

**AUDITOR OF STATE BULLETIN 2000-005
MARCH 8, 2000**

TO: TOLEDO CITY SCHOOL DISTRICT TREASURER/SUPERINTENDENT
CLEVELAND CITY SCHOOL DISTRICT TREASURER/SUPERINTENDENT
YOUNGSTOWN CITY SCHOOL DISTRICT TREASURER/SUPERINTENDENT
COLUMBUS CITY SCHOOL DISTRICT TREASURER/SUPERINTENDENT
DAYTON CITY SCHOOL DISTRICT TREASURER/SUPERINTENDENT
CANTON CITY SCHOOL DISTRICT TREASURER/SUPERINTENDENT
AKRON CITY SCHOOL DISTRICT TREASURER/SUPERINTENDENT
CINCINNATI CITY SCHOOL DISTRICT TREASURER/SUPERINTENDENT
CUYAHOGA COUNTY EDUCATIONAL SERVICE CENTER
TREASURER/SUPERINTENDENT
LUCAS COUNTY EDUCATIONAL SERVICE CENTER
TREASURER/SUPERINTENDENT
ALL COMMUNITY SCHOOL FISCAL OFFICERS
ALL COMMUNITY SCHOOL DIRECTORS/PRINCIPALS
OFFICE OF SCHOOL OPTIONS

SUBJECT: COMMUNITY SCHOOLS: ACCOUNTING AND REPORTING, INTERNAL
CONTROLS, AUDITS

The purpose of this bulletin is to expand on the guidance provided in Auditor of State Bulletin 98-003, dated August 13, 1998.

ACCOUNTING AND REPORTING

Ohio Rev. Code Section 3314.03(A)(8) **requires** all community schools to maintain financial records in the same manner as all public school districts in the State of Ohio. Therefore, community schools are required to use the Uniform School Accounting System (USAS) as prescribed in Ohio Administrative Code Chapter 117-2 which is being amended by Ohio Administrative Code Chapter 117-6-01. A computerized version of USAS has been created by the Ohio Department of Education (ODE) and may be accessed by any school that is a member of the Ohio education computer network. For more information on becoming a member of the network, please phone or write:

Ohio Department of Education
Information Management Services Division
Attn: Jim Daubenmire
1320 Arthur E. Adams Dr.
Columbus, Ohio 43221-3595
(614) 466-7000

In addition to the computerized version of USAS available through ODE, outside vendors provide USAS software packages which are compatible with the computer systems used by the twenty-four data acquisition sites which must be utilized by each community school at various times throughout the year for Educational Management Information System (EMIS) reporting. These vendors include:

ACE Software

Basco Software

Snyder and Assoc.

S & F Software

Attn: Gary Buckingham Attn: Bob Bass
(614) 874-4910 (513) 791-7876

Attn: Bob Snyder
(740) 878-0990

Attn: Jerry Fogt
(937) 898-8353

All community schools are required to prepare an annual financial report in accordance with generally accepted accounting principles (GAAP). The annual financial report is required to be filed with the Auditor of State within one hundred fifty days after the close of the fiscal year. Annual financial reports should be mailed to:

Office of the Auditor of State of Ohio
Att: Ms. Christine Hansen, Chief
Local Government Services
88 East Broad Street
Columbus, Ohio 43216

Persons charged with preparing the annual financial report should be aware that this Office considers all community schools to be **governmental** not-for-profit organizations. This determination is based upon the fact that:

- 1) Ohio Rev. Code Section 3314.03 requires each community school be established as a nonprofit corporation; and
- 2) The American Institute of Certified Public Accountants (AICPA) defines “governmental organizations” as “public corporations and bodies corporate and politic”. *Black’s Law Dictionary*, as cited by the AICPA, further defines a “public corporation” as “an artificial person (e.g., [a] municipality or a governmental corporation) created for the administration of public affairs. Unlike a private corporation it has no protection against legislative acts altering or even repealing its charter. Instrumentalities created by the state, formed and owned by it in the public interest, supported in whole or in part by public funds, and governed by management deriving their authority from the state.” (*AICPA Audit and Accounting Guide for Not-for-Profit Organizations - With Conforming Changes as of May 1, 1999*).

For financial statement reporting purposes, this Office **requires** that all financial activity of the community school be reported within an Enterprise Fund in accordance with all applicable governmental accounting principles (*Note: Financial activity will continue to be presented within an Enterprise Fund with the implementation of GASB 34 - Basic Financial Statements- and Management’s Discussion and Analysis- for State and Local Governments*). We have provided an example of the financial statement presentation and the related note disclosures as Appendix A to this Bulletin.

Although required to report in accordance with GAAP for year-end reporting purposes, community schools may choose to maintain financial information on a cash-basis throughout the year with a one-time annual conversion to GAAP. Also, the presentation of all financial activity within one Enterprise Fund is only required for year-end reporting purposes. Separate funds may be used throughout the year to account for various funding sources (e.g., separate funds may be used to segregate federal and/or state funding sources in order to demonstrate compliance).

INTERNAL CONTROLS

The management of each community school is responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of its assets, the efficiency and effectiveness of its operation, and its compliance with applicable laws, regulations, and contracts.

