W.E.B. DUBOIS ACADEMY
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2001

JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

W.E.B. DUBOIS ACADEMY
HAMILTON COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

W.E.B. DuBois Academy
Hamilton County
1812 Central Parkway
Cincinnati, Ohio 45214-2304

To the Board of Trustees:

We have audited the accompanying Balance Sheet of W.E.B. DuBois Academy, Hamilton County, Ohio (the School), as of 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 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 Unites 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 W.E.B. DuBois Academy, 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 auditing standards generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 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.

Jim Petro
Auditor of State

May 9, 2002

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W.E.B. DUBOIS ACADEMY
HAMILTON COUNTY

BALANCE SHEET
AS OF JUNE 30, 2001

Assets		
Current Assets		
Cash	$	62,155
Intergovernmental Receivable		29,309
Total Current Assets		91,464
Non-Current Assets		
Fixed Assets (Net of Accumulated Depreciation)		440,289
Total Assets	$	531,753
Liabilities & Fund Equity		
Current Liabilities		
Accounts Payable	$	10,895
Intergovernmental Payable		32,000
Accrued Interest		4,647
Accrued Wages and Benefits		106,499
Total Current Liabilities		154,041
Noncurrent Liabilities		
Intergovernmental Payable		107,902
Line of Credit		400,000
Total Noncurrent Libilities		507,902
Total Liabilities		661,943
Fund Equity		
Accumulated Deficit		(130,190)
Total Liabilities & Fund Equity	$	531,753

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

W.E.B. DUBOIS 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	$ 445,217
DPIA	26,790
State special education program	94,658
Other	3,293
Total Operating Revenues	569,958
Operating Expenses	
Salaries	475,987
Fringe benefits	141,210
Purchased services	
Contract Services	34,810
Leases	30,000
Utilites	4,848
Facilities Maintenance	9,458
Data Processing	7,505
Advertising	3,400
Other purchased services	1,605
Supplies and materials	149,475
Depreciation	108,966
Other	32,524
Total Operating Expenses	999,788
Operating Loss	(429,830)
Non-Operating Revenues/Expenses	
State Grants	47,000
Federal Grants	178,144
Contributions/Donations	27,751
Other Non-Operating revenue	15,634
Interest and Fiscal Charges	(18,858)
Total Non-Operating Revenues (Expenses)	249,671
Net Loss	(180,159)
Retained earnings at beginning of year	49,969
Accumulated Deficit at end of year	$ (130,190)

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

W.E.B. DUBOIS ACADEMY
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2001

Increase(Decrease) in Cash	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 706,567
Cash Payments to Suppliers for Goods and Service	(231,067)
Cash Payments to Employee for Service	(474,584)
Cash Payments for Employee Benefits	(36,114)
Other Operating Revenue	3,293
Other Operating Expenditures	(31,663)
Net Cash Used for Operating Activities	(63,568)
Cash Flows from Noncapital Financing Activities	
Federal and State grants	211,456
Contributions/Donations	27,751
Other Non-operating revenue	13
Other Non-operating expenses	(14,211)
Net Cash Provided by Noncapital Financing Activities	225,009
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(149,255)
Net Cash Used for Capital and Related Financing Activities	(149,255)
Net increase in cash	12,186
Cash at Beginning of Year	49,969
Cash at End of Year	$ 62,155
Reconciliation of Operating Income to Net Cash Used for Operating Activities	
Operating Loss	$ (429,830)
Adjustment to Reconcile Operating Loss to Net Cash Used for Operating Activities	
Depreciation	108,966
Changes in Assets and Liabilities	
Increase in Accounts Payable	10,895
Increase in Intergovernmental Payable	139,902
Increase in Accrued Wages Payable	106,499
Total Adjustments	366,262
Net Cash Used for Operating Activities	$ (63,568)

