



**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2002**



**Auditor of State  
Betty Montgomery**



**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

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**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Trustees:

We have audited the accompanying balance sheet of the W.E.B. DuBois Academy, Hamilton County, Ohio (the School), as of June 30, 2002, 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 School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the W.E.B. DuBois Academy, Hamilton County, Ohio, as of June 30, 2002, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

For the year ended June 30, 2002, the School has negative working capital and an accumulated deficit at June 30, 2002, and experienced a net loss. Note 15 updates the status of these financial factors as of December 31, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2003, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the financial statements of the School, taken as a whole. The accompanying schedule of federal awards expenditures 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 and, in our opinion, 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 D. Montgomery**  
Auditor of State

January 17, 2003

**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

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

**Assets**

Current Assets

Cash	\$117,316
Intergovernmental Receivable	21,010
	<hr/>
Total Current Assets	138,326

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation)	347,514
	<hr/>

Total Assets	<u><u>\$485,840</u></u>
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**Liabilities & Fund Equity**

Current Liabilities

Accounts Payable	\$48,643
Accrued Wages & Benefits	37,233
Accrued Interest Payable	1,477
Intergovernmental Payable	52,533
	<hr/>

Total Current Liabilities	139,886
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Non-Current Liabilities

Line of Credit	373,283
	<hr/>

Total Liabilities	<u>513,169</u>
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Fund Equity

Accumulated Deficit	<u>(27,329)</u>
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Total Liabilities & Fund Equity	<u><u>\$485,840</u></u>
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*The notes to the financial statements are an integral part of this statement.*

**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN ACCUMULATED DEFICIT  
FOR THE YEAR ENDED JUNE 30, 2002**

**Operating Cash Revenues**

State Foundation	\$1,347,754
Other	<u>10,949</u>
Total Operating Cash Revenues	<u>1,358,703</u>

**Operating Cash Expenses**

Salaries	753,105
Fringe Benefits	224,297
Purchased Services	
Leases	89,368
Facility Maintenance	37,661
Utilities	10,935
Contract Services	254,853
Other	17
Supplies and Materials	111,330
Depreciation	109,324
Other	<u>14,087</u>
Total Operating Cash Expenses	<u>1,604,977</u>

Operating Loss	<u>(246,274)</u>
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**Non-Operating Cash Revenues/Expenses**

State Grants	16,830
Federal Grants	358,116
Interest Charges	<u>(25,811)</u>
Total Non-Operating Cash Revenues (Expenses)	<u>349,135</u>

Net Income	102,861
Accumulated Deficit, July 1, 2001	<u>(130,190)</u>
Accumulated Deficit, June 30, 2002	<u><u>(\$27,329)</u></u>

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



**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

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

**Increase (Decrease) in Cash**

**Cash Flows from Operating Activities**

Cash Received from State of Ohio	\$1,278,267
Cash Payments to Suppliers for Goods and Services	(523,371)
Cash Payments to Employees for Service	(746,672)
Cash Payments to Employees for Benefits	(252,624)
Cash Payments for Other Operating Expenses	(14,087)
Cash Received from Other Operating Revenues	10,949
Net Cash Used for Operating Activities	<u>(247,538)</u>

**Cash Flows from Noncapital Financing Activities**

Federal and State Grants	356,550
Other Non-operating expense	(28,981)
Net Cash Provided by Noncapital Financing Activities	<u>327,569</u>

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

Payments for Capital Acquisitions	<u>(24,870)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(24,870)</u>

Net Increase in Cash 55,161

Cash at Beginning of Year 62,155

Cash at End of Year \$117,316

**Reconciliation of Operating Loss to Net**

**Cash Used for Operating Activities:**

Operating Loss (\$246,274)

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

Depreciation	109,324
Changes in Assets and Liabilities:	
Decrease In Intergovernmental Receivable	8,299
Increase in Accounts Payable	37,748
Decrease In Intergovernmental Payable	(87,369)
Decrease in Accrued Wages and Benefits	(69,266)
Total Adjustments	<u>(1,264)</u>

Net Cash Used for Operating Activities (\$247,538)

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

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**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

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

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

W.E.B. DuBois Academy, Hamilton County, Ohio (the School), is a nonprofit corporation established pursuant to Ohio Rev. Code, Chapters 3314 and 1702 to provide an appropriate education facility and program for all age groups and to provide instruction in courses which meet general educational requirements compatible with and approved by the State of Ohio. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school.