In designing its internal control process, management should consider policies and procedures that provide for the following:

- Appropriate authorization and approval of transactions
- Adequately designed records to facilitate classification and summarization of transactions
- Security of assets and records
- Segregation of incompatible duties
- Periodic reconciliations of account balances
- Periodic verification of assets

LEGAL COMPLIANCE

Under Generally Accepted Government Auditing Standards (GAGAS), auditors are required to identify and test direct and material laws and regulations that may have a material effect on the financial statements. To help auditors fulfill this responsibility, we have developed a *Community School Compliance Supplement* which is attached as Appendix B to this bulletin. The first six chapters contain laws and regulations that may be considered direct and material under the AICPAs criteria. This Supplement should not be considered all inclusive. Other potentially significant laws and regulations may be identified within federal, state, and local statutes, board resolutions, contracts, leases, grant agreements, and debt covenants. Chapter seven of the Supplement contains Ohio laws and regulations that are probably not, in most circumstances, considered “direct and material”; however, the Auditor of State will test as a matter of “public policy” considerations.

AUDITS

Each community school will be audited annually for the first two years of operation. Thereafter, they will be transitioned to be a biennial audit when they have demonstrated the ability to prepare financial statements and complete audits with unqualified reports within five months of their fiscal year-end. However, if the school expends \$300,000 or more of federal dollars in a given fiscal year, the school is required to have an annual audit performed in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. All audits will be conducted in accordance with GAGAS.

DEBT

Among the questions we receive from community schools, the subject of “debt” seems to be the most recurring and controversial. Therefore, we provide the following analysis of debt arrangements which are explicitly permitted/prohibited by Ohio law, as well as, our interpretation of other debt arrangements which are not explicitly addressed in Ohio law:

- **Issuance of Notes:** Ohio Rev. Code § 3314.08(J) sets forth the legal authority for a community school to borrow money for payment of school expenses. This Code provision allows for a community school to borrow funds to pay actual and necessary expenses of the school in anticipation of the funds received by the Ohio Department of Education pursuant to Ohio Rev. Code §3314.08(D) (i.e., foundation payments) If a school district chooses to issue notes in anticipation of these funds, then **the notes must mature prior to the end of the fiscal year in which the money was borrowed.** In addition, this Code provision requires that the proceeds of the notes must be used only for the purposes for which funds received pursuant to Ohio Rev. Code §3314.08 can be lawfully expended by the community school.
- **Issuance of Bonds Secured by Tax Revenues:** Community schools do not qualify as a “school district”, “subdivision”, or “taxing authority” as defined in Ohio Rev. Code Chapter 133 and therefore, as explicitly stated in Ohio Rev. Code §3314.08(H), are prohibited from issuing bonds secured by tax revenues.
- **Issuance of Bonds Secured by Revenues Other Than Tax Revenues (e.g., a group of outside investors has agreed to collateralize the debt issuance):** Given that there are no judicial opinions or Attorney General Opinions interpreting Ohio’s community school statutes with regard to this issue, the following response is provided only as our interpretation of the law. Community schools should consult their legal counsel before entering into any debt arrangements.

We believe two issues arise which hinder a community school from issuing bonds secured by revenues other than tax revenues, namely the provisions of Ohio Rev. Code § 3314.03(A)(13), as well as, the scope of local government authority.

Ohio Rev. Code §3314.03(A)(13): This provision explicitly limits the existence of a community school to five years. Most bond issuances, if not all, are for a length greater than five years. Thus, for practical reasons, it is unlikely, if not impossible, for a community school to issue debt longer than it is in existence.

Scope of Authority: Local governments are only able to exercise the powers that are explicitly granted and also those powers that are absolutely essential to the declared purposes of the local government. *Locher v. Menning*, 95 Ohio St. 97 (1916) It is well established in Ohio that municipal corporations have home rule powers, while counties and townships have the ability to adopt charters and take advantage of home rule provisions as well. However, school districts have not been given home rule powers pursuant to Ohio statutes or the Ohio Constitution. As a result, in the absence of specific authority, there would be no power to issue bonds, whether tax exempt or taxable.

- **Lease Agreements:** Lease agreements are not considered to be a loan to be paid back within one year pursuant to Ohio Rev. Code 3314.08(I); however lease agreements which extend beyond the current fiscal year should contain a fiscal funding or cancellation clause. Such a clause permits the community school to terminate the agreement on an annual basis if funds are not appropriated to make required payments.

All debt arrangements, regardless of the type or duration, **must** be disclosed in the notes to the financial statements.

TUITION

As explicitly stated in Ohio Rev. Code §3314.08(I), a community school is prohibited from charging tuition. Questions have arisen regarding the definition of “tuition”, specifically: 1) is a condition of enrollment which requires parents to contribute their time considered “tuition”? and 2) is a monetary charge for textbooks considered “tuition”?

Any money required to be paid, or parent services required to be rendered as a condition of enrollment, over and above that allowed by a public school, is considered “tuition”. As public schools are prohibited from requiring parents to contribute their time as a condition of enrollment and are prohibited from charging for textbooks (which is different than charging “instructional fees”), we consider both “tuition”.

If you have any questions concerning this bulletin, please contact our office at 1-800-282-0370. Legal questions should be referred to our Legal Department, while all questions relating to accounting treatment and/or our auditing process should be referred to our Kim Gray in the Department of Accounting and Auditing Support.