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

W.E.B. DuBois Academy, Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Rev. Code, Chapters 3314 and 1702 to provide an appropriate education facility and program for all age groups and to provide instruction in courses which meet general educational requirements compatible with and approved by the State of Ohio. 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 creation of the School was initially proposed to the State Board of Education of Ohio, the sponsor, by the W.E.B. DuBois Academy. on March 14, 2000. The State Board of Education approved the proposal and entered into a contract with the Board of Trustees of the School. The contract provided for the commencement of School operations on July 1, 2000. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The charter agreement with the sponsor, required the school to develop a nonprofit corporation. Equal Playing Field Corporation was incorporated under Chapter 1702 of the Ohio Rev. Code on August 23, 1999, as the not for profit corporate board of W.E.B. DuBois Academy. Equal Playing Field meets once a year to reappoint the Board of Trustees of the School and to give them the authority to make all decisions for the school. During fiscal year 2001, W.E.B. DuBois Academy entered into contracts, signed agreements, issued debt, and conducted business under the name of Equal Playing Field. Two of the board members for Equal Play Field are also board members of W.E.B. DuBois Academy.

The fiscal operations of the School are under a seven-member board which is directed by the President of the Board. This board is responsible for formulating policies regarding fiscal operations and monitoring the expenditure of funds. The School's Treasurer also serves as the Chief Financial Officer of the School. The Treasurer is responsible for directing the financial affairs of the School including accounting purchasing, insurance, housekeeping and maintenance and is responsible for reporting the progress of the School against those responsibilities.

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 governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board 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 Rev. 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

All monies received by the School are accounted for by the School's Treasurer. For cash management, all cash received by the Treasurer is deposited within four different bank accounts. Total cash for the School is presented as "Cash" on the accompanying balance sheet.

The School had no investments during the fiscal year.

E. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure.

Leasehold 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.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years. Leasehold improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenues

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

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

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

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 and unreserved retained earnings on the accompanying financial statements.

Amounts awarded under the above named programs for the 2001 school year totaled $706,567.

3. DEPOSITS

At June 30, 2001, the carrying amount of the School's deposits were $62,155. The bank balance was $111,428. Of the bank balance $100,000 was covered by federal depository insurance. The remaining $11,428 was not insured or collateralized.

4. RECEIVABLES

Receivables at June 30, 2001, consisted of funds from the State Teacher Retirement System of Ohio (STRS), and intergovernmental (e.g. federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

5. FIXED ASSETS

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

Furniture and Equipment	$ 11,542
Leasehold Improvement	537,713
Less: accumulated depreciation	(108,966)
Net Fixed Assets	$440,289

6. OPERATING LEASE

The School has a five-year lease with Camp Washington Community Board, Inc. for 11,000 square feet of building space to be used for educational and administrative purposes. In fiscal year 2001, the School paid $30,000 for their lease. There was no additional charge for utilities. The School has an option to renew the lease for an additional four years at $60,000 per year. This option is contingent on their Sponsor's yearly renew of their charter agreement. The School renewed their lease for fiscal year 2002.

7. DEBT

The School held the following debt during the fiscal year:

- The School entered into a line of credit with PNC Bank with a limit of $200,000, dated June 23, 2000 and expiring on June 1, 2001. The interest rate on the line of credit was at prime and payable monthly, initiating at 9.50% per annum. At June 30, 2001, the interest rate was 6.75% per annum. The School signed an agreement with PNC Bank to extend the line of credit's expiration date to January 1, 2002. The balance of the line of credit at June 30, 2001 was $200,000. This line of credit was not collateralized.

- The School entered into a line of credit with PNC Bank with a limit of $200,000 dated April 3, 2001 and expiring on October 3, 2002. This line of credit requires the School to make eleven consecutive monthly principal payments of $3,333, beginning on November 3, 2001, and one final principal payment of $164,422 at the expiration date. The interest rate on the line of credit is at prime and payable in seventeen consecutive monthly payments, initiating at 8.00% per annum. At June 30, 2001, the interest rate was 6.75% per annum. The balance of the line of credit at June 30, 2001 was $200,000. This line of credit was not collateralized.