The creation of the School was initially proposed to the State Board of Education of Ohio, the sponsor, by the W.E.B. DuBois Academy on March 14, 2000. The State Board of Education approved the proposal and entered into a contract with the Board of Trustees of the School. The contract provided for the commencement of School operations on July 1, 2000. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The charter agreement with the sponsor required the school to develop a nonprofit corporation. Equal Playing Field Corporation was incorporated under Chapter 1702 of the Ohio Rev. Code on August 23, 1999, as the not for profit corporate board of W.E.B. DuBois Academy. Equal Playing Field meets once a year to reappoint the Board of Trustees of the School and to give them the authority to make all decisions for the school. During fiscal year 2002, W.E.B. DuBois Academy entered into contracts, signed agreements, issued debt, and conducted business under the name of Equal Playing Field. Two of the board members for Equal Play Field are also board members of W.E.B. DuBois Academy. Also see Note 14 regarding the School's Federal tax status.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

**Enterprise Accounting**

The School uses enterprise accounting to report 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.

**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

**B. Measurement Focus and Basis of Accounting**

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

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

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

**C. Budgetary Process**

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

**D. Cash**

All monies received by the School are accounted for by the School's Treasurer. For cash management, all cash received by the Treasurer is deposited within four different bank accounts.

The School had no investments during the fiscal year.

**E. Fixed Assets and Depreciation**

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

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

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

**F. Intergovernmental Revenues**

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

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

**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

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

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

**3. DEPOSITS**

At June 30, 2002, the carrying amount of the School's deposits was \$117,316. The bank balance was \$131,819. Of the bank balance \$100,000 was covered by federal depository insurance. The remaining \$31,819 was not insured or collateralized.

**4. RECEIVABLES**

Receivables at June 30, 2002, consisted of intergovernmental (e.g. federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

**5. FIXED ASSETS**

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

Furniture and Equipment	\$ 32,210
Leasehold Improvement	536,273
Less: accumulated depreciation	<u>(220,969)</u>
Net Fixed Assets	<u>\$347,514</u>

**6. OPERATING LEASE**

The School has a five-year lease with Camp Washington Community Board, Inc. for 11,000 square feet of building space to be used for educational and administrative purposes. In fiscal year 2002, the School paid \$60,000 for their lease. There was no additional charge for utilities. The School has an option to renew the lease for an additional three years at \$60,000 per year. This option is contingent on their Sponsor's yearly renewal of their charter agreement. The School renewed their lease for fiscal year 2003.

**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**7. DEBT**

The School held the following debt during the fiscal year:

- The School entered into a line of credit with PNC Bank with a limit of \$200,000, dated June 23, 2000 and expiring on June 1, 2001. An extension until October 3, 2002 was received. The interest rate on the line of credit was at prime and payable monthly, initiating at 9.50% per annum. At June 30, 2002, the interest rate was 4.75% per annum. The School signed an agreement with PNC Bank to extend the line of credit's expiration date to March 31, 2003. The balance of the line of credit at June 30, 2002 was \$199,950. This line of credit was not collateralized.
- The School entered into a line of credit with PNC Bank with a limit of \$200,000 dated April 3, 2001 and expiring on October 3, 2002. This line of credit requires the School to make eleven consecutive monthly principal payments of \$3,333, beginning on November 3, 2001, and one final principal payment of \$164,422 at the expiration date. The interest rate on the line of credit is at prime initiating at 8.00% per annum. At June 30, 2002, the interest rate was 4.75% per annum. The School signed an agreement with PNC Bank to extend the line of credit's expiration date to March 31, 2003. The balance of the line of credit at June 30, 2002 was \$173,333. This line of credit was not collateralized.

