash Received from State of Ohio | $2,531,952 |
| Cash Payments to Employees for Services | (1,142,468) |
| Cash Payments for Employees Benefits | (373,365) |
| Cash Payments to Suppliers for Goods and Services | (1,183,799) |
| Charges for Services | 14,370 |
| Other Operating Revenue | 10,744 |
| Other Operating Expenses | (72,889) |
| Net Cash Provided by Operating Activities | (215,454) |
| **Cash Flows from Noncapital Financing Activities** | |
| Federal and State Grants Received | 358,478 |
| Net Cash Provided by Noncapital Financing Activities | 358,478 |
| **Cash Flows from Capital and Related Financing Activities** | |
| Loan Principal Payment | (10,365) |
| Net Cash Used for Capital and Related Financing Activities | (10,365) |
| Net Increase in Cash and Cash Equivalents | 132,659 |
| Cash and Cash Equivalents at Beginning of Year | 392,045 |
| Cash and Cash Equivalents at End of Year | $ 524,704 |

| | |
|---|---|
| **Reconciliation of Operating Loss to Net Cash Provided by Operating Activities** | |
| Operating Loss | $ (111,566) |
| **Adjustments To Reconcile Operating Loss to Net Cash Used for Operating Activities** | |
| Depreciation | 130,713 |
| Changes in Assets and Liabilities | |
| Increase in Fixed Assets due to Additions and Adjustments | 10,892 |
| Decrease in Accounts Payable | (94,721) |
| Decrease in Intergovernmental Payable | (30,773) |
| Decrease in Accrued Wages | (119,999) |
| Total Adjustments | (103,888) |
| Net Cash Used for Operating Activities | $ (215,454) |

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

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## 1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Basis of Presentation

Enterprise Accounting

The Academy uses enterprise accounting to report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

### B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

### C. Budgetary Process

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided in the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor does prescribe a budgetary process for the Academy, requiring the provision of an estimated Academy budget for each year of the period of the contract.

### D. Cash and Cash Equivalents

*Demand Deposits*: The Academy's treasurer accounts for all monies received by the Academy. For cash management, all cash received by the Treasurer is pooled in an interest bearing checking account.

*Certificate of Deposit:* The Academy invested in a Provident Bank certificate of deposit with a maturity of six months. As of June 30, 2003 the certificate of deposit was valued at $2,822.

Total cash for the Academy is presented as "cash and cash equivalents" on the accompanying balance sheet. Interest earned during the fiscal year resulted from investment in this interest bearing account and the certificate of deposit.

### E. Capital Assets and Depreciation

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

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

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

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

| 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 Academy also participates in other various Federal Programs through the Ohio Department of Education. Grants are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

### G. Compensated Absences

On October 8, 2002, the Academy revised their sick and vacation leave policy. Beginning with the fiscal year ending June 30, 2003, school employees would not earn sick or vacation leave. Therefore, no additional accruals for compensated absences were made during the fiscal year. However, the Academy is still liable for leave that existed prior to the change in policy. No employees who had previously earned vacation or sick leave left employment, and therefore, the balance that existed at June 30, 2002 remained constant through June 30, 2003.

## 3. CASH

At June 30, 2003, the Academy had a carrying value of deposits of $524,704 reported as Cash and Cash Equivalents in the accompanying financial statements. The bank balance of the Academy's deposits was $544,281. Deposits are either (1) insured by the Federal Deposit Insurance Corporation, or (2) collateralized by the financial institution's pledged collateral.

## 4. CAPITAL ASSETS

A summary of the Academy's capital assets at June 30, 2003 follows:

| | | |
|---|---|---|
| Leasehold Improvements | $ | 405,710 |
| Furniture and Equipment | | 255,903 |
| Subtotal | | 661,613 |
| Less: Accumulated Depreciation | | (467,787) |
| Net Capital Assets | $ | 193,826 |

## 5. RISK MANAGEMENT

### A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2003, the Academy contracted with A.E. Olverson Insurance Agency for property and general liability insurance. There is a $1000 deductible, $1,000,000 single occurrence limit and $2,000,000 aggregate.

### B. Workers' Compensation

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

## 6. DEFINED BENEFIT PENSION PLANS

### A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. 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 Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute at an actuarially determined rate. The current Academy rate is 14 percent of annual covered payroll. A portion of the Academy's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Academy's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were $30,044, $44,642 and $40,845 respectively; 100 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

### B. State Teachers Retirement System

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

## 6. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The Academy was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were $137,420, $85,292, and $90,931 respectively; 100 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

## 7. OTHER EMPLOYEE BENEFITS

### A. Compensated Absences

The criteria for determining sick leave components are derived from negotiated agreements and State laws. On October 8, 2002, the Academy revised their sick and vacation leave policy. Beginning with the fiscal year ending June 30, 2003, school employees would not earn sick or vacation leave. Therefore, no additional accruals for compensated absences were made during the fiscal year. However, the Academy is still liable for leave that existed prior to the change in policy. No employees who had previously earned vacation or sick leave left employment, and therefore, the balance that existed at June 30, 2002 remained constant through June 30, 2003.

