



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

**REGULAR AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1999**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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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, 1999, 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, 1999, and the results of its operations and its 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 20, 1999, on our consideration of the Community School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

**Jim Petro**  
Auditor of State

December 20, 1999



**BALANCE SHEET  
JUNE 30, 1999**

	<b>Proprietary Fund Type</b>
	<b>Enterprise Fund</b>
Current Assets:	
Cash and Cash Equivalents	\$79,737
Receivables:	
Intergovernmental	23,984
Other	52
Total Current Assets	103,773
Furniture and Equipment, Net	24,936
Other Assets	1,240
<b>Total Assets</b>	<b>\$129,949</b>
<b>Liabilities and Equity</b>	
Current Liabilities:	
Intergovernmental Payable	12,310
Accounts Payable	8,655
Accrued Wages and Benefits	2,999
Deferred Revenue	23,984
Compensated Absences Payable	742
Total Current Liabilities	48,690
Long-Term Liabilities:	
Compensated Absences Payable	3,305
Total Liabilities	51,995
Equity:	
Contributed Capital	4,500
Retained Earnings:	
Unreserved	73,454
Total Equity	77,954
<b>Total Liabilities and Equity</b>	<b>\$129,949</b>

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS – PROPRIETARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<b>Proprietary Fund Type</b>
	<b>Enterprise Fund</b>
<b>Operating Revenues:</b>	
Foundation Payments	\$259,507
Disadvantaged Pupil Impact Aid	17,511
State Special Education Program	70,000
Other Operating Revenue	2,509
Total Operating Revenues	349,527
<b>Operating Expenses:</b>	
Salaries	201,863
Fringe Benefits	48,292
Purchased Services	67,585
Materials and Supplies	4,781
Depreciation	3,777
Other Operating Expenses	2,800
Total Operating Expenses	329,098
<b>Operating Income</b>	<b>20,429</b>
<b>Non-Operating Revenues:</b>	
Other State Grants	3,000
Private Grants	50,000
Other Contributions	25
Total Non-Operating Revenues	53,025
<b>Net Income</b>	<b>73,454</b>
Retained Earnings at Beginning of Year	0
<b>Retained Earnings at End of Year</b>	<b>\$73,454</b>

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



**STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

	<b>Proprietary Fund Type</b>
	<b>Enterprise Fund</b>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
Cash Flows from Operating Activities:	
Cash Received from State of Ohio	\$347,018
Cash Payments to Employees for Services	(228,398)
Cash Payments to Suppliers for Goods and Services	(70,384)
Other Operating Revenue	2,689
Net Cash Provided (Used) for Operating Activities	50,925
Cash Flows from Noncapital Financing Activities:	
Operating Grants Received	53,000
Contributions	25
Net Cash Provided (Used) for Noncapital Financing Activities	53,025
Cash Flows from Capital and Related Financing Activities:	
Payments for Capital Acquisitions	(24,213)
Net Cash Provided (Used) for Capital and Related Financing Activities	(24,213)
Net Increase (Decrease) in Cash and Cash Equivalents	79,737
Cash and Cash Equivalents at Beginning of Year	0
Cash and Cash Equivalents at End of Year	\$79,737
<u>Reconciliation of Operating Income to Net Cash Provided (Used) for Operating Activities:</u>	
Operating Income	\$20,429
<u>Adjustments To Reconcile Operating Income to Net Cash Provided (Used) for Operating Activities:</u>	
Depreciation	3,777
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(52)
(Increase) Decrease in Other Assets	(1,240)
Increase (Decrease) in Accounts Payable	8,655
Increase (Decrease) in Intergovernmental Payable	12,310
Increase (Decrease) in Accrued Wages	2,999
Increase (Decrease) in Compensated Absences Payable	4,047
Total Adjustments	30,496
Net Cash Provided (Used) for Operating Activities	\$50,925

**Noncash investing, capital, and financing activities:**

During the fiscal year, Monarch Marking donated fifteen computers and computer equipment to the Community School with a fair market value at the time of donation of \$4,500. These computers and equipment have been included in the Fixed Asset balance as reported on the balance sheet.

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

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**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**

**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 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 four 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 one full time and one part time noncertified personnel, and four certificated full time teaching personnel who provide services to approximately sixty students.

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the School are not misleading. The primary government of the School consists of all funds, departments, boards and agencies that are not legally separate from the School. For City Day Community School, Inc., this includes general operations, food service, and student related activities of the School.

Component units are legally separate organizations for which the School is financially accountable. The School is financially accountable for an organization if the School appoints a voting majority of the organization's governing board and (1) the School is able to significantly influence the programs or services performed or provided by the organization; (2) the School is legally entitled to or can otherwise access the organization's resources; (3) the School is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or (4) the School is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School in that the School approves the budget, the issuance of debt or the levying of taxes for the organization. The School does not have any component units.