**COMMUNITY SCHOOL FINANCIAL STATEMENTS
AND NOTES TO THE FINANCIAL STATEMENTS
MARCH, 2000**

Please Note: The Financial Statements and Notes presented are for illustrative purposes **ONLY**

APPENDIX A

GENERIC COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
AS OF JUNE 30, 1999

Assets:

Current Assets:

Cash and Cash Equivalents With Fiscal Agent	\$ 0
Receivables:	
Intergovernmental	0
Accrued Interest	0
Inventory	0
	<hr/>
Total Current Assets	0

Non-Current Assets:

Fixed Assets (Net of Accumulated Depreciation)	0
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Total Assets	\$ 0
	<hr/> <hr/>

Liabilities and Fund Equity:

Current Liabilities:

Accounts Payable	\$ 0
Contracts Payable	0
Accrued Wages and Benefits	0
Compensated Absences Payable	0
Intergovernmental Payable	0
Deferred Revenue	0
	<hr/>
Total Current Liabilities	0

Long-Term Liabilities:

Compensated Absences Payable	0
Capital Lease Payable	0
	<hr/>

Total Liabilities	0
	<hr/>

Fund Equity:

Contributed Capital	0
Unreserved Retained Earnings*	0
	<hr/>

Total Fund Equity	0
Total Liabilities and Fund Equity	\$ 0
	<hr/> <hr/>

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

* If negative equity situation this line would be labeled "Accumulated Deficit"

APPENDIX A

GENERIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Operating Revenues:

Foundation Payments	\$	0
Disadvantaged Public Impact Aid		0
Other Operating Revenues		<u>0</u>
Total Operating Revenues		<u>0</u>

Operating Expenses:

Salaries		0
Fringe Benefits		0
Purchased Services		0
Materials and Supplies		0
Depreciation		0
Other Operating Expenses		<u>0</u>
Total Operating Expenses		<u>0</u>
Operating Income (Loss)		<u>0</u>

Non-Operating Revenues:

Federal Donated Commodities *		0
Interest Earnings		0
Operating Grants		<u>0</u>
Total Non-Operating Revenues		<u>0</u>
Net Income (Loss)		0
Retained Earnings (Deficit) at Beginning of Year		<u>0</u>
Retained Earnings (Deficit) at End of Year	\$	<u><u>0</u></u>

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

* If the school sells these commodities, EG: as part of a food service program, the "Sales" should be included as part of Operating Revenue.

APPENDIX A

**GENERIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

Increase (Decrease) in Cash and Cash Equivalents:

Increase
(Decrease) in
Cash and Cash
Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio & from Federal Government	\$	0
Cash Payments to Suppliers for Goods and Services		0
Cash Payments to Employees for Services		0
Cash Payments for Employee Benefits		0
Cash Payments to Employees for Services		0
Net Cash Provided By/(Used for) Operating Activities		<u>0</u>

Cash Flows from Noncapital Financing Activities:

Operating Grants Received		<u>0</u>
Net Cash Provided by Noncapital Financing Activities		<u>0</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions		<u>0</u>
Net Cash Used for Capital and Related Financing Activities		<u>0</u>

Cash Flows from Investing Activities:

Purchase of Investments		0
Sale or Maturity of Investments		0
Interest on Investments		<u>0</u>
Net Cash ProvidedBy/(Used for)Investing Activities		<u>0</u>

Net Increase (Decrease) in Cash and Cash Equivalents		0
Cash and Cash Equivalents at the Beginning of the Year		<u>0</u>
Cash and Cash Equivalents at the End of the Year	\$	<u><u>0</u></u>

(Continued)

APPENDIX A

GENERIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999
(Continued)

**Reconciliation of Operating Income (Loss) to Net
Cash Provided By (Used for) Operating Activities:**

Operating Income/(Loss) \$ 0

**Adjustments to Reconcile Operating Income (Loss) to
Net Cash Provided By (Used for) Operating Activities:**

Depreciation	0
Donated Commodities Used During Year	0
Changes in Assets and Liabilities:	
(Increase)/Decrease in Accounts Receivable	0
(Increase)/Decrease in Accrued Interest Receivable	0
Increase/(Decrease) in Accounts Payable	0
Increase/(Decrease) in Contracts Payable	0
Increase/(Decrease) in Accrued Wages Payable	0
Increase/(Decrease) in Compensated Absences Payable	0
Increase/(Decrease) in Intergovernmental Payable	0
Increase/(Decrease) in Deferred Revenue	<u>0</u>
Total Adjustments	<u>0</u>
Net Cash Provided By (Used for) Operating Activities	<u><u>\$ 0</u></u>

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

**GENERIC COMMUNITY SCHOOL DISTRICT
SAMPLE NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1999**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

Generic Community School (the School) is nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to address the needs of students in grades four through eight who exhibit characteristics of Attention Deficit Hyperactivity Disorder (ADHD) and related learning difficulties. 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 Generic City School District (the Sponsor) for a period of three years commencing July 1, 1998. 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. In consideration of permitting the creation of the School, the School makes annual payments of \$2,000 to the Sponsor.

The School operates under the direction of a five-member Board of Trustees. 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 Trustees controls the School's one instructional/support facility staffed by 3 noncertified and 10 certificated full time teaching personnel who provide services to 160 students.

The Board of Trustees has entered into a management contract with Sunrise, Inc., to provide consulting services including teacher training, curriculum development, financial management, and State relations. In exchange for its services, Sunrise receives a management fee equal to 10% of the School's income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Generic Community 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

Enterprise Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. 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. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

C. Budgetary Process

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

D. Cash and Cash Equivalents

All monies received by the School are accounted for by the School's fiscal agent, the Any County Educational Service Center. To improve cash management, all cash received by the fiscal agent is pooled [in a central bank account.] Monies for all funds of the fiscal agent and School are maintained in this pool. [account or temporarily used to purchase short-term investments.] Individual fund integrity is maintained through fiscal agent and School records. The School's interest in the pool is presented as "cash and cash equivalents with fiscal agent" on the accompanying balance sheet and is valued at the fiscal agent's reported carrying amount. This is also the amount used for the statement of cash flows, as the district can withdraw its portion of the pool at any time.