Debt issued is statutorily limited to maturing at the end of the year the obligation was issued if the debt obligates or is collateralized by the State monies received by the School under Ohio Law. The lines of credit above issued during the year did not specifically exclude State foundation monies and extended beyond year end, contrary to State statutes. These lines of credit were not approved in the official Board minutes. At June 30, 2002 the School was current in their payments to PNC Bank for the lines of credit.

**8. RISK MANAGEMENT**

**A. Property and Liability**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, the School contracted with Monroe Guaranty Insurance Company for property insurance. There is a \$500 deductible with a \$100,000 limit. General liability coverage has a \$1,000,000 single occurrence limit and \$2,000,000 aggregate and no deductible.

Employee dishonesty is protected by Monroe Guaranty Insurance Company with a \$10,000 blanket bond.

There were no settlements that exceeded insurance coverage for the year.

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

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

**C. Workers' Compensation**

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

**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The School contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth St, 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 2002. 5.46 percent of the School's contribution is used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute.

The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2002 was \$19,062; 100% of the required contribution is paid.

During the year, payments were not made to SERS by the dates required by Ohio law. However, as of June 30, 2002, the School has remitted all required payments.

**B. State Teachers Retirement System**

The School contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent for fiscal year 2002, 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2002 was \$35,892; 86% percent has been contributed for fiscal year 2002.

**10. POST EMPLOYMENT BENEFITS**

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

**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefits recipients pay a portion of the health care cost in the form of a monthly premium.

By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount was \$17,001 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001 (the latest information available) the balance in the Fund was \$3,256,000. For the fiscal year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 102,000 eligible benefits recipients.

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

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, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For the School the amount contributed to fund health care benefits, including surcharge, during the 2002 fiscal year equaled \$20,026.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**11. OTHER EMPLOYEE BENEFITS**

**Insurance Benefits**

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

**12. STATE SCHOOL FUNDING DECISION**

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

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



**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**13. CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on the School is not presently determinable.

**C. State Funding**

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The results of these reviews resulted in adjustments to state funding. As of June 30, 2001, ODE determined the School owed the Department \$139,902, to be deducted from fiscal year 2002 and 2003 foundation payments. As of June 30, 2002, the School owes ODE \$104,926 from this adjustment. For the year ended June 30, 2002, ODE determined it underpaid the school \$69,487, to be repaid during fiscal year 2003. The net effect of these adjustments is a payable to ODE of \$35,439, included with the intergovernmental payable on the balance sheet.

**14. FEDERAL EXEMPT STATUS**

The School has obtained its 501(c) (3) tax exempt status under the name of Equal Playing Field. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax exempt status.

**15. ACCUMULATED DEFICIT**

The school has negative working capital and an accumulated deficit at June 30, 2002, and experienced a net loss for the year ended June 30, 2002. Additional foundation revenues are anticipated when a second building of Junior High students is opened during fiscal year 2003. As of the date of this report, the second building has not been opened. Management believes it will open by March 31, 2003. It is estimated that the new building will add an additional 50 students. The School will only need to hire one additional teacher since management has determined that the School is currently overstaffed.

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**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	05-PU-01/02	10.553	\$29,949	\$29,949
National School Lunch Program	LL-P1-01/02 LL-P4-01/02	10.555	23,119 47,265	23,119 47,265
Total U.S. Department of Agriculture - Nutrition Cluster			<u>100,333</u>	<u>100,333</u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Grants to Local Educational Agencies (ESEA Title I)				
	C1-S1-02	84.010	67,955	67,955
Title VI-R	CR-S1-02	84.340	15,092	15,092
Eisenhower	MS-S1-02	84.281	2,071	2,071
Title VI	C2-S1-02	84.298	582	582
Charter School Grant	CH-S1-02	84.282A	150,000	150,000
Drug-Free Schools Grant	DR-S1-02	84.186	1,073	1,073
Total U.S. Department of Education			<u>236,773</u>	<u>236,773</u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<b><u>\$337,106</u></b>	<b><u>\$337,106</u></b>

**WEB DUBOIS ACADEMY  
HAMILTON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2002**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the School's Federal Award Programs. The schedule has been prepared on the cash basis of accounting.