Debt issued is statutorily limited to maturing at the end of the year the obligation was issued if the debt obligates or is collateralized by the State monies received by the School under Ohio Law. The lines of credit above issued during the year did not specifically exclude State foundation monies and extended beyond year end, contrary to State statutes. These lines of credit were not approved in the official Board minutes, and interest payments were not remitted timely to PNC Bank, which resulted in total late fees of $346. At May 9, 2002 the School was current in their payments to PNC Bank for the lines of credit.

8. 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 2001, the School contracted with O'Leary-Kientz, Inc. for property and general liability insurance. There is a $500 deductible with a 100% blanket, all risk policy.

Professional liability is protected by O'Leary-Kientz, Inc. with a $1,000,000 single occurrence limit and $2,000,000 aggregate and no deductible.

There were no significant reductions in insurance coverage form the prior year. Also there were no settlements that exceeded insurance coverage for the year.

B. Employee Medical, Dental, and Vision Benefits

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

C. Workers' 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.

9. 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. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent for fiscal year 2001, 4.2 percent of which 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 obligations to SERS for the fiscal year ended June 30, 2001 was $7,460; 100% of the required contribution is unpaid and recorded as a liability.

Payments were not made to SERS by the dates required by Ohio law. As of May 3, 2002, the School has remitted all required payments.

9. DEFINED BENEFIT PENSION PLANS (Continued)

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 for fiscal year 2001, 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 $18,226; 122% percent has been contributed for fiscal year 2001. $15,621 represents overpayment of contribution for fiscal year 2001, and is recorded as a receivable

10. POST EMPLOYMENT 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.

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 benefits recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount was $24,301 for fiscal year 2001.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000 (the latest information available) the balance in the Fund was $3,419,000. For the fiscal year ended June 30, 2000, net health care costs paid by STRS were $283,137,000 and STRS had 99,011 eligible benefits 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.

10. POST EMPLOYMENT BENEFITS (Continued)

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, 2001, employer contributions to fund health care benefits were 9.8 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 2001, the minimum pay has been established at $12,400. For the School the amount contributed to fund health care benefits, including surcharge, during the 2001 fiscal year equaled $17,406.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were $140,696,340 and the target level was $211 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. OTHER EMPLOYEE BENEFITS

Insurance Benefits

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

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 2, 2001, although a time line 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.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of April 5, 2002, 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 redetermine any issue upon such reconsideration.

As of April 5, 2002, School 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. 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 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. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on the School 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 results of this review could result in state funding being adjusted. The School anticipates a reduction adjustment of $139,902 to state funding for fiscal year 2002, as a result of the review. This amount has been recorded as an intergovernmental payable.

14. FEDERAL EXEMPT STATUS

The School has obtained its 501(c)(3) tax exempt status under the name of Equal Playing Field. 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.

15. RETAINED EARNINGS

At July 1, 2000, the School had a beginning balance of $49,969. This comprised of the following

State Charter Grant	$50,000
Expenses in May and June 2000	(31)
Balance at June 30, 2000	$49,969

STATE OF OHIO
OFFICE OF THE AUDITOR

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

W.E.B. DuBois Academy
Hamilton County
1812 Central Parkway
Cincinnati, Ohio 45214-2304

To the Board of Trustees:

We have audited the financial statements of W.E.B. DuBois Academy, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2001, and have issued our report thereon dated May 9, 2002. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-10431-001 through 2001-10431-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated May 9, 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 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 related to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, 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 conditions are described in the accompanying schedule of findings as items 2001-10431-003 through 2001-10431-008.

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, of the reportable conditions described above, we consider items 2001-10431-005 and 2001-10431-006 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated May 9, 2002.

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

Jim Petro
Auditor of State

May 9, 2002

SCHEDULE OF FINDINGS
JUNE 30, 2001

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

FINDING NUMBER 2001-10431-001

Material Noncompliance

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 commission provided for under Ohio Rev. Code, Section 149.38 to 149.42. The school was unable to locate the following items:

- Invoices or any other supporting documentation for 12 of the 60 transactions reviewed;
- Cancelled checks for 7 of the 39 payroll and 4 of the 60 non-payroll transactions reviewed; and
- Retirement enrollment forms for 6 of the 39 employees.