## 7. OTHER EMPLOYEE BENEFITS (Continued)

### B. Insurance Benefits

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

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

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

## 8. POST EMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the Academy, this amount was approximately $9,816 during fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was 3.011 billion at June 20, 2002 (latest information available). For the year ended June 30, 2002, 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 5.46 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at $12,400. For the Academy, the amount to fund health care benefits, including surcharge, equaled $11,717 during the 2003 fiscal year.

## 8. POST EMPLOYMENT BENEFITS (Continued)

The surcharge added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 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.

## 9. STATE SCHOOL FUNDING DECISION

On December 11, 2002 the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "… the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…". The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

## 10. CONTINGENCIES

### A. Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 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. On April 21, 2003 the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. The effect of this suit, if any, on the Cincinnati College Preparatory Academy is not presently determinable.

### C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The School does not have any material adjustments to state funding for fiscal year 2003, as a result of this review.

## 11. CAPITALIZED LEASES – LESSEE DISCLOSURE

During fiscal year 2000, the School entered into a capitalized lease for a van. The lease met 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 had been recorded at the present value of the future minimum lease payments as of the inception date in prior years. During fiscal year 2003, the lease was bought out by the school and the van capitalized at cost.

## 12. OPERATING LEASE

During the year ended June 30, 2000, the Academy leased classroom facilities and offices for a period of five years. The Academy is responsible for payments totaling $275,496 annually or $22,958 monthly. The lease also grants the Academy an option to renew the lease for an additional five years.

## 13. FEDERAL EXEMPT STATUS

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

## 14. PURCHASED SERVICES

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

| | |
|---|---|
| Physical Education | 574 |
| Travel and Meetings | 19,232 |
| Field Trips | 2,510 |
| Professional/Technical | 195,494 |
| Communication | 115,730 |
| Contracted Craft or Trade Services | 58 |
| Property Services | 338,828 |
| Utilities | 74,363 |
| Other | 17,121 |
| Total Purchase Services | $ 763,910 |

## 15. SUBSEQUENT EVENTS

In November 2002, the Cincinnati College Preparatory Academy Board approved the purchase of a new school building on Linn Street in downtown Cincinnati in the amount of $5,250,000. The action of purchasing the school and approval of the loan occurred in July of 2003.

**CINCINNATI COLLEGE PREPARATORY ACADEMY**
**HAMILTON COUNTY**

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

| 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:* | | | | |
| **Child Nutrition Cluster** | | | | |
| School Breakfast Program | 05-PU | 10.553 | $29,745 | $29,745 |
| National School Lunch Program | LL-P1 & LL-P4 | 10.555 | 69,415 | 69,415 |
| Total Child Nutrition Cluster | | | 99,160 | 99,160 |
| **Total U.S. Department of Agriculture** | | | **99,160** | **99,160** |
| **U.S. DEPARTMENT OF EDUCATION** | | | | |
| *Passed Through Ohio Department of Education:* | | | | |
| **Special Education Cluster:** | | | | |
| Special Education Grants to States (Title VI-B) | 6B-SF | 84.027 | 0 | 29,252 |
| Total Special Education Cluster | | | 0 | 29,252 |
| Grants to Local Educational Agencies (Title I) | C1-S1 | 84.010 | 177,614 | 230,960 |
| Title VI -- Innovative Education Program Strategies | C2-S1 | 84.298 | 2,976 | 3,544 |
| Eisenhower Professional Development State Grants | MS-S1 | 84.281 | 4,482 | 60,422 |
| Safe and Drug Free Schools | DR-S1 | 84.186 | 4,060 | 1,316 |
| Class Size Reduction (Title 6-R) | CR-S1 | 84.340 | 29,607 | 0 |
| **Total U.S. Department of Education** | | | **218,739** | **325,494** |
| **Totals** | | | **$317,899** | **$424,654** |

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

## NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
## JUNE 30, 2003

### NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

### NOTE B--FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had no significant food commodities in inventory.

**Auditor of State**
**Betty Montgomery**

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

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

To the Victory Team (Board):

We have audited the financial statements of Cincinnati College Preparatory Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2003, and have issued our report thereon dated January 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2003-001 and 2003-002.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted a certain immaterial instance of internal control weakness that we have reported to the management of the Academy in a separate letter dated January 13, 2004.

