CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Victory Team (Board):

We have audited the accompanying Balance Sheet of the Cincinnati College Preparatory Academy, Inc., Hamilton County, Ohio, as of and for the year ended June 30, 2000, 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 Cincinnati College Preparatory Academy, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cincinnati College Preparatory Academy, Inc., Hamilton County, Ohio as of June 30, 2000, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2001, on our consideration of the Cincinnati College Preparatory Academy, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

April 26, 2001

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CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

BALANCE SHEET
As of June 30, 2000

ASSETS	
Current Assets	
Cash and Cash Equivalents	$75,119
Accounts Receivable	24,253
Intergovernmental Receivable	50,000
Total Current Assets	149,372
Non-Current Assets	
Fixed Assets (Net of Accumulated Depreciation)	323,448
Total Non-Current Assets	323,448
TOTAL ASSETS	**$472,820**
LIABILITIES & FUND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	$211,798
Leases Payable	16,910
Accrued Wages and Benefits	89,516
Intergovernmental Payable	167,959
Total Current Liabilities	486,183
Long-Term Liabilities-Compensated Absences	67,203
Total Liabilities	553,385
Fund Equity	
Accumulated Deficit	(80,566)
Total	(80,566)
TOTAL LIABILITIES & EQUITY	**$472,820**

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

CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN ACCUMULATED DEFICIT
For the Year Ended June 30, 2000

Operating Revenues	
Foundation Payments	$2,002,004
Disadvantaged Pupil Impact Aid	104,338
Other Operating Revenues	95,535
Total Operating Revenues	2,201,877
Operating Expenses	
Salaries	869,145
Fringe Benefits	473,995
Purchased Services	501,681
Materials and Supplies	353,445
Depreciation	32,903
Other Operating Expenses	158,568
Total Operating Expenses	2,389,737
Operating Loss	(187,860)
Non-Operating Revenues	
Interest Earnings	395
Federal and State Grants	103,195
Total Non-Operating Revenues	103,590
Net Loss	(84,270)
Retained Earnings at Beginning of Year	3,704
Accumulated Deficit at End of Year	($80,566)

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

CINCINNATI COLLEGE PREPARATORY ACADEMY
HAMILTON COUNTY

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2000

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio & from Federal Government	$2,106,343
Cash Payments to Suppliers for Goods and Services	(784,988)
Cash Payments to Employees for Services	(797,548)
Cash Payments for Employee Benefits	(220,913)
Other Operating Revenue	71,282
Net cash provided by Operating Activities	374,176
Cash Flows from Noncapital Financing Activities	
Federal and State Grants Received	53,195
Net cash provided by Noncapital Financing Activities	53,195
Cash Flows from Capital and Related Financing Activities	
Payments for Capital Acquisitions	(356,351)
Net cash used for Capital and Related Financing Activities	(356,351)
Cash Flows from Investing Activities	
Interest on Investments	395
Net cash provided by Investing Activities	395
Net increase in Cash and Cash Equivalents	71,415
Cash and cash equivalents at the Beginning of the Year	3,705
Cash and cash equivalents at the end of the Year	**$75,119**
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Loss	($187,860)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	32,903
Changes in Assets and Liabilities	
Increase in Accounts Receivable	(24,253)
Increase in Accounts Payable	211,798
Increase in Notes Payable	16,910
Increase in Accrued Wages Payable	71,597
Increase in Compensated Absences Payable	67,203
Increase in Intergovernmental Payable	185,878
Total Adjustments	562,036
Net Cash Provided By Operating Activities	$374,176

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

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1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

The School operates under the direction of a ten-member Board of Directors (The Victory Team). The Board is the decision/policy making body for the academy. The Victory Team members have the primary role of representing the constituency and providing communication between the Board and the constituency. All members have equal input and voting power. Decisions that cannot reach a consensus are made on a two-thirds majority rule vote. The Victory Team is accountable to the State Board of Education for the efficient and effective operation of the School. The Board of Directors controls the School's one instructional/support facility staffed by 9 noncertified and 21 certificated full-time teaching personnel who provide services to 363 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

Enterprise Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

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

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

The School's Treasurer accounts for all monies received by the School. For cash management, all cash received by the Treasurer is pooled in an interest bearing checking account. Total cash for the School is presented as "cash and cash equivalents" on the accompanying balance sheet. Interest earned during the fiscal year resulted from this interest bearing account.

