



**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**REGULAR AUDIT
FOR THE YEAR ENDED JUNE 30, 2001**



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

T.C.P. World Academy
Hamilton County
6000 Ridge Avenue
Cincinnati, Ohio 45213

To the Board:

We have audited the accompanying Balance Sheet of T.C.P. World Academy, Hamilton County, Ohio (the School), as of June 30, 2001, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the 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 T.C.P. World Academy, Hamilton County, Ohio, as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2002 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

February 15, 2002

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**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2001**

Assets

Current Assets

Cash and Cash Equivalents	\$37,434
Intergovernmental Receivable	90,261
Loan Receivable from Director	<u>20,673</u>

Total Current Assets 148,368

Noncurrent Assets

Loan Receivable	24,000
Fixed Assets (Net of accumulated depreciation)	<u>319,423</u>

Total Noncurrent Assets 343,423

Total Assets \$491,791

Liabilities and Fund Equity

Current Liabilities

Accounts Payable	\$1,200
Accrued Wages and Benefits	111,917
Intergovernmental Payable	81,561
Current Lease Payable	<u>59,497</u>

Total Current Liabilities 254,175

Noncurrent Liabilities

Lease Payable	<u>214,112</u>
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Total Noncurrent Liabilities 214,112

Total Liabilities 468,287

Fund Equity

Retained Earnings Unreserved	<u>23,504</u>
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Total Fund Equity 23,504

Total Liabilities and Fund Equity \$491,791

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

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2001**

Operating Revenues

Foundation Payments	\$1,182,630
Disadvantaged Pupil Impact Aid	197,741
Food Service	3,816
Other Operating Revenue	<u>10,361</u>
Total Operating Revenues	<u>1,394,548</u>

Operating Expenses

Salaries	811,198
Fringe Benefits	310,335
Purchased Services	150,669
Materials and Supplies	207,206
Depreciation	77,640
Other Operating Expenses	<u>12,667</u>
Total Operating Expenses	<u>1,569,715</u>

Operating Loss	<u>(175,167)</u>
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Non-Operating Revenues

State Grants	7,000
Federal Grants	164,196
Interest Expense	(20,734)
Interest Income	<u>2,983</u>

Total Non-Operating Revenues	<u>153,445</u>
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Net Loss	(21,722)
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Retained Earnings at Beginning of Year	<u>45,226</u>
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Retained Earnings at End of Year	<u><u>\$23,504</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

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

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$1,380,370
Cash Received for Food Service	3,816
Cash Payments to Employees for Services and their benefits	(928,056)
Cash Payments to Suppliers for Goods and Services	(370,541)
Other Operating Revenue	10,361
	<hr/>
Net Cash Provided by Operating Activities	95,950

Cash Flows from Noncapital Financing Activities

Other State and Federal Grants Received	80,937
	<hr/>
Net Cash Provided by Noncapital Financing Activities	80,937

Cash Flows from Capital and Related Financing Activities

Acquisition of Capital Assets	(71,489)
Repayment of Loan to Superintendent for Building Purchase	9,327
Capital Lease Payable including interest	(71,500)
Loan to Superintendent for Building Purchase	(54,000)
	<hr/>
Net Cash Used for Capital and Related Financing Activities	(187,662)

Cash Flows from Investing Activities

Cash Received from Interest Revenue	2,983
	<hr/>
Net Cash Provided from Investing Activities	2,983
	<hr/>
Net Decrease in Cash and Cash Equivalents	(7,792)
	<hr/>
Cash and Cash Equivalents at Beginning of Year	45,226
	<hr/>
Cash and Cash Equivalents at End of Year	\$37,434
	<hr/> <hr/>

**Reconciliation of Operating (Loss) to Net Cash Provided
for Operating Activities**

Operating Loss	(\$175,167)
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**Adjustments To Reconcile Operating Loss to Net Cash Provided
for Operating Activities**

Depreciation	77,640
Changes in Assets and Liabilities	
Increase in Intergovernmental Payable	81,561
Increase in Accrued Wages	111,916
	<hr/>
Total Adjustments	271,117
	<hr/>
Net Cash Provided by Operating Activities	\$95,950
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The accompanying notes to the financial statements are an integral part of this statement.

