



**Auditor of State  
Betty Montgomery**



**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Greater Cincinnati Community Academy  
Hamilton County  
4781 Hamilton Avenue  
Cincinnati, Ohio 45223

To the Board of Education:

We have audited the accompanying Balance Sheet of the Greater Cincinnati Community Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2003, and the related Statement of Revenues, Expenses and Changes in Accumulated Deficit, 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 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 Academy, as of June 30, 2003, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As shown in the financial statements, the Academy has a working capital deficiency of \$930,618 and an accumulated deficit of \$623,561. Management's plans in regards to these matters are discussed in Note 13. 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 June 30, 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. 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.

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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 30, 2004

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

**Assets**

**Current Assets**

Cash and Cash Equivalents	\$ 3,850
Other Assets:	
Overpayment of line of credit	<u>274</u>
Total Current Assets	4,124

**Noncurrent Assets**

Fixed Assets (Net of accumulated depreciation)	<u>307,057</u>
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<b>Total Assets</b>	<b><u><u>\$ 311,181</u></u></b>
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**Liabilities and Equity**

**Current Liabilities**

Accounts Payable	\$ 490,738
Accrued Wages and Benefits	133,145
Intergovernmental Payable - SERS	42,286
O & B Foundation Payable	24,230
Overdraft Protection Account	33,560
Loans from Officers	104,925
Line of credit payable	<u>105,858</u>
Total Liabilities	934,742

**Equity**

Unreserved Retained Deficit	(623,561)
	<u>                    </u>
Total Liabilities and Equity	<b><u><u>\$ 311,181</u></u></b>

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

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

**Operating Revenues**

State Foundation Payments	\$ 2,489,257
Disadvantaged Pupil Impact Aid	433,059
State Education Programs	236,224
Other	<u>38,352</u>
 Total Operating Revenues	 <u>3,196,892</u>

**Operating Expenses**

Salaries	1,717,784
Fringe Benefits	525,928
Purchased Services	
Professional & Technical	313,376
Student Testing & Evaluation	5,672
Staff Development & Services	80
Other Contract Services	3,166
Data Processing Services	54,443
Food Service Contract Services	157,493
Communications	34,706
Mail/Messenger Services	11
Printing	3,702
Transportation & Meetings	5,556
Dues & Memberships	36,996
Board of Trustees	8,850
Security Services	15,624
Trash Removal	9,725
Contract Repair & Maintenance	47,985
School Site Lease	141,244
Equipment Leasing	47,934
Utilities	59,468
Facility Maintenance	3,911
Computer Equipment Repair/Maintenance	300
Student Transportation	31,609
Advertising	8,618
 Materials and Supplies	 117,716
Depreciation	<u>243,143</u>
 Total Operating Expenses	 <u>3,595,040</u>

Operating Loss (398,148)

**Non-Operating Revenues/(Expenses)**

Federal and State Grants	847,836
Donations	14,328
Interest Expense	<u>(14,552)</u>
 Total Non-Operating Revenues	 <u>847,612</u>

Net Income 449,464

Accumulated Deficit at Beginning of Year (1,073,025)

Accumulated Deficit at End of Year \$ (623,561)

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



**GREATER CINCINNATI COMMUNITY 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 - Foundation	\$2,489,257
Cash Received from State of Ohio - DPIA	433,059
Cash Received from State of Ohio - Special Education Program	236,224
Cash Received from Other Operating Activities	38,352
Cash Payments for Salaries and Benefits	(2,243,712)
Cash Payments to Suppliers for Goods and Services	(1,108,185)
Cash Payments for Other Operating Activities	(43,598)
Net Cash Used by Operating Activities	<u>(198,603)</u>

**Cash Flows from Noncapital Financing Activities**

Cash Received from State & Federal Grants	847,836
Cash Refund of State Foundation Payments	(602,941)
Cash Received from Donations	14,328
Cash Received from Officers	54,425
Cash Repayment to Officers	(24,332)
Net Cash Provided by Noncapital Financing Activities	<u>289,316</u>