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

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

To the Board of Trustees:

We have audited the financial statements of W.E.B. DuBois Academy, Hamilton County, Ohio (the School), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 17, 2003, wherein we noted that for the year ended June 30, 2002, the School has negative working capital and an accumulated deficit at June 30, 2002, and experienced a net loss.. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10431-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated January 17, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 2002-10431-001 through 2002-10431-005.

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 item 2002-10431-003 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of School in a separate letter dated January 17, 2003.

This report is intended for the information and use of the management, Board of Trustees, 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 D. Montgomery**  
Auditor of State

January 17, 2003



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Trustees:

**Compliance**

We have audited the compliance of W.E.B. DuBois Academy, Hamilton County, Ohio (the School), 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 each of its major federal programs for the year ended June 30, 2002. The School'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 School's management. Our responsibility is to express an opinion on the School'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 School'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 School's compliance with those requirements.

In our opinion, the School 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, 2002.

**Internal Control Over Compliance**

The management of the School 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 School'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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the School's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings as 2002-10431-006 and 2002-10431-007.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses.

This report is intended for the information and use of the management, the Board of Trustees, 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 D. Montgomery**  
Auditor of State

January 17, 2003



**W.E.B. DUBOIS  
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2002**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	Yes
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Nutrition Cluster: CFDA # 10.553 and 10.555 Charter School Grant: CFDA # 84.282A
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

**FINDING NUMBER 2002-10431-001**

**Material Noncompliance/Reportable Condition**

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

During the fiscal year ended June 30, 2002, the School had lines of credit with PNC Bank with outstanding balances of \$373,283 as of June 30, 2002, maturing after June 30, 2002. The notes were refinanced in October of 2002. These lines of credit were not approved in the official Board minutes.

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

The School should also approve the issuance of new debt in their official minutes.

**FINDING NUMBER 2002-10431-002**

**Reportable Condition**

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

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

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

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

- Regular review of budget and actual figures;
- Regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports);
- Review of key performance indicators;
- Review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.);
- Review of unusual or significant items, long outstanding items, etc.;

**FINDING NUMBER 2002-10431-002  
(Continued)**

- Identification of unusual fluctuations;
- Ensuring an adequate segregation of duties exist; and
- Review of monthly reconciliations.

**FINDING NUMBER 2002-10431-003**

**Material Weakness**

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

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

- Tagging all assets that meet the School's capitalization criteria when received;
- Developing a form to be completed by the School's staff, and approved by management when assets are acquired or disposed. This form should document the tag number, a description of the asset, the cost, the acquisition date, fund charged, the location, and a reference to the supporting documentation (i.e., purchase order, invoice); and
- Developing procedures for performing periodic (annual) physical inventories. This can be accomplished by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location review the list for accuracy. Updates and/or changes should be made to the master list for errors noted during the review of inventory.

**FINDING NUMBER 2002-10431-004**

**Reportable Condition**

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

- Payroll ledgers were not maintained;
- The payroll account was not reconciled and reviewed by Board of Trustees in a timely manner;
- Salary contracts, employee hiring and pay rates were not approved by the Board in a timely manner;
- Leave forms were not used to track the usage and accrual of leave balances; and
- Time sheets were not completed or approved for hourly (non-salary) employees.

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

**FINDING NUMBER 2002-10431-004  
(Continued)**

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

- Board approval of all new employees in a timely manner;
- Board approval of all pay rates and pay increases in a timely manner;
- Bank reconciliations prepared and reviewed by Board of Trustees at next meeting;
- A system to track leave balances of employees;
- Leave forms approved by a supervisor;
- Procedures requiring all wages paid to hourly (non-salary) employees to be supported by a management approved time sheet; and
- Maintaining separate payroll ledgers which document the approved salary rate, gross pay, deductions, net pay, and fund charged for each employee by pay period.

