



**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

City Day Community School, Inc.
Montgomery County
318 South Main Street
Dayton, Ohio 45402

To the Board of Governance:

We have audited the accompanying balance sheet of the City Day Community School, Inc., Montgomery County, (the Community School), as of June 30, 2000, 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 Community 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City Day Community School, Inc., Montgomery County, as of June 30, 2000, and the results of its operations and the cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2000 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

December 22, 2000

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**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2000**

Assets

Current Assets	
Cash and Cash Equivalents	\$ 356,313
Receivables	
Intergovernmental	<u>16,041</u>
Total Current Assets	<u>372,354</u>
Furniture and Equipment, Net of Accumulated Depreciation	<u>102,550</u>
Total Assets	<u>\$ 474,904</u>

Liabilities and Fund Equity

Current Liabilities

Intergovernmental Payable	\$ 10,868
Accounts Payable	17,382
Accrued Wages and Benefits	<u>39,797</u>
Total Current Liabilities	<u>68,047</u>

Long-Term Liabilities

Compensated Absences Payable	<u>10,339</u>
Total Liabilities	<u>78,386</u>

Equity

Contributed Capital	4,500
Retained Earnings	
Unreserved	<u>392,018</u>
Total Equity	<u>396,518</u>
Total Liabilities and Equity	<u>\$ 474,904</u>

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

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Operating Revenues	
Foundation Payments	\$ 978,707
Disadvantaged Pupil Impact Aid	335,669
State Restricted Funds	34,779
Other Operating Revenue	<u>25,050</u>
Total Operating Revenues	<u>1,374,205</u>
Operating Expenses	
Salaries	563,020
Fringe Benefits	135,208
Purchased Services	385,510
Materials and Supplies	1,598
Depreciation	9,763
Other Operating Expenses	<u>7,112</u>
Total Operating Expenses	<u>1,102,211</u>
Operating Income	<u>271,994</u>
Non-Operating Revenues	
Federal and Other State Grants	21,570
Private Grants	<u>25,000</u>
Total Non-Operating Revenues	<u>46,570</u>
Net Income	318,564
Retained Earnings at Beginning of Year	<u>73,454</u>
Retained Earnings at End of Year	<u><u>\$ 392,018</u></u>

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

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

Increase in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$1,349,155
Cash Payments to Suppliers for Goods and Services	(385,388)
Cash Payments to Employees for Services	(655,213)
Other Operating Revenue	<u>24,870</u>
Net Cash Provided By Operating Activities	<u>333,424</u>

Cash Flows from Noncapital Financing Activities

Operating Grants Received - State and Private	30,529
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Cash Flows from Capital and Related Financing Activities

Payments for Capital Acquisitions	<u>(87,377)</u>
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Net Increase in Cash and Cash Equivalents	276,576
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Cash and Cash Equivalents at Beginning of Year	<u>79,737</u>
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Cash and Cash Equivalents at End of Year	<u>\$ 356,313</u>
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Reconciliation of Operating Income to Net Cash Provided for Operating Activities

Operating Income	<u>\$ 271,994</u>
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Adjustments to Reconcile Operating Income to Net Cash Provided (Used) for Operating Activities

Depreciation	9,763
Changes in Assets and Liabilities	
Decrease in Accounts Receivable	52
Decrease in Other Assets	1,240
Increase in Accounts Payable	8,727
(Decrease) in Intergovernmental Payable	(1,442)
Increase in Accrued Wages	36,798
Increase in Compensated Absences Payable	<u>6,292</u>

Total Adjustments	<u>61,430</u>
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Net Cash Provided By Operating Activities	<u>\$ 333,424</u>
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The accompanying notes to the financial statements are an integral part of this statement.

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**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

City Day Community School, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Specifically, the School's purpose is to be a model charter school serving children from kindergarten through grade five during its first three years, extending through grade eight by the fifth year. The School, which is part of the state's education program, is independent of any school district. 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 qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status .

The creation of the School was initially proposed to the Ohio Department of Education, the sponsor, by the developers of the School in May 1998. The Ohio Department of Education approved the proposal and entered into a contract with the developers which provided for the commencement of School operations on August 27, 1998.