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

Loan Principal Payment	(72,792)
Loan Interest Payment	(14,552)
Acquisition of Fixed Assets	(3,588)
Net Cash Used for Capital and Related Financing Activities	<u>(90,932)</u>

Net Decrease in Cash and Cash Equivalents (219)

Cash and Cash Equivalents at Beginning of Year 4,069

Cash and Cash Equivalents at End of Year \$ 3,850

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

Operating Loss \$ (398,148)

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

Depreciation	243,143
Changes in Assets and Liabilities	
Decrease in Intergovernmental Receivable	49,154
Increase in Accounts Payable	178,190
Increase in Accrued Wages & Benefits	26,870
Decrease in Intergovernmental Payable	(297,812)
Total Adjustments	<u>199,545</u>

Net Cash Used for Operating Activities \$ (198,603)

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

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**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY**

Greater Cincinnati Community Academy, Hamilton County, Ohio (the Academy), is a nonprofit corporation established pursuant to Ohio Rev. Code, Chapters 3314 and 1702 to provide an appropriate educational 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 Academy qualifies as an 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 Academy's tax exempt status. The Academy, which is part of the state's education program, is independent of any school district. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The creation of the Academy was initially proposed to the Ohio State Board of Education, the sponsor, by the Greater Cincinnati Community Academy, Inc. on June 24, 1999. The Ohio State Board of Education approved the proposal and entered into a contract with the Board of Trustees of the Academy. The contract provided for the commencement of Academy operations on June 30, 2004.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Greater Cincinnati Community Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (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 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.

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

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

**B. Measurement Focus and 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. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

Basis of accounting refers to when revenues and expense 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**

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 not prescribe a budgetary process for the Academy.

**D. 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 dates received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy 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.

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

**E. Intergovernmental Revenues**

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education program. Revenues 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 Academy must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

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

**F. Estimates**

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

**3. CASH AND DEPOSITS**

At June 30, 2003, the Academy had a cash balance of \$3,850 which is presented as cash in the accompanying financial statements. The bank balance of the Academy's deposits was \$4,206 of which all was covered through federal depository insurance (FDIC).

**4. FIXED ASSETS**

A summary of the Enterprise Fund fixed assets at June 30, 2003:

Leasehold improvements	\$996,891
Furniture & Equipment	<u>220,020</u>
	1,216,911
Less: Accumulated Depreciation	<u>(909,855)</u>
Net Fixed Assets	<u>\$307,057</u>

**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 the fiscal year 2003, the Academy contracted with EMC Insurance Companies for property and general liability insurance. There is a \$1,000 deductible with a one hundred percent blanket, all risk policy.

**B. Employee Medical, Dental, and Vision Benefits**

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

**C. Workers' Compensation**

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

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

**6. OPERATING LEASE**

The Academy has a month-to-month lease with Bethlehem Temple Church for 20,000 square feet of building space to be used for educational purposes. The Academy pays \$3,000 per month, plus utilities. For the year ended June 30, 2003, the Academy had paid \$104,702.

In October of 2000, the Academy entered into a five-year lease for three modular classrooms. In fiscal year 2003, the Academy paid \$700 per month, per classroom, plus utilities.

In fiscal year 2003, the Greater Cincinnati Community Academy leased a building for their administrative offices from Lockland City Academy District and paid the lease commitment of \$4,000 per month, plus utilities.

**7. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Academy 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 statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute 14 percent; for fiscal year 2003, 5.46 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The Academy's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2003 was \$45,631. As of March 2004, the Academy owed \$4,240 in SERS employee contributions.

**B. State Teachers Retirement System**

The Academy 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 the STRS Ohio, 275 East Board Street, Columbus, Ohio 43215-3771 or by calling (614) 227-4090.

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.