E. Inventory

Inventory is stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories consist of donated food, purchased food, and school supplies held for resale and are expended when used.

F. Fixed Assets and Depreciation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Fixed Assets and Depreciation (continued)

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.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Vehicles	10
Furniture and equipment	10

G. Intergovernmental Revenues

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

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

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

H. 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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Contributed Capital

Contributed capital represents equity obtained from other governments and 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. ACCOUNTABILITY AND COMPLIANCE

Retained Earnings Deficit

As further described in Note 16, the accumulated deficit is the result of accumulated losses. The School is analyzing operations to determine appropriate steps to alleviate the deficit.

4. DEPOSITS AND INVESTMENTS

At June 30, 1999, the School had a cash balances of \$XXX,XXX with Any County Educational Service Center, the School's fiscal agent. The money is held by the fiscal agent in a pooled account. The School's portion of the pool cannot be segregated for purposes of credit risk classification under GASB Statement No. 3 - Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. The classification of cash and cash equivalents and investments for the Any County Educational Service Center as a whole may be obtained by writing to Any County Educational Service Center, 56789 Johnson Road, Anywhere, Ohio 12345.

5. RECEIVABLES

Receivables at June 30, 1999, consisted of interest, and intergovernmental (e.g., foundation, 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.

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 1999, follows:

Furniture and Equipment	\$ xxx,xxx
Buildings	x,xxx,xxx
Land	xxx,xxx
Vehicles	xxx
Subtotal:	<u>x,xxx,xxx</u>
Less: accumulated depreciation	<u>(xxx,xxx)</u>
Net Fixed Assets	<u>\$x,xxx,xxx</u>

There was no significant construction in progress at June 30, 1999.

7. 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 Smith-Jones Insurance Company for property and general liability insurance. There is a \$1,000 deductible with a one hundred percent blanket, all risk policy. Jones-Hamilton Insurance Company covers the boiler and machinery with a \$1,000 deductible and a \$30,000,000 limit.

Professional liability is protected by Grale Insurance Company with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible. Vehicles are covered by Grale Insurance Company and hold a \$250 deductible for comprehensive and collision. Automobile liability has a \$1,000,000 combined single limit of liability.

B. Workers' Compensation

The School pays the State Worker's Compensation System a premium for employee injury

coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

8. 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 14 percent; for fiscal year 1999, 7.7 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School's required contribution for pension obligations to SERS for the fiscal year ended June 30, 1999 was \$xxx,xxx and xx.x percent has been contributed for fiscal year 1999. \$xxx,xxx representing the unpaid contribution for fiscal year 1999, is recorded as a liability.

(Please note three years of information is required to be presented in GAAP basis notes)

8. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the School is required to contribute 6 percent; 12 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 \$x,xxx,xxx and xx.xx percent has been contributed for fiscal year 1999. \$xxx,xxx represents the unpaid contribution 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 has no employees or members of the governing board who contribute to Social Security.

9. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents

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

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School, this amount equaled \$xxx,xxx during the 1999 fiscal year.

POSTEMPLOYMENT BENEFITS (continued)

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

For this fiscal year, employer contributions to fund health care benefits were 6.3 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 1999, the minimum pay has been established at \$xx,xxx. For the School, the amount to fund health care benefits, including surcharge, equaled \$xxx,xxx during the 1999 fiscal year.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements 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.

B. Insurance Benefits

The School District provides life insurance to all employees through a private carrier. Coverage in the amount of \$25,000 is provided for all certified and noncertified employees.

C. Employee Medical, Dental, and Vision Benefits

The School has contracted with a private carrier to provide employee medical/surgical benefits. The School pays 75% of the monthly premium and the employee is responsible for the remaining 25%. For fiscal year 1999, the School and the employees' premiums were \$327.13 and \$109.05 for family coverage and \$134.67 and \$44.89 for single coverage per employee per month, respectively.

The School has also contracted with private carriers to provide dental and vision insurance. As with medical benefit premiums, the School pays 75% of the monthly premium and the employee is responsible for the remaining 25%. For fiscal year 1999, the School and employees' premiums were \$40.56 and \$13.52 for family coverage and \$13.30 and \$4.43 for single coverage per employee per month, respectively .

11. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 1999, the School entered into a capitalized lease for computers. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. The capital lease has been recorded at the present value of the future minimum lease payments as of the inception date.

11. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 1999.

Fiscal Year	
Ending June 30,	
1999	\$xxx,xxx
2000	xxx,xxx
2001	xxx,xxx
2002	<u>xxx,xxx</u>
Total minimum lease payments	xxx,xxx
Less: amount representing interest	<u>(xxx,xxx)</u>
Present value of minimum lease payments	<u>\$xxx,xxx</u>

12. 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	\$xx,xxx
Current Contributions	<u>xx,xxx</u>
Contributed Capital, June 30, 1999	<u>\$xx,xxx</u>

13. STATE SCHOOL FUNDING DECISION

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

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature 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. As of [DATE OF OPINION], 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, school districts 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.

14. 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 general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 1999.

B. Litigation

The School is party to certain legal proceedings. The School's management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the School.