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 values as of the dates received. The School maintains a capitalization threshold of one hundred dollars.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

F. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded $50,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accounting period in which it is earned and becomes measurable.

G. Compensated Absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School's termination policy. The School immediately records a liability for accumulated unused sick leave for all employees.

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

3. RECEIVABLES

Receivables at June 30, 2000 consisted of accounts and intergovernmental (e.g., Federal Charter School Grant Program, State Unemployment Insurance) receivables. All intergovernmental receivables are collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

4. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2000, follows:

Leasehold Improvements	$268,226
Furniture and Equipment	88,125
Subtotal	356,351
Less: Accumulated Depreciation	(32,903)
Net Fixed Assets	$323,448

5. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2000, the School contracted with A. E. Olverson Insurance Agency for property, general liability, automobile, umbrella, boiler and machinery, and employee benefit insurance. There is a $1,000 deductible, a $1,000,000 single occurrence limit and $2,000,000 aggregate limit.

B. Workers' Compensation

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

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Chapter 3309 of the Ohio Revised Code establishes benefits. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute 14 percent; for fiscal year 2000, 5.5 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligation to SERS for the fiscal year ended June 30, 2000 was $46,897 and 28.97 percent has been contributed for fiscal year 2000. $33,307 representing the unpaid contribution for fiscal year 2000 is recorded as a liability.

6. 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; 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, 2000 was $87,442 and 39.06 percent has been contributed for fiscal year 2000. $53,284 represents the unpaid contribution for fiscal year 2000, and is recorded as a liability.

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 Teachers Retirement System. As of June 30, 2000, the School has no employees or members of the governing board who contribute to Social Security.

7. POSTEMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled $48,818 during the 2000 fiscal year and 39.06 percent has been contributed for fiscal year 2000. $29,748 represents the unpaid contribution for fiscal year 2000 and is recorded as a liability.

7. POSTEMPLOYMENT BENEFITS (Continued)

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

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2000, the allocation rate is 8.45%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2000, the minimum pay has been established as $12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

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

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

The portion of the School's contributions that are to be used to fund postemployment benefits was $29,890 and 28.97 percent has been contributed for fiscal year 2000. $21,229 represents the unpaid contribution for fiscal year 2000 and is recorded as a liability.

8. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining sick leave components are derived from negotiated agreements and State laws. Classified employees earn 20 to 30 days of vacation per year, depending upon duties. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who are not on a twelve-month contract do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated without limit. Upon retirement, payment is made for one-half of the total sick leave accumulation.

B. Insurance Benefits

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

C. Employee Medical, Dental, and Vision Benefits

The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 80% of the monthly premium and the employee is responsible for the remaining 20%.

8. OTHER EMPLOYEE BENEFITS (Continued)

The School has also contracted with private carriers to provide dental insurance. As with medical benefit premiums, the School pays 80% of the monthly premium and the employee is responsible for the remaining 20%.

The health insurance coverage lapsed on March 1, 2000. The School paid all claims directly for services received from March 1, 2000 to June 30, 2000.

9. CAPITALIZED LEASES – LESSEE DISCLOSURE

During fiscal year 2000, the School entered into a capitalized lease for a van. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2000.

Fiscal Year Ending June 30	
2001	$3,789
2002	3,370
2003	2,997
2004	2,666
2005	2,371
2006	1,177
Total minimum lease payments	$16,910

10. OPERATING LEASE

The School has a five-year lease with Anderson-Maltbie Partnership for 50,000 square feet of building space to be used for educational purposes. In fiscal year 2000, the School paid $22,958 per month, plus utilities and insurance. The School has an option for 2 consecutive 5 year lease renewals.

11. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program," which provides significant amounts of monetary support to the School District. During the fiscal year ended June 30, 2000, the School received $2,002,004.71 of school foundation support.

11. STATE SCHOOL FUNDING DECISION (Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000 the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "… the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "…major areas warrant further attention, study, and development by the General Assembly…," including the State's reliance on local property tax funding, the State's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

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

12. CONTINGENCIES

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, 2000.

13. RELATED PARTY TRANSACTIONS

An initial Board member provided accounting services to the School. The Board member was paid $20,215 for her services.

A Board member provides insurance services to the School through his agency. The School paid $3,378 in insurance premiums in fiscal year 2000.

In February 2000, the Treasurer gave CCPA a loan in the amount of $40,000 to cover payroll expenses. The CCPA paid back the loan in March 2000 with interest of $124.

13. RELATED PARTY TRANSACTIONS (Continued)

On December 1998, the LKH Victory Corporation was formed with three members; Lisa Hamm, Stephanie Yates and Katherine Fisher. The corporation organized the Cincinnati College Preparatory Academy in April 1999. Katherine Fisher was employed by Colliers International Company at the time this firm provided commercial real estate service to the CCPA. She was not a member of the board but participated in board meetings. She severed her relationship with LKH Victory Corporation in August 1999. This company assisted CCPA in leasing the building, arranging and conducting public meetings and recruiting students. The company charged a commission of $20,833.33. These payments were issued in September 2000.

William Maultbie, now a former member of the CCPA board was an active board member during the audit period when the school leased the building from Anderson Maultbie Partnership, a firm owned by Mr. Maultbie's father.

14. PURCHASED SERVICES

Purchased Services were composed of Insurance ($4,208), School Psychology ($8,205), Travel and Meetings ($23,774), Payroll ($8,764), Legal and Consulting ($11,800), Utilities ($52,363), Building and Equipment Lease ($239,545), Student Transportation and Testing ($7,738), Field Trips ($785), Food Service ($109,629), Communication ($22,786), and Advertising ($12,084).

15. TAX EXEMPT STATUS

The Academy has not obtained approval for its tax exempt status under 501(c)(3) of the Internal Revenue code. Management completed and filed the required forms on March 30, 2001. The Academy has made no provisions for any potential future tax liability which could result from not obtaining the 501(c)(3) tax exempt status.

16. SUBSEQUENT EVENTS

The Academy had an accumulated deficit at June 30, 2000, of $80,556. This deficit primarily arose from the Academy's failure to request certain federal Title I program funds during the year ended June 30, 2000. Accordingly, the Academy recognized expenses without recognizing possible offsetting revenues. As of February 28, 2001, the Academy has paid the outstanding liabilities that existed at June 30, 2000 and have no long term debts. Management has applied for federal Title grants for the subsequent period.

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

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

To the Victory Team (Board):

We have audited the accompanying financial statements of the Cincinnati College Preparatory Academy, Inc., Hamilton County, Ohio, as of and for the year ended June 30, 2000, and have issued our report thereon dated April 26, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Cincinnati College Preparatory Academy, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under *Government Auditing Standards* as items 2000-10431-001 through 2000-10431-004. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Academy in a separate letter dated April 26, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cincinnati College Preparatory Academy, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in accompanying schedule of findings as items 2000-10431-005 through 2000-10431-009.

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 reportable condition that are considered to be material weaknesses. However, of the reportable conditions and noncompliance described above, we consider items 2000-10431-005 through 2000-10431-007 to be material weaknesses.

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

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

Jim Petro
Auditor of State

April 26, 2001

SCHEDULE OF FINDINGS
JUNE 30, 2000

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

FINDING NUMBER 2000-10431-001

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 commissions provided for under Ohio Rev. Code, Sections 149.38 to 149.42.