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

**Betty Montgomery**
Auditor of State

January 13, 2004

# INDEPENDENT ACCOUNTANTS' REPORT 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 Cincinnati College Preparatory Academy, Hamilton County, Ohio (the 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, 2003. The Academy's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Academy's management. Our responsibility is to express an opinion on the 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 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 Academy's compliance with those requirements.

In our opinion, the 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, 2003.

## Internal Control over Compliance

The management of 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 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.

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

Betty Montgomery

**Betty Montgomery**
Auditor of State

January 13, 2004

**SCHEDULE OF FINDINGS**
***OMB CIRCULAR A -133 § .505***
**JUNE 30, 2003**

## 1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---|---|---|
| *(d)(1)(i)* | Type of Financial Statement Opinion | Unqualified |
| *(d)(1)(ii)* | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| *(d)(1)(ii)* | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | Yes |
| *(d)(1)(iii)* | Was there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| *(d)(1)(iv)* | Were there any material internal control weakness conditions reported for major federal programs? | No |
| *(d)(1)(iv)* | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| *(d)(1)(v)* | Type of Major Programs' Compliance Opinion | Unqualified |
| *(d)(1)(vi)* | Are there any reportable findings under § .510? | No |
| *(d)(1)(vii)* | Major Programs (list): | 84.010 Title 1: $230,960 |
| *(d)(1)(viii)* | Dollar Threshold: Type A\B Programs | Type A: $300,000<br>Type B: All others |
| *(d)(1)(ix)* | Low Risk Auditee? | No |

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

### FINDING NUMBER 2003-001

**Material Noncompliance/Reportable Condition***

The Academy did not comply with Article 3, Section B, Exhibit 2, of the contract with the Ohio Department of Education. The contract states that the chief financial officer will initiate all purchases, and use a purchase order signed/approved by the director and chief financial officer to initiate purchases. In addition, the person receiving an order will verify the quantity and process on the invoice to the information contained on the purchase order and any deliveries that cannot be matched to an open purchase order will be refused. The original invoice is to be matched to the purchase order and entered into the computer system for payment upon the terms granted by the vendor. Of the expenditures reviewed, 55% did not have a purchase order or documentation of authorization prior to the date of purchases by the Treasurer or Director as required per the contract. However, board approval was given for the expenditures.

**FINDING NUMBER 2003-001**
**(Continued)**

**Material Noncompliance/Reportable Condition***

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

**FINDING NUMBER 2003-002**

**Reportable Condition***

During the year ended June 30, 2003, the Academy made payments of $81,829 for charges to the Academy credit card. Although the Academy retained signed receipts, we noted approximately $8,300 of tested credit card purchases where supporting documentation did not indentify the items purchased. These payments were made for charges incurred by Academy employees. At the request of the Auditor of State, the Board and Superintendent signed affidavits after the audit period stating that these purchases were authorized and made for a proper public purpose.

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

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

- 55% of the payment documentation reviewed did not have purchase orders.

- The Academy reimbursement and travel policies need to be more specific and should be approved by the Board.

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

- Requisitions and purchase orders should be approved and documented through appropriate members of management and should provide the appropriate coding of the anticipated expense. Purchase orders should be authorized before the Academy orders goods or services.

- Compile and maintain all appropriate supporting documentation (requisitions, original invoices, verification of receipt of purchase and agreement to invoice, authorization of payment) related to expenses.

- Establish a board approved policy related to employee reimbursements. This policy should provide guidance on prior authorization for all purchases made, completion of reimbursement forms with the employee's signature indicating the items for which the employee is being reimbursed, requirements for submitting receipts, and obtaining approval from an appropriate authority authorizing the reimbursement.

- Establish a board approved policy related to employee travel. This policy should define acceptable purposes for incurring travel related expenses, and define the approval process for travel related expenses and related documentation of that approval (documentation of travel approval in the minutes prior to attendance, persons attending, the cost of the conference, approximate amount of housing, travel, and food allowances, and other related expenses deemed appropriate by the Board). Upon return from the conference, all receipts should be submitted to the Treasurer for reimbursement approval and verification that expenses are within authorized limits.

* We also noted this matter in our audit of the 2002 financial statements.

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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## CINCINNATI COLLEGE PREPARATORY ACADEMY
## HAMILTON COUNTY

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

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; **Explain:** |
|---|---|---|---|
| 2002-10431-001 | Use of Purchase Orders | No | Partially corrected. Reissued as finding 2003-001. |
| 2002-10431-002 | Credit Card Policy and Supporting Documentation | No | Partially corrected. Noted approval of a credit card policy for FY2003. Reissued as finding 2003-002. |

Auditor of State
Betty Montgomery

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## CINCINNATI COLLEGE PREPARATORY ACADEMY

## HAMILTON COUNTY

## CLERK'S CERTIFICATION

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**FEBRUARY 10, 2004**