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

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 are 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. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. 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. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Academy's required contribution for pension obligation to STRS for the fiscal year ended June 30, 2003 was \$83,794. As of April 28, 2004, the Academy was current in their contributions.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teacher Retirement System. As of June 30, 2003, the Academy had no employees or members of the governing board who contribute to Social Security.

**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 System 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.

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

**8. POST EMPLOYMENT BENEFITS (Continued)**

Most benefit 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$40,401 for fiscal year 2003. STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3,256 million. For the year ended June 30, 2003, 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 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 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 8.5 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 the fiscal year 2003, the minimum pay was established at \$12,400. For the Academy, the amount contributed to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$69,697. 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 fiscal year ended June 20, 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 benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**9. OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from Academy policies and State laws. Full-time employees are eligible for fifteen days of paid vacation each year. Employees may not carry more than twenty five days of accrued vacation at any one time.

**B. Insurance Benefits**

The Academy provides life insurance to all employees through a private carrier. Coverage is provided for all certified and non-certified employees.



**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

**10. DEBT**

During fiscal year 2000, the Academy entered into a line of credit with Firststar Bank with a limit of \$350,000 at an interest rate of 9 percent. The Academy used this line of credit to purchase and lease equipment and pays monthly installments to U.S. Bank. During fiscal year 2003, an extension until June 30, 2004 was granted. As of June 30, 2003, \$105,858 of this balance was outstanding. The equipment, furniture and textbooks obtained through the agreement serve as collateral. The following is a summary of the Academy's future annual debt payments:

<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 105,858	3,752	\$ 109,610

Academy officers made loans to the Academy. The loans were made to cover expenses and cash shortages as the Academy attempted to address its financial problems. During fiscal year 2003, additional loans were made to the Academy by Dr. Marie Congo in the amount of \$18,425 and Arthur Congo in the amount of \$36,000. As of June 30, 2003, \$104,925 was outstanding for these loans. There were no debt agreements and therefore, there are no terms, conditions, collateral or interest rate specified.

**11. STATE SCHOOL FUNDING DECISION**

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

**12. 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 Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2003.

**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. On April 31, 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 is set for oral arguments on November 18<sup>th</sup>, 2003.

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

**13. MANAGEMENT'S PLAN REGARDING ACCUMULATED DEFICIT – SUBSEQUENT EVENT**

During fiscal year 2002, the Academy initiated a plan to reduce its Accumulated Deficit.

The plan called for the repayment of a \$300,000 line of credit which was repaid during fiscal year 2002. The plan also called for the complete liquidation of all amounts owed to SERS by July 31, 2004.

The Academy reduced its Accumulated Deficit by 42% compared to the deficit at June 30, 2002.

Management believes that the Academy will eliminate its Accumulated Deficit by June 30, 2004.

**14. RELATED PARTIES**

As of June 30, 2003, the Academy owes Janet Perry, Director of Teacher Development, Dr. Marie Congo, CEO/Developer, and Arthur Congo, Dr. Congo's husband, \$40,500, \$28,725, and \$35,700, respectively, for loans made to the Academy to cover cash shortages and expenses during fiscal years 2002 and 2003.

The O & B Foundation is a non-profit organization that was formed to operate and to perform functions of the Academy. The corporation is organized for charitable religious, educational, and scientific purposes. Arthur Congo, H. Marie Congo, and Carl Shye are the Trustees of the Foundation. The Foundation Trustees made loans to the Academy for operating purposes. The Academy has not repaid this loan and it is listed as a liability on the Balance sheet.

The Academy also has an overdraft protection line of credit with Firststar Bank in the amount of \$35,000. This agreement is to prevent overdrafts on the Academy's account. The unpaid balance in this account shall bear an interest rate equal to 4% above the prime rate announced by the bank. This agreement is guaranteed by Carl Shye and H. Marie Congo.