The Academy could not locate 17.6% and 60% of the cancelled checks for non-payroll and payroll expenditures, respectively, 2% of the invoices requested for review, 16% of the employee's signed contracts, 47% of the employees federal and state withholding forms, the first quarter federal tax return (Form 941), and none of the employees W-2 forms, time cards for part-time employees, retirement authorization forms, and leave usage records. However, alternative auditing procedures were used to address these issues.

FINDING NUMBER 2000-10431-002

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, Sections 3307.01, 3307.012, 3307.381, 3307.51, 3307.53, and 3307.56 - {State Teachers Retirement System (STRS)}, and Ohio Rev. Code, Sections 3309.23, 3309.341, 3309.47 and 3309.49 - {School Employees Retirement System (SERS)}, 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 an appropriate percentage of employer matching contributions. The Academy did not make timely payments to STRS and SERS during fiscal year 2000, owing $54,536 and $83,032 to SERS and STRS respectively at June 30, 2000 for both the employee and employer share. In addition, the Academy did not maintain employee retirement authorization forms to document that all employees were enrolled in the appropriate retirement system. The Academy did make payment to SERS and STRS in August of 2000 for the past due amount, however, they should exercise due care in monitoring fiscal liabilities to provide for more timely processing.

FINDING NUMBER 2000-10431-003

Material Noncompliance

Ohio Rev. Code, Section 3314.03(A)(10), "requires all community school classroom teachers to be licensed in accordance with Rev. Code, Sections 3319.22 to 3319.3", except that a community school may engage noncertificated persons to teach up to twelve hours per week pursuant to section 3319.301 of the Rev. Code. A permit must be issued by the Ohio Dept. of Education to these "noncertificated" persons in order to teach. 3 of the of the 16 teachers reviewed did not have current teaching certificates in their personnel files. The Academy should obtain current teaching certificates prior to entering into a contract with individual teachers and allowing them to provide instruction to the children enrolled at the school.

FINDING NUMBER 2000-10431-004

Material Noncompliance

The Academy did not comply with Article 3, Section B, Exhibit 2, of the contract with the Ohio Department of Education as follows:

- The contract states that the chief financial officer will initiate all purchases, and use a purchase order signed/approved by the director and chief financial officer to initiate the process. In addition, the person receiving an order will verify the quantity and prices on the invoice to the information contained on the purchase order and any deliveries that cannot be matched to an open purchase order will be refused. The original invoice is to be matched to the purchase order and entered into the computer system for payment upon terms granted by the vendor. Of the 248 expenditures reviewed there were no purchase orders used or documentation of prior authorization of purchases by the Treasurer or Director as required per the contract.

- In addition to the standard purchasing procedures stated above, the Academy is to complete a competitive search for the purchase of assets with a value of at least $1,000 and a life greater than one year. A minimum of three vendors will be sought. The Academy did not conduct a competitive search, nor did they maintain any type of files for purchases greater than $1,000 and/or individual projects.

  All documentation for bids should be retained and kept in a file for each project and/or purchase in excess of $1,000 to ensure complete and accurate records are available for monitoring the terms and conditions of the Academy's purchases and/or contracts. Files should include all relevant information such as: bid advertisements, proposals, both successful and unsuccessful bids, actual signed contract, all change orders, and board resolutions per the minutes related to the purchase and/or contract. We recommend that all purchases greater than $1,000 be competitively bid and all documentation relating to these purchases and/or contracts be maintained in individual files to assist in the monitoring and administration of contracts and/or purchases greater than $1,000.

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

  The Academy has not attached property tags to any fixed assets, developed a fixed asset accounting system which maintains total fixed asset listings by location with tag identification numbers and other supplemental information nor has the school developed and implemented procedures to assist in recording assets as additions when purchased and deletions when disposed of throughout the fiscal year. Also, procedures have not been implemented to perform periodic physical inventories of assets as listed on the fixed asset accounting system. Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

FINDING NUMBER 2000-10431-004
(Continued)

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

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

FINDING NUMBER 2000-10431-005

Reportable Condition/Material Weakness

The Academy has not established a formal travel policy. Our review of expenditures revealed the following travel related expenditures that were not supported by detailed documentation and included no indication of prior approval by the Board, Treasurer, Director, or Supervisor. However, the Board retroactively approved the expenditures in January 2001. The academy in January 2001 also provided limited documentation for expenditures.