The School operates under a three member Board of Governors which is comprised of the developers. 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 of Governors controls the School's one instructional facility staffed by four full time and three part time noncertified personnel, and twelve certificated full time teaching personnel who provide services to approximately two hundred and thirty students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of City Day Community School, Inc. 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 after 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 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 net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e. net total assets) is segregated into contributed capital and retained earnings components. 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 the Ohio Revised Code Chapter 5705, unless specifically provided by the School's contract with its sponsor. The contract between City Day Community School, Inc. and its sponsor, Ohio Department of Education, does not prescribe a budgetary process for the School.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting control purposes, the School segregates its cash.

E. Fixed Assets and Depreciation

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

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 and vehicles is computed using the straight line method over the estimated useful life of three to seven years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

F. Intergovernmental Revenue

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. These programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Intergovernmental Revenue (continued)

Commodities, grants and entitlements are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' right to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation time when earned.

Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments.

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

H. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2000 are reported as accrued liabilities in the accompanying financial statements.

I. Contributed Capital

Contributed capital represents resources from private sources provided to the School that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed.

3. DEPOSITS AND INVESTMENTS

State statutes classify moneys held by the School into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such money must be maintained either as cash in the School Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Governing Board has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to passbook accounts.

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

Protection of the School's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

During fiscal year 2000, there were no investments.

The following information classifies deposits by category of risk as defined in GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At June 30, 2000, the carrying amount of the School's deposits was \$356,313 and the bank balance was \$348,660. Of the bank balance, \$100,000 was covered by federal depository insurance and \$248,660 was uninsured and uncollateralized.

4. RECEIVABLES

Receivables at June 30, 2000 primarily consisted of intergovernmental (e.g. foundation and 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, 2000:

Furniture and Equipment	\$100,440
Food Service Equipment	8,650
Transportation Equipment	<u>7,000</u>
	116,090
Less: Accumulated Depreciation	<u>(13,540)</u>
Net Fixed Assets	<u>\$102,550</u>

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(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.

The School owns no real estate, but leases a facility located at 318 South Main Street in Dayton, Ohio.

The School maintains insurance coverage for rental/theft, general liability and directors and officers liability in amounts which the founders feel is adequate.

B. Workers' Compensation

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

C. Employee, Medical, Dental, and Vision Benefits

The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 80% of the monthly premium and the employee is responsible for the remaining 20%. Insurance premiums vary by employee depending upon such factors as age, gender, and number of covered dependents.

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 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 at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. The contribution requirements of plan members and employers are established and may be amended up to statutory maximum amounts. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 2000 was \$13,231; 84.2 percent has been contributed for the fiscal year 2000. The unpaid contribution for fiscal year 2000 amounted to \$2,088 and is recorded as a liability. For the fiscal year ended June 30, 1999, the total required contribution for pension obligations to SERS was \$2,647 of which \$586 was recorded as a liability as of the end of that year.

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(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, 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 43215-3371.

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 14 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal year ended June 30, 2000 was \$59,878, and 90.3 percent has been contributed for fiscal year 2000. The unpaid contribution amounted to \$5,811 for the fiscal year 2000, and is recorded as a liability. For the fiscal year ended June 30, 1999, the total required contribution for pension obligations to STRS was \$26,047 of which \$4,218 was recorded as a liability as of the end of that year.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2000, the School has no employees or members of the governing board who contribute to Social Security.

8. 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, physician's fees, prescription drugs and reimbursement of monthly medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State Statute. Both Systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2000, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$68,110 for fiscal year 2000.

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

8. POST EMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1999, (the latest information available) the balance in the Fund was \$2,783 million. For the year ended June 30, 1999 net health care costs paid by STRS were \$249,929,000 and STRS had 95,796 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to 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, 2000 employer contributions to fund health care benefits were 8.50 percent of covered payroll, an increase from 6.3 percent for fiscal year 1999. 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, prorated for partial service credit. For fiscal year 2000, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2000 fiscal year equaled \$1,199.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1999 (the latest information available), were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, SERS had net assets available for payment of health care benefits of \$188.0 million. SERS has approximately 41,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from School policy and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment, provided they have worked for the School at least 90 days. Teachers and administrators who are not on a twelve month contract do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to the number of annual work days per contract plus ninety, not to exceed 275 days. Upon retirement, payment is made for one-third of the total sick leave accumulation, up to a maximum accumulation of 150 days.

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

10. STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in the system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the School. During the fiscal years ended June 30, 2000 and 1999, the School received \$978,707 and \$259,507, respectively, of school foundation support for its operations.

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

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

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

11. 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, 2000.

B. Litigation

As of June 30, 2000, the School was not a party to any legal proceedings.