**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 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:

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

**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.

**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 accounted for by the School's treasurer. To improve cash management, all cash received by the treasurer is pooled in a central bank account. Monies for all accounts of the School are maintained in this depository. Individual account integrity is maintained through School records and the USAS accounting system. Total cash for all accounts is presented as "cash and cash equivalents" on the accompanying balance sheet.

The School had no investments during the fiscal year.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

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

**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 five 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, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. These programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

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' rights 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 for all employees.

Sick leave benefits are accrued as a liability using the termination 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, 1999, are reported as accrued liabilities in 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**3. DEPOSITS AND INVESTMENTS**

At June 30, 1999, the School had a cash balance of \$79,737 which is presented as cash and cash equivalents in the accompanying financial statements. The bank balance of the School's deposits was \$80,081 which was entirely covered through federal depository insurance (FDIC).

**4. RECEIVABLES**

Receivables at June 30, 1999 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, 1999, follows:

Furniture and Equipment	\$ 28,713
Less: Accumulated Depreciation	<u>(3,777)</u>
Net Fixed Assets	\$ <u>24,936</u>

**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 1999, the School contracted with New Hampshire Insurance Company for property and general liability insurance.

The School had no owned property during the fiscal year. They leased a facility on which they maintained \$20,000 rental/theft insurance through New Hampshire Insurance Company. In addition, the School maintained general liability insurance through New Hampshire Insurance Company with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate coverage.

**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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**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. For the fiscal year 1999, 7.7 percent was the portion used to fund pension obligations. 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, 1999 was \$2,647; 77.86 percent has been contributed for fiscal year 1999. The unpaid contribution for fiscal year 1999 amounted to \$586 and is recorded as a liability.

**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; 6 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contribution for pension obligations to STRS for the fiscal year ended June 30, 1999 was \$26,047, and 83.81 percent has been contributed for fiscal year 1999. The unpaid contribution amounted to \$4,218 for fiscal year 1999, and is recorded as a liability.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, the School had no employees or members of the governing board who contribute to Social Security.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**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'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, 1999, 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 \$13,921 for fiscal year 1999.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998 (the latest information available) the balance in the Fund was \$2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and 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 employers' 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.30 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 members pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 1999 fiscal year equaled \$1,128.

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, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 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. 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.



**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**10. CHANGES IN CONTRIBUTED CAPITAL**

Changes in contributed capital for the year ended June 30, 1999, are summarized by source as follows:

Contributed Capital, July 1, 1998	\$	0
Current Contributions:		
Donated Equipment		4,500
Total		<u>4,500</u>
Contributed Capital, June 30, 1999	\$	<u><u>4,500</u></u>

**11. STATE SCHOOL FUNDING DECISION**

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio School funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the Ohio General Assembly 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 year ended June 30, 1999, the School received \$259,507 of school foundation support for its operations.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has 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 has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, schools are still operating under the laws that the Common Pleas Court declared unconstitutional.

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.

**12. 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, 1999.

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 1999**  
**(Continued)**

**12. CONTINGENCIES (Continued)**

**B. Litigation**

As of June 30, 1999, the School was not a party to any legal proceedings.

**13. RELATED PARTY TRANSACTIONS**

One member of the Board of Directors of City Day Community School, Inc. is also an employee of the Monarch Marking Company. During the fiscal year, City Day Community School, Inc. accepted a donation of fifteen computers and related equipment from Monarch Marking. These computers and equipment had a fair market value on the date of donation of \$4,500 and have been included as fixed assets of the School on the financial statements.

**14. YEAR 2000**

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999.

City Day Community School, Inc. has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the School's operations. The School has identified such systems as being accounting and financial reporting, budgetary, and payroll/employee benefit system; and the educational statistics reporting (through the State's Education Management and Information System (EMIS)).

- The School uses the State of Ohio Uniform School Accounting System software for its accounting, financial reporting, and budgetary and the State of Ohio Uniform Staff Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.
- The State of Ohio distributes a substantial sum of money to the School in the form of "Foundation" and federal and state grant payments. Further, the State processes a significant amount of financial and non-financial information about the School through EMIS. The State is responsible for remediating these systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the School is or will be Year 2000 ready, that the School's remediation efforts will be successful in whole or in part, or that parties with whom the School does business will be Year 2000 ready.

**15. PRIVATE GRANT**

City Day Community School, Inc. received \$50,000 in private grants from the Thomas B. Fordham Foundation for the purpose of supplementing start-up costs and to meet special emergency needs. In accordance with the terms of these grant agreements, the proceeds were used to purchase furniture (including a copier and oven), instructional materials, and other essential supplies and services. The grants were also used to pay for teacher training, accounting and financial consultants, and the salary of an administrator.