Check Number	Amount	Check Date	Check Description	Purpose of Check
1004	$8,120	06/18/99	Payable to Bank, check signed by the treasurer.	$6,977 Staff Expenses for Conference in Myrtle Beach, S.C. Remaining amount used towards other school expenses.
No Number	$5,075	06/12/00	Payable to Cash and signed by the principal/director. Payment for principal/director.	$2,997 Staff Expenses for Conference in Myrtle Beach, S.C. Remaining amount used for San Diego conference.
2213	$600	03/06/00	Discover Card, check signed by the principal/director.	Airline Tickets for 6 Staff for Conference in Chicago.

FINDING NUMBER 2000-10431-005
(Continued)

2256	$2,000	No Date	Discover Card, check signed by the principal/director.	$1,524 for 6 Airline Tickets for Myrtle Beach Conference. Remaining $745 was for Dinner Expense at Chicago Conference.
2272	$1,000	03/03/00	Gr.Cinti.Employees Cr.Union Visa Card, check signed by the principal/director.	Meals, Ground Transportation, and Other Staff Expense for New Orleans Conference.
2333	$2,350	03/24/00	Southwest Airlines, check signed by the principal/director.	4 Airline Tickets for New Orleans Conference.
2326	$2,094	04/27/00	Delta Airlines, check signed by the principal/director.	6 Airline Tickets for San Diego Conference.
2248	$1,016	03/11/00	Delta Airlines, check signed by the principal/director.	4 Airline Tickets for Myrtle Beach Conference.

The Academy should develop and implement a travel policy. This policy should include guidelines with respect to expenditures related to meals (and tips), hotels, rental car reimbursements, parking, training, and long distance phone calls. The policy should state proper reimbursement procedures such as prior authorization, detail receipts for all related travel expenses including restaurant charges, use and credit of award points earned related to travel charged to the Academy, allowable milage rate, maximum daily hotel rates and/or consideration of a daily per diem for food and lodging, maximum amount of gratuities, maximum amount of reimbursement for long distance calls, use of a hotel room within a certain distance of the Academy, and possible utilization of a travel agent. Implementation of a travel policy would assist in promoting proper authorization, allow for complete and accurate records to be provided by employees and maintained by the Treasurer, and that all travel expenditures incurred are allowed.

FINDING NUMBER 2000-10431-006

Reportable Condition/Material Weakness

The following control weaknesses were noted in the payroll process control environment:

- No leave request records for salary employees showing the type of leave requested or when it was to be taken, and supervisory approval for the leave was provided.
- The payroll registers did not document if leave was taken or the type leave used by employees.
- Attendance records were not maintained for each employee indicating leave accruals, leave taken during the fiscal year, and the balance of leave remaining at the end of the year.

FINDING NUMBER 2000-10431-006
(Continued)

- 72% of employee terminations and non-renewals were not approved by the Board until September 2000, three months after the year ended June 30, 2000 for sixteen employees who were dismissed during the year.
- Duplicate check numbers were used, for both payroll and non-payroll disbursements. Also, instances were noted where payroll and non-payroll checks were commingled, and issued out of numeric sequence.
- The school did not pay Federal tax, state tax, city tax, and medicare for the period of July 1, 1999 to October 22, 1999, in the amount of $30,391.
- The School let the employees health insurance lapse and incurred $34,182 in medical expense that would have been covered by insurance.

Failure to establish a favorable internal controls could result in a material misstatement, overpayment, or unauthorized payment.