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**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

TCP World Academy (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to provide an appropriate educational facility and program for grades kindergarten through sixth 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 School was approved for operation under contract with the State Board of Education (the Sponsor) for a period of five years commencing 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 School operates under the direction of a three-member Board. The Board is responsible for carrying out the provisions of the contract which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board controls the School's one instructional/support facility staffed by 16 certificated full time teaching personnel and 12 noncertified personnel.

The School opened in Cincinnati in July of 2000 and is financed through the Ohio Department of Education, as well as through federal and state grants. The mission of the School is for the students to become academically involved, independent learners, through quality class participation, participation in micro-society activities, and utilizing technology for higher learning.

The Superintendent of the School and the Superintendent's brother, who is employed by the School, are members of the Board. See Note 12 for more information on the related party transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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

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.

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basics 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.

Revenues are recognized when they are earned. Expenses are recognized when they are incurred.

C. Budgetary

Unlike other public schools located in the state of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio 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 and Cash Equivalents

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 six different bank accounts. Total cash for the School is presented as "cash and cash equivalents" on the accompanying balance sheet.

The school had no investments during the fiscal year.

E. Fixed Assets and Depreciation

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

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

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

The building qualifies as a capital lease and is depreciable over the term of the lease which is five years.

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Intergovernmental Revenue

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

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

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

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded \$50,000 to offset start-up costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements.

Amounts awarded under the above named programs for the 2001 school year totaled \$1,551,567. The School received \$50,000 in May 2000 for fiscal year 2001 (see note 3).

3. RETAINED EARNINGS

At July 1, 2000, the School had a beginning balance of \$45,226. This comprised of the following:

Federal Charter Grant	\$ 50,000
Expenses in May and June 2000	<u>(4,897)</u>
Balance at June 30, 2000	\$ <u>45,226</u>

4. CASH AND DEPOSITS

At June 30, 2001 the school had a cash balance of \$37,434 which is presented as a cash and cash equivalents in the accompanying financial statements. The bank balance of the School's deposits was \$74,831 of which all was insured by the Federal Depository Insurance Corporation (FDIC).

5. FIXED ASSETS

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

Furniture and Equipment	\$72,688
Building	<u>324,375</u>
Total Fixed Assets	397,063
Less: Accumulated Depreciation	<u>(77,640)</u>
Net Fixed Assets	<u>\$319,423</u>

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2001, the School contracted with Hartford Casualty Insurance Company for property and general liability insurance. General liability is protected by Hartford Casualty Insurance Company with a \$1,000,000 single occurrence limit and \$2,000,000 aggregate and no deductible.

B. Employee Medical, Dental, and Vision Benefits

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

C. Worker's 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.

7. 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 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 2001, 5.5 percent was the portion to fund pension obligations. The contribution rates are established by SERS's Retirement Board within the rates allowed by State statute. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2001 was \$31,807; 75 percent has been contributed for fiscal year 2001. \$8,030 representing the unpaid contributions for fiscal year 2001, is recorded as a liability.

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

7. 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, survivors, 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 obligation to STRS for the fiscal year ended June 30, 2001 was \$116,023; 44 percent has been contributed for fiscal year 2001. \$51,201 representing the unpaid contributions for fiscal year 2001, 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 Teacher Retirement System. As of June 30, 2001, the part time employees of the School contributed to Social Security.

8. 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 System 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 cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School, this amount equaled \$5,186 during the 2001 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000 (the latest information available) net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more 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 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 8.5 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For the School, the amount to fund health care benefits, including surcharge, equaled \$2,021 during the 2001 fiscal year.

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 125 percent of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140,696,340 and SERS has approximately 50,000 participants currently receiving health care benefits.

9. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of February 15, 2001, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts.

Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may reexamine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the School is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

10. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2001.

2. 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.

3. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The school does not anticipate any material adjustments to state funding for fiscal year 2001 as a result of such a review.

11. OPERATING LEASE

The School leases a copier. Lease payments are \$550 and \$.01 for any copies over 40,000 each month. The total amount paid in fiscal year 2001 is \$7,228. The lease was cancelled in December 2001, with payments due in total of \$3,300 plus \$.01 for copies over 40,000 each month in fiscal year 2002.

12. LEASE OF BUILDING/LOAN TO SCHOOL SUPERINTENDENT

The Superintendent of the School (The Superintendent is also the President of the Board) purchased the building in which the School is currently operating for \$340,000. The Superintendent borrowed \$54,000 from the School and used the proceeds for a portion of the down payment on the building. The Board approved by resolution that the Superintendent will pay the School back over forty months, \$15,000 each year for the first three years and the remaining in the fourth year. No interest will be paid.