**15. STATE FOUNDATION PAYABLE**

As of June 30, 2002, the Academy owed the Ohio Department of Education (ODE) \$602,941 for overfunding in fiscal year 2000 based upon Ohio Department of Education reviews of enrollment criteria and fulltime equivalency calculations. This amount was reflected as a noncurrent liability on the fiscal year 2002 balance sheet.

An agreement was negotiated between ODE and the Academy during 2001 allowing ODE to withhold an agreed upon amount from the Academy's school foundation receipts during fiscal years 2002 and 2003. The outstanding liability at June 30, 2003 was \$0.

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education</i>						
<b>Child Nutrition Cluster:</b>						
Food Commodity Distribution	n/a	10.550	\$0	\$185,282	\$0	\$185,282
National School Breakfast	05-PU	10.553	93,055		93,055	
National School Lunch Program	LL-P4	10.555	159,184		159,184	
<b>Total U.S. Department of Agriculture</b>			252,239	185,282	252,239	185,282
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
<b>Special Education Cluster:</b>						
Special Education Grants to States (IDEA Part B)	6B-SF	84.027	94,193		94,193	
Special Education - Preschool Grant	PG-S1	84.173	2,274		2,274	
<b>Total Special Education Cluster</b>			96,467		96,467	
ESEA Title I - Grants to Local Educational Agencies	C1-S1	84.010	346,283		346,283	
Durg Free Schools Grant	DR-S1	84.186	5,887		5,887	
Eisenhower Professional Development State Grant	MS-S1	84.281	728		728	
Adult Education-State Grant Program	C2-S1	84.298	7,337		7,337	
Classroom Size Reduction (Title VI R)	CR-S1	84.340	34,104		34,104	
Technology Literacy Challenge	TJS1	84.318	9,482		9,482	
Title II Part A	TRS1	84.367	110,835		110,835	
<b>Total U.S. Department of Education</b>			611,123	--	611,123	--
<b>Totals</b>			<u>\$863,362</u>	<u>\$185,282</u>	<u>\$863,362</u>	<u>\$185,282</u>

**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Academy'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 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.

**NOTE C -- MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



## **Auditor of State Betty Montgomery**

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

Greater Cincinnati Community Academy  
Hamilton County  
4781 Hamilton Avenue  
Cincinnati, Ohio 45223

To the Board of Education:

We have audited the financial statements of the Greater Cincinnati Community Academy, Hamilton County, Ohio (the Academy), as of and for the year ended June 30, 2003, and have issued our report thereon dated June 30, 2004, wherein we noted the Academy had a working capital deficiency and accumulated deficit as of June 30, 2003. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-006. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated June 30, 2004.

#### **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 controls 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 2003-007 through 2003-009.

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 2003-007 and 2003-008 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 Academy in a separate letter dated June 30, 2004.

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

June 30, 2004



## Auditor of State Betty Montgomery

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

Greater Cincinnati Community Academy  
Hamilton County  
4781 Hamilton Avenue  
Cincinnati, Ohio 45223

To the Board of Education:

#### Compliance

We have audited the compliance of Greater Cincinnati Community 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 programs for the year ended June 30, 2003. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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 each of its major federal programs for the year ended June 30, 2003.

#### Internal Control Over Compliance

The management of the Academy is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the 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 Board of Directors, 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 30, 2004



**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

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

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Nutrition Cluster, CFDA# (10.550, 10.553, & 10.555,) Title I, CFDA# (84.010)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	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**

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 Sections 149.38 to 149.42.

Loans were made from the officers of the Academy to the Academy during the June 30, 2003 fiscal year in the amount of \$54,425. During fiscal year 2003, Arthur Congo loaned the Academy \$36,000 and the Academy Director, Dr. Marie Congo, loaned the Academy \$18,425. A \$40,500 loan from Janet Perry is still outstanding from the prior year. The Academy could not locate officer loan documentation for current or prior loans made by the officers. Lack of clear documentation for loan agreements increases the possibility of loss of Academy resources through unreasonable interest payments, improper payments, and legal fees to resolve misunderstandings.