FINDING NUMBER 2001-10431-002

Material Noncompliance

Ohio Rev. Code, Section 3309.47, states that each school employees retirement system contributor shall contribute eight percent of the contributor's compensation to the employees' saving fund. Ohio Rev. Code Section 3309.49 requires each employer to pay to the school employees retirement system (SERS) an amount certified by the secretary that shall be a certain percent of the earnable compensation of all employees. The school was delinquent in its employer and employee portions of SERS payments throughout the year. When timely payments are not made, the school could incur unnecessary penalty fees, and employees may not receive appropriate retirement benefit. At June 30, 2001, the School owed $24,866 in employer portion and $892 in employee portion to SERS for fiscal year 2001 payroll. The Treasurer should monitor payment deadlines to assure that payments to SERS are paid by the due date.

As of May 3, 2002, the School has remitted all required payments.

FINDING NUMBER 2001-10431-003

Material Noncompliance/Reportable Condition

Community Schools may issue debt, however, if the debt obligates or is secured by the State monies received by the community school under Ohio Rev. Code, Section 3314.08(D), then the debt must be issued in accordance with Ohio Rev. Code, Section 3314.08(J), which states, in part, that "the school may issue notes to evidence such borrowing to mature no later then the end of the fiscal year in which such money was borrowed."

During the fiscal year ended June 30, 2001, the School had two $200,000 lines of credit with PNC Bank, maturing after June 30, 2001. The notes mature in January and October of 2002. These lines of credit were not approved in the official Board minutes, and interest payments were not remitted timely to PNC Bank, which resulted in total late fees of $346.

FINDING NUMBER 2001-10431-003
(Continued)

Because the line of credit does not specifically exclude the School's Ohio Rev. Code, Section 3314.08(D), funds from the general collateral provisions, these notes obligate these monies. Therefore, Ohio Revised Code, Section 3314.08(J), would apply. We recommend that the School take steps to monitor debt and determine there is no outstanding debt subject to Ohio Rev. Code, Section 3314.08(J), at fiscal year end.

The School should also approve the issuance of new debt in their official minutes, and make interest payments to their creditors in a timely manner to avoid late fees.

FINDING NUMBER 2001-10431-004

Reportable Condition

An effective monitoring control system has not been implemented to assist management in detecting material misstatements in financial or other information. The School should develop and implement a monitoring control system to ensure that material misstatements do not occur.

Monitoring controls comprise of regular management and supervisory activities established to oversee whether management's objectives are being achieved, covering operational and legal compliance, as well as financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action.

Monitoring controls may be in the nature of ongoing activities or periodic separate evaluation by either management or an internal audit function. They can relate to a specific transaction cycle or can be in a more overview nature.

Monitoring controls should assist management in detecting material misstatements in financial or other information and can include:

- Regular review of budget and actual figures;
- Regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports);
- Review of key performance indicators;
- Review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.);
- Review of unusual or significant items, long outstanding items, etc.;
- Identification of unusual fluctuations;
- Monitoring that grant monies are used in accordance with grant requirements;
- Ensuring an adequate segregation of duties exist; and
- Review of monthly reconciliations.

FINDING NUMBER 2001-10431-005

Material Weakness

The School had no fixed asset accounting system during the year. There were no procedures developed to record assets as additions when purchased, deletions when disposed, or to perform periodic physical inventories. Failure to maintain records and employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation and misstatements of assets.

To promote adequate safeguards over their fixed assets, and to reduce the risk that the School's fixed assets will not be misstated, the School should establish a current listing of all fixed assets owned, and develop appropriate procedures to maintain an up-to-date list for the future. These procedures should include:

- Tagging all assets that meet the School's capitalization criteria when received;

- Developing a form to be completed by the School's staff, and approved by management when assets are acquired or disposed. This form should document the tag number, a description of the asset, the cost, the acquisition date, fund charged, the location, and a reference to the supporting documentation (i.e., purchase order, invoice); and

- Developing procedures for performing periodic (annual) physical inventories. This can be accomplished by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location review the list for accuracy. Updates and/or changes should be made to the master list for errors noted during the review of inventory.