In fiscal year 2001, \$9,327 was paid to the School. At June 30, 2001, \$44, 673 is still due to the School and is shown as a loan receivable on the financial statements.

The Superintendent leases the building to the School for \$6,500 a month with an imputed interest rate of 7.5% for five years. The lease qualifies as a capital lease and is recorded as a fixed asset at the present value of the future minimum lease payments. The building is depreciated by the School over the term of the lease and the capitalized value of the building is \$324,375. For fiscal year 2001, \$50,766 was paid in principal and \$20,734 was paid in interest.

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

12. LEASE OF BUILDING/LOAN TO SCHOOL SUPERINTENDENT (Continued)

The future minimum lease payments are as follows:

<u>Year Ended June 30</u>	
2002	\$78,000
2003	78,000
2004	78,000
2005	78,000
2006	<u>6,486</u>
Total minimum lease payments	318,486
Less: imputed interest	<u>(44,877)</u>
Present value of net minimum lease payments	<u><u>\$273,609</u></u>

Insurance of the building and the contents is the responsibility of the School.

13. RELATED PARTY TRANSACTIONS

The School's Treasurer owns and operates GDI, Inc., a firm that the School hired for web development and hiring of foreign teachers. The School paid the Treasurer \$1,200 directly for these services and paid GDI, Inc. \$500 for these services.

The Superintendent's brother is employed as the School's Nurse/Disciplinarian and also holds a seat on the School's board. He was paid \$27,173 during fiscal year 2001.

As described in Note 11, at June 30, 2001 the School has an outstanding loan receivable of \$44,673 due from the Superintendent.

14. TAX EXEMPT STATUS

The School applied for its tax exempt status under §501(c)(3) of the Internal Revenue Code in June 2000. As of February 15, 2002, the School's status is pending. Should the School fail to obtain federal tax exempt status, they could be subject to federal income tax, the effect of which has not been determined.

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

15. PURCHASED SERVICES

Purchased Services were comprised of the following:

Utilities	\$30,771
Maintenance & Repair	28,019
Transportation	1,045
Computer Services	6,889
Payroll Services	4,048
Insurance	9,392
Curriculum Development	10,975
Security & Fire Protection Services	49,919
Copier Lease	7,228
Professional Development	405
Building Inspections	821
Membership Fees	837
Other Services	<u>320</u>
Total	<u>\$150,669</u>

16. MATERIAL NONCOMPLIANCE

The School is delinquent in its School Employment Retirement System (SERS) payments. As of February 4, 2002, the School owes SERS \$18,493.

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STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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

T.C.P. World Academy
Hamilton County
6000 Ridge Avenue
Cincinnati, Ohio 45213

To the Board:

We have audited the financial statements of T.C.P. World Academy, Hamilton County, Ohio (the School) as of and for the year ended June 30, 2001, and have issued our report thereon dated February 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 10431-2001-001

We noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated February 15, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention 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. Reportable conditions are described in the accompanying schedule of findings as items 10431-2001-002 through 10431-2001-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 10431-2001-002 and 10431-2001-003 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated February 15, 2002.

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

Jim Petro
Auditor of State

February 15, 2002

**T.C.P. WORLD ACADEMY
HAMILTON COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 10431-2001-001

Noncompliance Citation

Ohio Rev. Code § 3309.47 states that each school employees retirement system contributor shall contribute eight per cent of the contributor's compensation to the employees' savings fund. Ohio Rev. Code § 3309.49 requires each employer to pay to the school employees retirement system an amount certified by the secretary that shall be a certain per cent of the earnable compensation of all employees. The School was delinquent in paying its SERS payments throughout the year. When timely payments are not made the School could incur unnecessary penalty fees, and employees may not receive appropriate retirement benefits. At February 4, 2002, the School owed \$18,493 to SERS for fiscal year 2001 payroll. We recommend the Superintendent monitor payment deadlines and make sure payments to SERS are paid by the due date.