We recommend the Board provide and approve loan agreements with the officers stipulating repayment terms and interest rates. The Board has subsequently approved and signed loan agreements with these officers.

**FINDING NUMBER 2003-002**

**Material Noncompliance**

Ohio Rev. Code, Section 3314.02.3, states a representative of the sponsor shall meet with the governing authority of the Academy and shall review the financial records of the Academy at least once every two months.

Per this statute, these reports were due to the sponsor on January 10, 2004 for the reporting period which ended on December 31, 2003. Future reports are due for submission by the 10<sup>th</sup> day of the month following these dates: 02/28/04 (March 10<sup>th</sup>), 04/30/04 (May 10<sup>th</sup>), 06/30/04 (July 10<sup>th</sup>). Any school which has effected a change in Sponsor and is no longer sponsored by ODE is not required to file these reports. Each community school is required, however, to meet any financial reporting requirements imposed by the new Sponsor. All community schools sponsored by ODE are required to file these reports. There was no evidence that these reports were filed with the sponsor.

**FINDING NUMBER 2003-003**

**Material Noncompliance**

Ohio Rev. Code, Section 3314.011, states that every community school established under this chapter shall have a designated fiscal officer. The Auditor of State may require by rule that the fiscal officer of any community school, before entering upon duties as the fiscal officer of the school, execute a bond in an amount and with surety to be approved by the governing authority of the school, payable to the state, conditioned for the faithful performance of all the official duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the school, and a copy thereof, certified by the governing authority, shall be filed with the county auditor. Also, Ohio Admin. Code, Section 117-6-07 requires the fiscal officer to execute a bond prior to entering upon the duties of the fiscal officer as provided for in Ohio Rev. Code Section 3314.011. The bond amount and surety is to be established by a resolution of the governing authority. GCCA did not execute a bond specifically for the Treasurer.

**FINDING NUMBER 2003-004**

**Material Noncompliance**

Section 5 of the debt covenants of the \$350,000 line of credit provides that the issuer (Greater Cincinnati Community Academy) shall transfer monies in an amount necessary to meet principal and interest payments to the "Note Payment Fund".

The Academy has not established a Note Payment Fund. Failure to comply with the debt covenants could result in the lender demanding immediate payment of the entire amount due.

**FINDING NUMBER 2003-005**

**Material Noncompliance**

The Academy did not comply with the Financial Plan Section, Exhibit 2 of their contract with the Ohio Department of Education (ODE). The contract states that the Treasurer is required to submit monthly financial reports to the Academy's Board for review. The Treasurer did not consistently provide the required reports for fiscal year 2003. We recommend the Treasurer provide the monthly financial reports and the Board note the review and approval in the minutes. The minutes contained minimal mention of Board approvals of expenditures, salaries, financial reports, donations or other financial actions.

We recommend the Board review monthly financial reports in order to monitor procedures to ensure all activities of the Academy are reflected in the financial statements for the period and are within the budgeted amount. We also recommend the Board review the monthly cash reconciliation prepared by the Treasurer's Office to ensure agreement of bank balance and book balance and to avoid financial problems such as over spending and any errors in the bank transactions.

**FINDING NUMBER 2003-006**

**Material Noncompliance**

Ohio Rev. Code, Section 3314.10(A) (2), states in part that employment with a community school is subject to either Ohio Revised Code Chapter 3307 or 3309. Ohio Rev. Code, Section 3307.01, 3307.012, 3307.381, 3307.51, 3307.53, and 3307.56 – {State Teachers Retirement System (STRS)}, require community schools to enroll their employees in the appropriate retirement system, withhold from the employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate system the amounts withheld, matched with appropriate percentage of employer matching contributions. The Academy's payments to STRS were timely at June 30, 2003, however the Academy was delinquent by \$10,199 at November 30, 2003. By April 29, 2004 the Academy had paid STRS in full.

**FINDING NUMBER 2003-007**

**Material Weakness**

An effective monitoring control system should be implemented by the Academy to assist management in detecting material misstatements in financial or other information.