15. RELATED PARTY TRANSACTIONS

During fiscal year 1999, Generic Community School entered into a one-year lease for a facility owned by a Board member. The Board member also has a teaching contract with the School. Expenses recognized under these two agreements were \$42,000 (of which \$3,500 was payable at year end) and \$25,000, respectively.

Two Board members of Generic Community School are also Board members of Sunrise, Inc. Generic Community School contracts with Sunrise, Inc. for various consulting services, including teacher training, curriculum development, financial management and State relations. Generic Community School paid Sunrise, Inc. \$XX,XXX during the fiscal year for these services.

16. MANAGEMENT'S PLANS REGARDING ACCUMULATED DEFICIT (SEE NOTE 3)

Generic Community School accumulated a deficit of \$75,000 for the year ended June 30, 1999, and is also delinquent in some payments to vendors due to the timing of cash flows. Management plans to eliminate the deficit and cash-flow shortages with the following actions:

- 1) Subsequent to June 30, management obtained a line of credit from ABC Bank, for \$100,000. Interest on draws will be at ABC Bank's prime rate (5.2% at June 30) plus one per cent. The letter expires at December 31. Draws on the letter will be used to remedy short-term cash flow problems. The School will repay any outstanding balance at December 31 with foundation payment proceeds, or may issue notes.
- 2) The School has now qualified for the XYZ Grant program for the year ending June 30, 2000. The grant agreement provides that the School will receive \$50,000 during the year, to be reimbursed for allowable grant costs.
- 3) The School is also implementing certain cost-cutting measures in its fiscal year 2000 budget. These measures should result in cost reductions of \$60,000.

17. MANAGEMENT CONSULTING CONTRACT

The School entered into a five-year contract on August 23, 1998 with Sunrise, Inc. for management consulting services. Under the contract, Sunrise is required to provide the following services:

1. Consulting and liaison services with the Ohio Department of Education and other governmental and quasi-governmental offices and agencies;
2. Advisory services regarding special education and special needs students, programs, processes, and reimbursements;

3. Other ongoing consultation with the School's management, as requested;
4. EMIS monitoring, consultation and guidance to School staff on implementation and ongoing compliance with EMIS requirements;
5. Attendance at the School's board of trustees meetings, as an invited observer;
6. Utilization of operations manual, forms, (including teacher contracts, applications, enrollment and similar forms), and management procedures, as the same are from time to time developed by Sunrise, Inc.;
7. Consultive services on insurance needs, including introduction to Sunrise, Inc.'s insurance relationships;
8. Assistance in identifying and applying for grants; and
9. Such other management consultant services as are from time to time mutually agreed upon.

For these services, the School is required to pay the following fees to Sunrise's Inc.:

1. Up front Fee - Upon execution of the agreement, the School paid Sunrise, Inc. an up front, non-refundable fee of \$50,000.
2. Continuing Fee - The School is required to pay a monthly continuing fee to Sunrise, Inc., of 10% of the School's Qualified Gross Revenues. "Qualified Gross Revenues" is defined as "all revenues and income received by the School except charitable contributions and dollar-for-dollar reimbursements for School-provided programs." The continuing fee is required to be paid on or before the 15th day of each month based upon the previous month's Qualified Gross Revenues. During fiscal year 1999, the School paid continuing fees totaling \$XX,XXX;
3. Advertising Fee - The School is required to pay an advertising fee to Sunrise, Inc. equal to 3% of Qualified Gross Revenues. The advertising fee is comprised of a 2% component which Sunrise uses for non-local advertising to benefit the School. The remaining 1% component is used for local advertising to benefit the School. To the extent Sunrise does not use the local advertising fee, it refunds any excess to the School. The advertising fee is required to be paid or before the 15th day of each month based upon the previous month's Qualified Gross Revenues. During fiscal year 1999, the School paid \$X,XXX to Sunrise, Inc. for advertising fees.

Legal Compliance Control Procedures and Substantive Tests

<p>1-1 Compliance Requirement: Although a community school is not required by Ohio Revised Code to follow the budgetary statutes within ORC Chapter 5705, a community school may be required to comply with these or other budgetary provisions if so stipulated in the contract between the school and the sponsor. Auditors should read the contract and identify any applicable budgetary requirements, including any grant requirements below: <i>[Insert applicable budgetary requirements.]</i></p>		
<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> -- Policies and Procedures Manuals -- Knowledge and Training of personnel -- Tickler Files -- Legislative and Management Monitoring -- Management’s identification of changes in laws and regulations -- Management’s communication of changes in laws and regulations to employees 		
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p><i>Auditors should consult the Ohio Compliance Supplement as a guide when developing appropriate “Suggested Audit Procedures”.</i></p>		

Legal Compliance Control Procedures and Substantive Tests

Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

Legal Compliance Control Procedures and Substantive Tests

<p>2-1 Compliance Requirement: Although a community school is not required by Ohio Rev. Code to follow the competitive bidding procedures applicable to boards of education in ORC §3313.46 (and related sections in Chapter 153), a community school may be required to comply with these or other competitive bidding procedures if so stipulated in the contract between the school and the sponsor. Auditors must read the contract to identify applicable competitive bidding procedures, and applicable grant requirements, if any.</p> <p style="text-align: center;"><i>[Insert applicable competitive bidding procedures.]</i></p>		
In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> -- Policies and Procedures Manuals -- Knowledge and Training of personnel -- Tickler Files -- Legislative and Management Monitoring -- Management’s identification of changes in laws and regulations -- Management’s communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
<p><i>Auditors should consult the Ohio Compliance Supplement as a guide when developing appropriate “Suggested Audit Procedures”.</i></p>		