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

12. LEASES

The School leases a building and office facility under a noncancellable operating lease. The terms of this lease end August 31, 2003. Total lease payments were \$125,441 for the year ended June 30, 2000. The future minimum lease payments for this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2001	\$200,000
2002	210,000
2003	<u>35,000</u>
Total	<u>\$445,000</u>

13. PURCHASED SERVICES

For the fiscal period July 1, 1999 through June 30, 2000, purchased service expenses were payments for services rendered by various vendors as follows:

Professional/Technical Services:	
Classroom Assistance	27,302
Professional Development	21,798
Engineering Services	6,863
Legal Services	5,630
Health Services	5,418
Data Processing	4,283
Other	6,314
Property Services	165,575
Meeting Expenses	1,018
Communications	6,228
Utilities	26,757
Contracted Craft/Trade Services	101,688
Other	<u>6,636</u>
Total	<u>\$385,510</u>

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STATE OF OHIO
OFFICE OF THE AUDITOR

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

City Day Community School, Inc.
Montgomery County
318 South Main Street
Dayton, Ohio 45402

To the Board of Governance:

We have audited the financial statements of the City Day Community School, Inc., Montgomery County, (the Community School), as of and for the year ended June 30, 2000, and have issued our report thereon dated December 22, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Community 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Community School in a separate letter dated December 22, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Community 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 Community 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 2000-10357-001 and 2000-10357-002.

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 2000-10357-001 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 the Community School in a separate letter dated December 22, 2000.

City Day Community School, Inc.
Montgomery County
Report of Independent Accountants on Compliance and on Internal
Control Required by *Government Auditing Standards*
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This report is intended for the information and use of the management and the Board of Governance and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 22, 2000

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2000-10357-001

Development and Implementation of Purchasing Cycle Controls

Through review of the non-payroll disbursements process, areas were identified where the School did not have adequate controls in place. This lack of controls resulted in the following control weaknesses:

- Purchase orders were required to be signed by two of the three developers, however often these approvals were given verbally with no documentation of the verbal approval;
- Two of the sixty expenditures tested were not supported by adequate documentation (for example, original invoices);
- Two of the sixty expenditures tested were paid using vendor statements which do not detail the goods/services purchased and which do not prevent duplicate payments from occurring;
- Invoices were not marked for approval indicating that the goods/ services had been received in satisfactory condition;
- Invoices and purchase orders were not matched with the checks to determine that the proper amount, payee, and address was written on the check;
- No review process is in place by management to determine that the expenditure was appropriately posted to the proper account.

Lack of an adequate purchasing process and internal controls does not facilitate preventing errors or misstatements from occurring and detecting errors which may have occurred.

The School should develop and implement a policy and set of procedures to determine that sufficient controls are in place over non-payroll expenditures. Such procedures may include, but are not limited to the following:

- Prior authorization of a purchase through the use of a purchase order which should be approved and documented through appropriate members of management and which should 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 invoices with purchase orders and copies of checks or check stubs to determine all supporting documentation has been reviewed by the Treasurer;
- Review of checks used to pay the purchase and supporting documentation to determine that the payee, amount and address on the check and invoice agree;
- Review of expenditures as posted to the expenditure ledger to determine appropriate coding was utilized for payment.

**CITY DAY COMMUNITY SCHOOL, INC.
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2000
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2000-10357-002

Development and Implementation of Payroll Processing Procedures

Through review of payroll expenditures made during the audit period and review of the system for processing payroll expenditures, the following control weaknesses were identified:

- Teacher contracts were not maintained by the School;
- Time sheets were not completed or approved for hourly (non-payroll) employees;
- While all payroll expenditures are approved by the Board, four of the twelve teachers salaries that were tested did not match the salary schedule approved by the Board of Governance.

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

The School should develop and implement a policy and set of procedures to follow when hiring individuals and processing payroll transactions. Such procedures may include, but are not limited to the following:

- Board of Governance approval of all new employees of the School;
- Board of Governance approval of all pay rates and pay increases;
- The Treasurer should review process to determine all employees' gross wages as paid agree to the approved pay rate;
- Process requiring all wages paid to hourly (non-salary) employees to be adequately supported by a time sheet documenting hours worked and which has been appropriately approved by someone with sufficient knowledge to verify the hours worked;
- The Treasurer should maintain a file for all teacher contracts.



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OFFICE OF THE AUDITOR

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CITY DAY COMMUNITY SCHOOL, INC.

MONTGOMERY 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 15, 2001**