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objective 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. There was no documentation in the minutes that the Board reviews financial and other information on a regular basis.

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 of a more overview nature.

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

- Regular review of financial report summaries of sufficient detail (monthly detail revenue and expenditure reports) with independently accumulated information (budgets, past performance, etc.);
- Dual signatures on checks;
- Review of revenue/expenditures;
- Identification of unusual fluctuations, and;
- Review of monthly reconciliations.

We recommend the Academy implement the monitoring control system in the Financial Plan Section of their contract to reduce the risk of not detecting material misstatements.

#### **FINDING NUMBER 2003-008**

##### **Material Weakness**

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

- The Academy does not have a written policy addressing non-payroll disbursements; and
- There was no indication expenditures were approved prior to purchases being made (i.e., use of a purchase order).

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

- Establishing a board approved written policy governing non-payroll disbursements;
- Prior authorization of a purchase should be obtained, through the use of a purchase order which document approval by the Director and Treasurer and include appropriate coding of expenditures;
- A comparison of the check and supporting documentation, such as the invoice, should be made to verify all information is complete before the check is issued; and
- A monthly review of the check register should be performed by the Management Cabinet monthly to detect discrepancies and misappropriations and approved in the minutes.

#### **FINDING NUMBER 2003-009**

##### **Reportable Condition**

The minutes of the Board of Directors had the following deficiencies:

- Expenditures were not approved or attached in the minutes;
- Contracted vendor names, bids, and approved amounts were not specified;
- All monthly financial reports were not submitted for Board approval;
- Donations were not accepted; and
- No copy of the approved budget was attached in minutes.

The minutes are the official proceedings of the Academy and should document all significant actions. The Board provides a monitoring control when they review and approve expenditures and financial reports that are submitted during each meeting. The Board should specify, review, and approve all official actions in the minutes.

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**GREATER CINCINNATI COMMUNITY ACADEMY  
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 §.315  
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2002-001	Finding for Recovery against Carl Shye and Marie Congo for reimbursements without adequate documentation.	Yes	
2002-002	Ohio Rev. Code Section 149.351, unable to locate records.	No	Partially corrected. Reissued as Finding 2003-001 in 2003
2002-003	Ohio Rev. Code Section 3314.10(A)(2), not paying STRS and SERS.	No	Partially corrected. At December 31, 2003, The Academy was delinquent again in their payments. Reissued as finding 2003-006.
2002-004	AOS Bulletin 2000-05, incorrect lease terms	No	No longer valid.
2002-005	Financial Plan section, monthly financial reports not prepared or approved.	No	Partially corrected, four months submitted and approved. Reissued as finding 2003-005.
2002-006	Establish an effective monitoring control system.	No	Partially corrected, checks have dual signatures now. Reissued as finding 2003-007.
2002-007	Formal fixed asset policy and tracking system	Yes	
2002-008	Weaknesses in non-payroll system.	No	Reissued as Finding 2003-007 in 2003
2002-009	Reimbursements made without adequate documentation.	No	Partially corrected. Addressed in the 2003 management letter.
2002-010	Academy did not establish a "Note Payment Fund".	No	Reissued as Finding 2003-004 in 2003
2002-011	Lack of documentation of officer loans	No	Reissued as Finding 2003-001 in 2003
2002-012	Uninsured and uncollateralized deposits	Yes	
2002-013	Deficiencies noted in Board minutes	No	Reissued as Finding 2003-009 in 2003
2002-014	Federal funds not separated	Yes	
2002-015	Final expenditure reports not completed or filed in a timely manner	Yes	
2002-016	Lack of supporting documentation for allowable costs	Yes	
2002-017	Lack of supporting documentation for purchased services and fringe benefits	Yes	

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**Auditor of State  
Betty Montgomery**

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**GREATER CINCINNATI COMMUNITY 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  
JULY 27, 2004**