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**

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 City Day Community School, Inc., Montgomery County ("the Community School") as of and for the year ended June, 30, 1999, and have issued our report thereon dated December 20, 1999. 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 an immaterial instance of noncompliance that we have reported to management of the Community School in a separate letter dated December 20, 1999.

**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 1999-10357-001 and 1999-10357-002.

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, we believe none of the reportable conditions

described above is a material weakness. We also noted other matters involving the internal control over the Community School's 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 20, 1999.

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 20, 1999

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Number Finding:	Recommendation:
1999-10357-001	<p><b><u>Development and Implementation of Purchasing Cycle Controls</u></b></p> <p>Prudent business practices suggest that the School have an adequate purchasing process in place to support a favorable control environment to assist in preventing errors or misstatements from occurring and detecting errors which may have occurred.</p> <p>A favorable control environment for the processing of non-payroll disbursements may include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Accumulation of appropriate supporting documentation (original invoices) prior to authorization for payment;</li> <li>• 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; (“okay to pay”)</li> <li>• Matching of invoice with purchase order and copy of check or check stub to ensure all supporting documentation has been reviewed;</li> <li>• 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, and;</li> <li>• Review of expenditures as posted to the expenditure ledger to ensure appropriate coding was utilized for payment.</li> </ul>

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Number Finding:	Recommendation:
1999-10357-001(Continued)	<p><b><u>Development and Implementation of Purchasing Cycle Controls</u></b></p> <p>The following errors and control weaknesses were noted in the purchasing process control environment:</p> <ul style="list-style-type: none"> <li>• All purchase orders were not approved by three of the four developers and many approvals were given verbally with no documentation of the verbal approval;</li> <li>• Expenditures were not supported by adequate supporting documentation (original invoices) supporting the payment to be made;</li> <li>• Expenditures were paid using vendor statements which do not detail the goods/services purchased and which do not prevent duplicate payments from occurring;</li> <li>• Invoices were not marked "okay to pay" indicating that the goods/ services had been received in satisfactory condition;</li> <li>• Invoices and purchase orders were not matched with the checks to ensure that the proper amount, payee, address, etc. was written on the check;</li> <li>• No review process is in place by management to ensure that the expenditure was appropriately posted to the proper account.</li> </ul> <p>The School should develop and implement a policy and set of procedures to ensure that sufficient controls are in place to support a favorable control environment, and ensure that appropriate documentation is maintained to support all expenditures made.</p>

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Number Finding:	Recommendation:
1999-10357-002	<p><b><u>Development and Implementation of Payroll Processing Procedures</u></b></p> <p>Prudent business practices suggest the following procedures be in place to ensure a favorable control environment is in place to identify misstatements either as they occur or through the review process:</p> <ul style="list-style-type: none"> <li>• Approval through the Board of Governance to hire all employees of the School;</li> <li>• Approval through the Board of Governance of all pay rates;</li> <li>• Review process to ensure all employees' gross wages as paid agree to the approved pay rate;</li> <li>• 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, and;</li> <li>• Approval through the Board of Governance for all pay rate increases;</li> </ul> <p>The following errors and control weaknesses were noted in the system for processing payroll:</p> <ul style="list-style-type: none"> <li>• One part-time employee was paid for performing services, but was not appropriately approved for hire through the Board of Governance, nor was the established pay rate for this position approved;</li> <li>• The minutes incorrectly stated one of the four developers' salary as \$45,000, rather than \$45,500 as approved;</li> <li>• One employee was approved for hire through the Board of Governance for a teacher's aide position, but was not paid according to the approved rate as set by the Board;</li> <li>• Three employees were paid on an hourly basis, however, no time sheets were completed or approved documenting the hours worked;</li> <li>• Two employees received increases in January 1999, however, there was no indication that the Board of Governance approved these pay rate increases;</li> <li>• No records were maintained indicating any leaves of absences or leave time taken during the audit period.</li> </ul>

**SCHEDULE OF FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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Number Finding:	Recommendation:
1999-10357-002 (Continued)	<p><b><u>Development and Implementation of Payroll Processing Procedures</u></b></p> <p>These errors were caused by a failure to establish specific control procedures and applying the procedures consistently. Failure to establish a favorable control environment could result in a material misstatement, overpayment, or unauthorized payment relating to payroll expenditures to occur.</p> <p>The School should develop and implement a policy and set of procedures to follow when hiring individuals and processing payroll transactions which contribute to a favorable control environment as described above</p>





STATE OF OHIO  
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  
JANUARY 20, 2000**