Legal Compliance Control Procedures and Substantive Tests

Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

Legal Compliance Control Procedures and Substantive Tests

<p>3-1 Compliance Requirement: ORC §3314.08(J) - issuance of notes.</p> <p>Summary of Requirement: A community school may borrow money to pay any necessary and actual expenses of the school in anticipation of the receipt of any portion of the payments to be received by the school pursuant to division (D) of ORC §3314.08(J). The school may issue notes to evidence such borrowing to mature no later than the end of the fiscal year in which such money is borrowed. The proceeds of the notes shall be used only for the purposes for which the anticipated receipts may be lawfully expended by the school.</p> <p><i>(Any debt arrangements, other than the one year notes referred to above, should be referred to Kim Gray in the Department of Accounting & Auditing Support and our Legal Department for accounting treatment and legal sufficiency.)</i></p>		
<p>In determining how the government ensures compliance, consider the following:</p> <ul style="list-style-type: none"> -- Policies and Procedures Manuals -- Knowledge and Training of personnel -- Tickler Files -- Legislative and Management Monitoring -- Management’s identification of changes in laws and regulations -- Management’s communication of changes in laws and regulations to employees 	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<ol style="list-style-type: none"> 1. By reading the minutes, inspecting revenue ledgers, or by inquiry determine whether or not the School issued any type of debt. 2. Determine that debt issuances were evidenced in the form of a note(s) to mature no later than the end of the fiscal year in which such money is borrowed. 3. Determine that the proceeds of the note(s) were used only for the purposes for which the anticipated receipts may be lawfully expended by the school. 		

Legal Compliance Control Procedures and Substantive Tests

Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

Legal Compliance Control Procedures and Substantive Tests

<p>4-1 Compliance Requirement: Ohio Admin. Code Section 117-2-01- GAAP financial reporting (Ohio Admin Code section changing to 117-2-03(B), effective 7/1)</p> <p>Summary of Requirement: As of the fiscal year that ended June 30, 1996, all school districts are required to report (but not necessarily account) on a GAAP basis. (No waivers will be granted)</p>		
In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> -- Policies and Procedures Manuals -- Knowledge and Training of personnel -- Tickler Files -- Legislative and Management Monitoring -- Management's identification of changes in laws and regulations -- Management's communication of changes in laws and regulations to employees 		
Suggested Audit Procedures - Compliance (Substantive) Tests		
<p>Inquire if the School files its financial reports with the Auditor of State on a GAAP basis. Inspect a copy of the filed report and check the date to verify the report was filed within 150 days from the close of the fiscal year-end.</p>		

Legal Compliance Control Procedures and Substantive Tests

Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

Legal Compliance Control Procedures and Substantive Tests

4-2 Compliance Requirement: Ohio Admin. Code Section 117-2-01 - System of accounting for schools.

Summary of Requirement: Each community school is required to employ the uniform system of accounting (USAS) prescribed in sections 117-2-02 to 117-2-21.

(Note: In Ohio, even Schools that report on a generally accepted accounting principles basis are required to employ USAS, or a system that is easily convertible to the prescribed system, for accounting for its day to day activities.)

The USAS employs a system of dimensions (codes) which serves to identify in detail each financial transaction of the School. [Section 117-2-01(H)].

The reporting requirements for expenditures are fund (3 digits), function (2 digits), object (1 digit) and, when required by a funding agent, special cost center (4 digits). Minimum requirements for receipts are fund (3 digits), receipt code (2 digits), and, when required by a funding agent, special cost center (4 digits).[Section 117-2-01(J)]

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> -- Policies and Procedures Manuals -- Knowledge and Training of personnel -- Tickler Files -- Legislative and Management Monitoring -- Management’s identification of changes in laws and regulations -- Management’s communication of changes in laws and regulations to employees 		

Suggested Audit Procedures - Compliance (Substantive) Tests

Legal Compliance Control Procedures and Substantive Tests

<ol style="list-style-type: none">1. Compare the required system to what the School is using. Conclude whether it is the USAS, or is easily convertible to those elements of USAS.2. Inspect reports generated by the system in use and determine whether the minimum required elements are capable of being reported.	
<p>Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

Legal Compliance Control Procedures and Substantive Tests

<p>4-3 Compliance Requirement: Ohio Rev. Code Section §3314.03(A)(11)(g) - Annual Report of Activities</p> <p>Summary of Requirement: The community school governing authority is required to submit an annual report of its activities and progress in meeting the goals and standards of divisions (A)(3) and (4) (academic goals method to determine progress and performance standards to evaluate a school’s success) of ORC §3314.03 and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight.</p>		
<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> -- Policies and Procedures Manuals -- Knowledge and Training of personnel -- Tickler Files -- Legislative and Management Monitoring -- Management’s identification of changes in laws and regulations -- Management’s communication of changes in laws and regulations to employees 		
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Inquire if the School has filed its annual report of activities and progress and its financial status to the sponsor, the parents of all students enrolled in the school, and the legislative office of education oversight. Inspect a copy of the filed report.</p>		

Legal Compliance Control Procedures and Substantive Tests

Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

Legal Compliance Control Procedures and Substantive Tests

5-1 Compliance Requirement: Although a community school is not required by Ohio Revised Code to follow the depository and investment statutes within ORC Chapter 135, a community school may be required to comply with these or other depository and investment provisions if so stipulated in the contract between the school and the sponsor. Auditors should identify any applicable grant requirements below:

[Insert applicable depository and investment requirements.]