FINDING NUMBER 10431-2001-002

Reportable Condition/Material Weakness

The School did not maintain the following as described in the financial plan of the School's charter:

- Accounting software
- Cash reconciliations and control totals
- A complete general ledger recording all receipts and expenses (including payroll) from all bank accounts and showing a running cash balance
- Cash receipts records
- Cash disbursements records - not all records were available
- Fixed asset records
- Other records necessary to enable the School to prepare an annual report that conforms to GAAP.
- An annual financial report

By not maintaining the above items misstatements occurred in the financial records. A reconstruction of the School's records was necessary and caused the School to incur additional costs. It was necessary to recreate fixed asset listing and inventory records by reviewing expenses and physically inspecting assets. Receipts and expenses were obtained utilizing information obtained from the bank statements and cancelled checks.

FINDING NUMBER 10431-2001-002
(Continued)

To improve the accuracy and reliability of financial information to be used by management and other users of the financial statements, we recommend the School keep a consistent record and all documentation concerning receipts and expenses. The School should create a general ledger that includes information such as: check numbers, payee information, amount and date of check, the corresponding purchase order and invoice numbers, and account codes. Receipts should include information regarding the payer, date received, amount, and account codes. The general ledger should also include a running balance. The School should post this information on a daily basis and year-end, totals should be carried forward to the annual financial report.

FINDING NUMBER 10431-2001-003

Reportable Condition/Material Weakness

Cash Reconciliations

Cash reconciliations were not performed monthly on any of the School's six bank accounts. Reconciliations are an effective tool to help management determine the completeness and accuracy of recorded transactions. Without complete and accurate monthly bank reconciliations, the school's internal control is significantly weakened, which could hinder the detection of errors or irregularities by the school's management in a timely manner. In addition, the school's management is not provided with timely fiscal information that is vital to the continued operations and decision making process of the school as well as management's ability to manage operations.

We recommend the School perform and complete monthly bank reconciliations. The reconciliation should include a comparison of the bank balance to the general ledger balance, a list of all reconciling items and supporting documentation.

FINDING NUMBER 10431-2001-004

Reportable Condition

Monitoring Controls

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 system to reduce the risk of not detecting material misstatements.

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. These controls should address operational, legal compliance, and financial control objectives. Effective monitoring controls should identify unexpected results or exceptions (including significant compliance exceptions), investigate underlying causes, and take corrective action. There was no documentation in the minutes that the Board reviews financial information on a regular basis.

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

FINDING NUMBER 10431-2001-004
(Continued)

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

- regular review of budget and actual expenditures;
- regular review of financial report summaries of sufficient detail (monthly detailed revenue and expenditure reports);
- review of key performance indicators;
- review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.);
- review of unusual or significant items, long outstanding items, etc.;
- identification of unusual fluctuations;
- ensuring an adequate segregation of duties exist, and;
- review of monthly reconciliations.
- approval of grants

FINDING NUMBER 10431-2001-005

Reportable Condition

Disbursement Cycle

We noted the following control weaknesses in the disbursements cycle:

- Purchase Request Forms, Purchase Orders, and Invoices are maintained separately. The Purchase Request Forms cannot be traced to the Purchase Orders or to the invoices in an efficient manner.
- Checks did not always match the invoice. For the invoices available, it was noted there were some payments more than the invoice amount.
- The Purchase Request Forms have a line for approval, but they do not have a line for requests to be denied.
- There was no invoice nor receipt for several expenditures.

These weaknesses could result in goods or services being ordered that were not approved or goods and services being paid for that have not been received.

FINDING NUMBER 10431-2001-005
(Continued)

We recommend the following procedures be applied:

- The Purchase Request Forms should be attached to the Purchase Order and to the invoice with a duplicate copy of the check to show that the order was approved, the goods or services have been received, and the invoice has been paid to the correct vendor and for the correct amount.
- The Purchase Request Form should have a line to deny the request.
- The School should not pay for any expenditures unless they have an invoice or a receipt for reimbursement.

FINDING NUMBER 10431-2001-006

Reportable Condition

Fixed Assets

The School has not developed a fixed asset accounting system as required by its Fixed Asset Policy. A fixed asset accounting system maintains total fixed asset listings by location with tag identification numbers and other supplemental information. The School, also, has not 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 maintain records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

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

FINDING NUMBER 10431-2001-006
(Continued)

To promote adequate safeguards over their fixed assets, and to reduce the risk that the School's fixed assets will be misstated, the School should prepare 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 School's capitalization criteria when received and recording the fixed asset tag number, the development of addition and disposal forms to be completed by the School 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. The School should also develop and implement procedures for performing periodic (eg. 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. Assets no longer used should be disposed, and assets not included on the listing should be added.



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TCP WORLD 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 Bablitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 26, 2002**