**FINDING NUMBER 2002-10431-005**

**Reportable Condition**

The following deficiencies related to the purchasing cycle were identified:

- The checking account was not reconciled and reviewed by Board of Trustees in a timely manner;
- Purchase orders were not used by the School, nor were purchases approved by the Superintendent and Business Manager;
- Monthly reports were not reviewed by the Board of Trustees; and
- Supporting documentation was not maintained for all purchases.

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

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

- Prior authorization of a purchase through the use of a purchase orders that are approved by appropriate members of management and that include appropriate coding for the expenditures;
- Accumulation of appropriate supporting documentation (original invoices) prior to authorization for payment;
- Detailed review of the invoice and supporting documentation indicating descriptions of the goods/services received and documentation on the invoice that the goods/services were received;
- Matching of invoice with purchase order and copy of check or check stub to ensure all supporting documentation has been reviewed;

**FINDING NUMBER 2002-10431-005  
 (Continued)**

- Review of check used to pay the purchase and supporting documentation to ensure that the payee, amount, address, etc. on the check and invoice agree;
- Review of expenditures as posted to the expenditure ledger to verify that the appropriate coding was utilized for payment; and
- Monthly reports, including general ledger, bank reconciliations and payroll, are prepared and reviewed by Board of Trustees at every meeting.

**3. FINDINGS FOR FEDERAL AWARDS**

**FINDING NUMBER 2002-10431-006**

**Reportable Condition**

<b>Finding Number</b>	2002-10431-006
<b>CFDA Title and Number</b>	Nutrition Cluster (10.553 and 10.555) Charter School Grant (84.282A)
<b>Federal Award Number / Year</b>	2002
<b>Federal Agency</b>	U.S. Department of Agriculture U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

The payroll control weaknesses described in finding number 2002-10431-004 also relate to the Nutrition Cluster and Charter School Grant.

**FINDING NUMBER 2002-10431-007**

**Reportable Condition**

<b>Finding Number</b>	2002-10431-007
<b>CFDA Title and Number</b>	Nutrition Cluster (10.553 and 10.555) Charter School Grant (84.282A)
<b>Federal Award Number / Year</b>	2002
<b>Federal Agency</b>	U.S. Department of Agriculture U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

The purchasing cycle control weaknesses described in finding number 2002-10431-005 also relate to the Nutrition Cluster and Charter School Grant.

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**W.E.B. DUBOIS ACADEMY  
HAMILTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i><b>Explain:</b></i>
2001-10431-001	Material Noncompliance: Destruction of Records.	No	Partially Corrected; Reissued in management letter. *
2001-10431-002	Material Noncompliance: Failure to pay SERS	Yes	
2001-10431-003	Material Noncompliance & Reportable Condition: Debt issue extended beyond fiscal year end.	No	Reissued as Finding 2002-10431-001.*
2001-10431-004	Reportable Condition: Effective monitoring control system not implemented	No	Reissued as Finding 2002-10431-002.*
2001-10431-005	Material Weakness: No fixed asset system	No	Reissued as Finding 2002-10431-003.*
2001-10431-006	Material Weakness: Lack of controls over payroll cycle	No	Reissued as Finding 2002-10431-004.*
2001-10431-007	Reportable Condition: Numerous posting errors in general ledger	Yes	
2001-10431-008	Reportable Condition: Lack of controls over purchasing cycles.	No	Reissued as Finding 2002-10431-005.*

\* The Academy indicated that corrective measures could not be instituted in fiscal 2002 because the 2001 audit report was not issued until June 13, 2002. Management plans on implementing changes in fiscal 2003.







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**W.E.B. DUBOIS ACADEMY**

**HAMILTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 4, 2003**