The following procedures should be applied to improve internal controls:

- The Board of Trustees should approve all hiring, non-renewals and termination of employees of the school within 30 days and at year end.
- A review process should be implemented to assist in confirming that all employees' gross wages as paid agree to the approved pay rate.
- All wages paid to hourly (non-salary) employees should be supported by a time sheet documenting hours worked and should be approved by someone with sufficient knowledge to attest to the accuracy of the hours worked prior to being processed for payment.
- Attendance records of salaried employees showing leave accrued, leave used and balance should be maintained and reviewed each pay period for accuracy by the Treasurer or Board designee. The review of the records should document the initials of the reviewer and the date reviewed.
- The Treasurer should establish a check list consisting of the due dates and the individual vendors/agencies for payment of employee and employer payroll withholdings to assist in allowing for timely payments of the amounts owed.
- The Treasurer or Board designee should review the school's check register to verify that all voided checks, duplicate checks, and non-payroll checks are not included in the total.

FINDING NUMBER 2000-10431-007

Reportable Condition/Material Weakness

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

- Invoices, requisitions, purchase orders, copy of the checks, and any other pertinent information were not filed together.

FINDING NUMBER 2000-10431-007
(Continued)

- Checks were issued out of their numeric sequence.

- The checks were not signed by two authorized signatories.

- Four checks were written to cash with two in the amounts of $5,075 and $8,997 being signed by the principal/director, and two in the amount of $8,120 and $200 being signed by the treasurer. The Board did not approve these expenditures by resolution and supporting documentation was not presented for audit until January 2001.

- Duplicate check numbers were used, for both payroll and non-payroll disbursements.

- Numerous instances were noted where payroll and non-payroll checks were mixed.

- Numerous voided checks, duplicate check numbers, and nonsufficient fund charges were noted on the District's check register.

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

- Prior authorization of a purchase should be utilized, through the use of a purchase order which should be approved and documented through appropriate members of management and which should include appropriate coding of expenditures. In addition, the Academy should refrain from writing checks payable to cash.

- All appropriate supporting documentation (requisitions, original invoices, verification of receipt of purchase and agreement to invoice) prior to authorization for payment should be accumulated and filed.

- The matching of invoice with purchase order and a copy of the check stub should be kept together to assist in affirming all supporting documentation has been reviewed.

- A review of the check used to pay for a purchase and the supporting documentation should be done to verify that the payee, amount, address, etc. on the check and invoice agree.

- A review of the Academy's check register should be performed monthly to verify that all voided checks, duplicate checks, and payroll checks are not included in the total.

FINDING NUMBER 2000-10431-008

Reportable Condition

The Academy has no written policies pertaining to the issuance and use of Credit Card(s) or reimbursements for the payments of personal credit card usage. Our review of 248 expenditures disclosed three instances relating to the monthly payment(s) of credit cards issued to the principal/director. These consisted of a Discover Card payment dated 06/01/00 and two Visa Card payments dated 06/05/00 and 04/28/00, in the amounts of $300, $998 and $831 respectively. There were no receipts to support the charges on the statement, and no indication an attempt was made to obtain pre-approval or a purchase order for items charged to the credit cards such as supplies, internet access charges, meals/food, and gasoline expenditures. Management is responsible for establishing and maintaining administrative policies. It is

FINDING NUMBER 2000-10431-008
(Continued)

recommended that management develop and adopt policies and procedures for the distribution, use, and security of the charge cards. Failure to implement such a policy could result in the occurrence of expenditures for an improper public purpose, circumvention of the purchasing process, increased liability due to lost or stolen credit card(s), and purchases/expenditures with no prior approval.

FINDING NUMBER 2000-10431-009

Reportable Condition

Employees submitted requests to the Academy for reimbursement for purchases related to Academy business; however, the invoices submitted were for the total amount being requested without an itemized listing of the purchases made. We recommend that the Academy adopt a policy for the reimbursement of purchases. The policy should include, but not be limited to, inclusion of the employee's signature on the request for reimbursement and an itemized list of purchases that were made on behalf of the Academy. The policy should also address how the Academy will treat those expenditures which appear personal in nature and are not for a business/public purpose. The implementation of this policy would assist in providing assurance of the accuracy and completeness of the request, and that the purchases were for Academy business.

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CINCINNATI COLLEGE PREPARATORY ACADEMY, INC.

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 22, 2001