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
<ul style="list-style-type: none"> -- Policies and Procedures Manuals -- Knowledge and Training of personnel -- Tickler Files -- Legislative and Management Monitoring -- Management’s identification of changes in laws and regulations -- Management’s communication of changes in laws and regulations to employees 		

Suggested Audit Procedures - Compliance (Substantive) Tests

Auditors should consult the Ohio Compliance Supplement as a guide when developing appropriate “Suggested Audit Procedures”.

Legal Compliance Control Procedures and Substantive Tests

<p>Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>	

Legal Compliance Control Procedures and Substantive Tests

<p>6-1 Compliance Requirement: Ohio Rev. Code Section 3314.03(11)(b) - Liability insurance.</p> <p>Summary of Requirement: The governing authority of each community school is required to purchase liability insurance, or otherwise provide for the potential liability of the school.</p>		
<p>In determining how the government ensures compliance, consider the following:</p> <ul style="list-style-type: none"> -- Policies and Procedures Manuals -- Knowledge and Training of personnel -- Tickler Files -- Legislative and Management Monitoring -- Management’s identification of changes in laws and regulations -- Management’s communication of changes in laws and regulations to employees 	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Secure a copy of the school’s insurance policy and evaluate the reasonableness of the coverage.</p>		
<p>Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

Legal Compliance Control Procedures and Substantive Tests

<p>6-2 Compliance Requirement: Ohio Rev. Code Section 3314.08(I) - Tuition.</p> <p>Summary of Requirement: No community school is permitted to charge tuition for the enrollment of any student.</p> <p><i>(NOTE: We are of the opinion that any money required to be paid, or parent services required to be rendered as a condition of enrollment, over and above that allowed by a public school, is considered “tuition”. As public schools are prohibited from requiring parents to contribute their time as a condition of enrollment and are prohibited from charging for textbooks (which is different than charging “instructional fees”), we consider both “tuition”. Questions regarding tuition should be referred to Kim Gray in the Department of Accounting & Auditing Support and our Legal Department for accounting treatment and legal sufficiency.)</i></p>		
<p>In determining how the government ensures compliance, consider the following:</p>	<p>What control procedures address the compliance requirement?</p>	<p>W/P Ref.</p>
<ul style="list-style-type: none"> -- Policies and Procedures Manuals -- Knowledge and Training of personnel -- Tickler Files -- Legislative and Management Monitoring -- Management’s identification of changes in laws and regulations -- Management’s communication of changes in laws and regulations to employees 		
<p>Suggested Audit Procedures - Compliance (Substantive) Tests</p>		
<p>Obtain a copy of the school’s enrollment application and revenue ledger for evidence of tuition charges.</p>		

Legal Compliance Control Procedures and Substantive Tests

Audit Implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

7-1 Compliance Requirement: Ohio Rev. Code Section 121.22 - Meeting of public bodies to be open, exceptions, and notice.

Summary of Requirement: All meetings of any public body are declared to be public meetings open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly recorded and open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions.

Every public body shall, by rule, establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings. A public body shall not hold a special meeting unless it gives at least twenty-four hours advance notice to the news media that have requested notification, except in the event of any emergency requiring immediate official action. In the event of an emergency, the member or members calling the meeting shall notify the news media.

The members of a public body may hold an executive session only after a majority of a quorum of the public body determines, by a roll call vote, to hold such a session and only at a regular or special meeting for the sole purpose of the consideration of any of the following matters:

- (a) The appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or officials, or the investigation of charges or complaints against a public employee, official, licensee, or regulated individual, unless the public employee, official licensee, or regulated individual requests a public hearing;
- (b) The purchase of property for public purposes, or for the sale of property at competitive bidding, if premature disclosure of information would give an unfair competitive or bargaining advantage to a person whose personal private interest is adverse to the general public interest.
- (c) Conducting conferences with an attorney for the public body, concerning disputes involving the public body that are the subject of pending or imminent court action.
- (d) Preparing for, conducting, or reviewing negotiations or bargaining sessions with public employees concerning their compensation or other terms and conditions of their employment.
- (e) Matters required to be kept confidential by federal laws or rules or state statutes.
- (f) Specialized details of security arrangements where disclosure of the matters discussed might reveal information that could be used for the purpose of committing or avoiding prosecution for a violation of the law.

A resolution, rule, or formal action of any kind is invalid unless adopted in an open meeting of the public body. A resolution, rule, or formal action adopted in an open meeting that results from deliberations in a meeting not open to the public is invalid unless the deliberations were for a purpose specifically authorized above.

Sample Questions and Procedures		
<ol style="list-style-type: none"> 1. What procedures does your School have to notify the general public and news media of when and where meetings are to be held. 2. Verify that the minutes of all public meetings are promptly recorded and available for public inspection. 3. Review the minutes and determine if executive sessions are only held at regular or special meetings. 4. Verify that executive sessions are only held for the purposes outlined above. 5. Confirm that all formal actions of the governing board are adopted only in open meetings. 		
Government Personnel Interviewed and Dates:	Documents Examined or Observations Made to Corroborate Inquiry:	W/P Ref.
Conclusion: (effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):		

7-2 Compliance Requirement: Ohio Rev. Code Section 149.43 - Availability of public records

Summary of Requirement: “Record” for purposes of the public records law, means any document, device, or item, regardless of physical form or characteristic, created, received by, or coming under the jurisdiction of any public office which serves to document the organization, functions, policies, decisions, procedures, operations, or other activities of the public office. “Public record” means any record that is kept by any governmental unit, including, ut not limited to, state, county, city, village, township, and school district units, except medical records, records pertaining to adoption, probation, and parole proceedings, trial preparation records, confidential law enforcement investigatory records, records pertaining to actions under Section 2151.85 Ohio Revised Code, records listed in Section 3107.42(A), Ohio Revised Code, and records the release of which is prohibited by state or federal law.