FINDING NUMBER 2001-10431-006

Material Weakness

The following control weaknesses related to the payroll cycle were identified:

- Payroll ledgers were not maintained;

- Time sheets were not completed or approved for hourly (non-salary) employees; and

- Forty-four percent of the employees' gross pay amounts could not be recalculated to agree to the board approved salary amounts.

Failure to establish an effective control environment could result in a material misstatement, overpayment, or unauthorized payment relating to payroll expenditures.

The School should develop and implement a policy and set of procedures to follow when hiring individuals and processing payroll transactions. Such procedures may include:

FINDING NUMBER 2001-10431-006
(Continued)

- Board approval of all new employees;
- Board approval of all pay rates and pay increases;
- Treasurer's review documenting that all employees' gross wages paid, agree to the Board approved pay rates;
- Procedures requiring all wages paid to hourly (non-salary) employees to be supported by a management approved time sheet; and
- Maintaining separate payroll ledgers which document the approved salary rate, gross pay, deductions, net pay, and fund charged for each employee by pay period.

FINDING NUMBER 2001-10431-007

Reportable Condition

The School had numerous posting errors in their general ledger:

- Foundation receipts were not posted at gross. They were posted net of the STRS payments which were deducted from foundation receipts. The STRS payments also were not recorded as expenses.
- The amounts of foundation received for DPIA and State Special Education were not posted to separate line items;
- Transfers of funds between bank accounts were improperly posted as miscellaneous and grant receipts;
- Debt interest payments were improperly posted as FICA and Medicare liability;
- Reductions of credit card expenditures were incorrectly posted as miscellaneous receipts; and
- Duplicate receipts (or a similar pre-numbered receipt book) were not used for documentation of receipts.

These errors could result in the misstatements in the financial records, misappropriation of funds, or allow a receipt to go unaccounted for.

FINDING NUMBER 2001-10431-007
(Continued)

In order to maintain accurate financial records, we recommend that the following procedures be applied:

- Foundation receipts should be posted as they appear on the foundation settlement sheets showing the total amount received for each month for foundation, DPIA, and State Special Education;
- STRS deducted, should be recorded in the School ledgers as an expenditure for fringe benefits;
- Transfer of funds between bank accounts should be recorded as reduction to the cash account disbursing the funds, and an increase to the cash account receiving the funds;
- Interest payments should be recorded as debt expenditures;
- Reductions in credit card expenditures should be recorded as a reduction of the expenditures; and
- Pre-numbered receipts should be used for all money received.

FINDING NUMBER 2001-10431-008

Reportable Condition

The following deficiencies related to the purchasing cycle were identified:

- Prior authorization by management was not obtained for all purchases;
- Forty percent of checks reviewed were not posted in a timely manner;
- Three percent of the checks reviewed were posted for improper amounts; and
- Supporting documentation was not maintained for all purchases.

These weaknesses could result in misstatements in the financial records, the unauthorized purchase of goods or services, or the misappropriation of school assets.

A favorable control environment for the processing of non-payroll disbursements may include, but are not limited to:

- Prior authorization of a purchase through the use of a purchase orders that are approved by appropriate members of management and that include appropriate coding for the expenditures;
- Accumulation of appropriate supporting documentation (original invoices) prior to authorization for payment;

FINDING NUMBER 2001-10431-008
(Continued)

- Detailed review of the invoice and supporting documentation indicating descriptions of the goods/services received and documentation on the invoice that the goods/services were received ("okay to pay");

- Matching of invoice with purchase order and copy of check or check stub to ensure all supporting documentation has been reviewed;

- Review of check used to pay the purchase and supporting documentation to ensure that the payee, amount, address, etc. on the check and invoice agree; and

- Review of expenditures as posted to the expenditure ledger to verify that the appropriate coding was utilized for payment.

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W.E.B. DUBOIS 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
JUNE 13, 2002