All public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at cost, within a reasonable period of time. In order to facilitate broader access to public records, governmental units shall maintain public records in such a manner that they can be made available for inspection.

Sample Questions and Procedures: Ascertain if responsible personnel are aware of the above requirements and have implemented local policies and procedures regarding:

- (a) What records are to be made available.
- (b) Times when records may be reviewed.
- (c) Costs for copies to be made.

Government Personnel Interviewed and Dates:	Documents Examined or Observations Made to Corroborate Inquiry:	W/P Ref.

Conclusion: (effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

7-3 Compliance Requirement: Ohio Rev. Code Section 102.03(C)(D)(E)(H)(I) - Restrictions on present and former public officials or employees

Summary of Requirement:

- (a) Public officials and employees are prohibited from using or authorizing the use of the authority or influence of office or employment to secure anything of value or to promise or to offer anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person’s duties.
- (b) Public officials and employees are prohibited from soliciting or accepting anything of value that is of such character as to manifest a substantial and improper influence upon that public official or employee with respect to that person’s duties.
- (c) The revolving door statute. Present and former public officials or employees are prohibited during their public employment or for twelve months thereafter from acting in a representative capacity for any person on any matter in which the public official or employee personally participated as a public official or employee.

Sample Questions and Procedures

1. How does your [Entity] identify possible interests on the part of officials and employees in matters coming before them for official action?

Government Personnel Interviewed and Dates:	Documents Examined or Observations Made to Corroborate Inquiry:	W/P Ref.

Conclusion: (effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):

<p>7-4 Compliance Requirement: Ohio Rev. Code Section 3314.03(A)(10) - Teacher licensing</p> <p>Summary of Requirement: All community school classroom teachers are to be licensed in accordance with Ohio Revised Code Sections 3319.22 to 3319.31, except that a community school may engage noncertificated persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Dept. of Education to these “noncertificated” persons in order to teach.</p>		
<p>Sample Questions and Procedures</p> <ol style="list-style-type: none"> 1. What procedures do you have to ensure yourselves that each classroom teacher is certificated or if not certificated, a permit has been obtained. 2. Please show me the licenses and permits. 		
<p>Government Personnel Interviewed and Dates:</p>	<p>Documents Examined or Observations Made to Corroborate Inquiry:</p>	<p>W/P Ref.</p>
<p>Conclusion: (effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):</p>		

7-5 Compliance Requirement:

1. Ohio Rev. Code Sections 3307.01, 3307.012, 3307.381, 3307.51, 3307.53, and 3307.56 - **State Teachers Retirement System (STRS)**, definitions, employment of retired members, contribution rates.
2. Ohio Rev. Code Sections 3309.23, 3309.341, 3309.47 and 3309.49 - Membership in **School Employees Retirement System (SERS)**, employment of retired members, contribution rates, payment of expense fund.

Summary of Requirement: These sections require public school districts to enroll most of their employees in the appropriate retirement system, withhold from the employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate system the amounts withheld, matched with an appropriate percentage of employer matching contributions.

Sample Questions and Procedures

1. What procedures does your School have for ensuring that all required employees are members of STRS and SERS?
2. For a few of the employees hired this year, please show me proof that they are enrolled in STRS/SERS.
3. Do you have any employees who are exempt from membership in any retirement system? If so, please indicate why they are exempt.
4. Please show me copies of the periodic filings with STRS/SERS where the School paid withheld and employer-paid match amounts. Please show me how these reconcile to your payroll records. Do you have any outstanding amounts you have not yet paid?
5. Please show me documentation supporting the note to your financial statements that discusses the retirement systems.

Government Personnel Interviewed and Dates:	Documents Examined or Observations Made to Corroborate Inquiry:	W/P Ref.
Conclusion: (effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):		

7-6 Compliance Requirement:

Ohio Rev. Code Section 3314.011 - Every community school established under this chapter shall have a designated fiscal officer. The Auditor of State may require by rule that the fiscal officer of any community school, before entering upon duties as the fiscal officer of the school, execute a bond in an amount and with surety to be approved by the governing authority of the school, payable to the state, conditioned for the faithful performance of all the officials duties required of the fiscal officer. Any such bond shall be deposited with the governing authority of the school, and a copy thereof, certified by the governing authority, shall be filed with the county auditor

Summary of Requirement:

This section requires community schools to designate a fiscal officer. As of the date of this bulletin, the rule has not been established requiring the fiscal officer to be bonded; however, it is good internal control practices for those who are fiscally responsible to be bonded for appropriate amounts. **(This section of law is effective 9/28/99)**

Sample Questions and Procedures

1. Inquire, review minutes or other documentation to determine if the fiscal officer has been designated.
5. Inquire and determine whether the designated fiscal officer is bonded. If fiscal officer is not bonded, issue a management comment.

Government Personnel Interviewed and Dates:	Documents Examined or Observations Made to Corroborate Inquiry:	W/P Ref.
Conclusion: (effects on the audit opinions and/or footnote disclosures, reportable conditions/material weaknesses, and management letter comments):		