CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of City Day Community School, Inc., Montgomery County, (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements base on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonably assure whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principals 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 respective financial position of the School, as of June 30, 2004, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2J, the School has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended and interpreted, as of June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance , that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards.* You should read it in conjunction with this report in assessing the results of our audit.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management, regarding the methods of measuring and presenting the required supplemental information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State of Ohio

July 22, 2005

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

The discussion and analysis of City Day Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets decreased $70,620 in fiscal year 2004, which represents a 52 percent decrease from the prior year as a result of decreases in non-operating revenue.

- Total assets decreased $109,198 which represents a 34.8 percent decrease from the prior year. The decrease is primarily due to decreases in intergovernmental receivables recorded at the end of the fiscal year.

- The operating loss reported for fiscal year 2004 ($231,067) was $156,740 less than the operating loss reported for fiscal year 2003 ($387,807) or a 40.4 percent decrease.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2004 compared with fiscal year 2003.

Table 1
Net Assets

	2004	2003
Assets:		
Current and other assets	$138,250	$224,690
Capital assets, net	66,408	89,166
Total Assets	204,658	313,856
Liabilities:		
Current liabilities	139,593	178,171
Total Liabilities	139,593	178,171
Net Assets:		
Investment in Capital Assets	66,408	89,166
Unrestricted	(1,343)	46,519
Total Net Assets	$65,065	$135,685

Total net assets of the School decreased by ($70,620) or (52%) percent. Management continues efforts to maintain operating costs at a reasonable level to ensure the financial stability of the School.

As noted in Table 1 above, reported unrestricted net assets at June 30, 2004 decreased by $47,862 from those reported at June 30, 2003.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as revenue and expense comparisons to fiscal year 2003.

Table 2
Changes in Net Assets

	2004	2003
Operating Revenues:		
Foundation payments	$702,143	$581,218
Disadvantage Pupil	157,199	168,760
Miscellaneous revenues	19,982	6,866
Non Operating Revenues:		
State and federal grants	138,517	400,201
Interest Earnings	1,948	235
Total Revenues	1,019,789	1,157,280
Operating Expenses:		
Salaries	500,615	509,354
Fringe benefits	140,595	142,196
Building rental	106,668	-
Other purchased services	224,842	416,380
Materials and supplies	28,658	11,593
Depreciation	22,758	43,223
Other expenses	66,273	21,905
Total Expenses	1,090,409	1,144,651
Increase (Decrease) in net assets	(70,620)	12,629
Net assets, beginning of year	135,685	123,056
Net assets, end of year	$65,065	$135,685

Operating revenue increased $109,364 during fiscal year 2004. The increase was from state foundation. Funding provided through Federal and State grants decreased $261,684 compared to the prior year amount received.

Total expenses of the School reported for fiscal year 2004 were $54,242 less than those reported for the previous fiscal year. Purchased services, including building rental expenses decrease by $191,538 or 46% percent from fiscal year 2003 amounts. This was primarily due to management attempt to control costs by reducing building rental expense and controlling other professional services fees.

Capital Assets

At June 30, 2004 capital assets of the School were $198,934 off-set by $132,526 in accumulated depreciation resulted in net capital assets of $66,408. Table 3 shows the categories of capital assets maintained by the School, net of accumulated depreciation, at June 30, 2004 and 2003.

Table 3
Capital Assets, Net of Depreciation

	2004	2003
Furniture & Equipment	$155,620	$155,620
Food Service Equipment	8,225	8,225
Vehicles	35,089	35,089
Less: Accum Depreciation	(132,526)	(109,768)
Totals	$66,408	$89,166

The $22,758 decrease in total net capital assets is due to current year depreciation expense.

See Note 2(f) & 5 of the notes to the basic financial statements for more detailed information on the School's capital assets.

Contacting the School

This financial report is designed to provide a general overview of the finances of the City Day Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: City Day Community School, 318 South Main Street, Dayton, OH 45402.

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUTNY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

Assets	
Current assets	
Cash	$126,247
Receivables	
Intergovernmental	12,003
Total current assets	138,250
Noncurrent assets	
Capital assets (net of accumulated depreciation)	66,408
Total assets	204,658
Liabilities	
Current liabilities	
Accounts payable	13,649
Accrued wages payable & payroll tax liabilities	21,814
Intergovernmental payable	104,130
Total liabilities	139,593
Net Assets	
Investment in Capital Assets	66,408
Unrestricted	(1,343)
Total net assets	$65,065

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

CITY DAY COMMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES,EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

Operating revenues:	
State Foundation payments	$702,143
Disadvantaged Pupil Impact Aid	157,199
Total operating revenues	859,342
Operating expenses:	
Salaries	500,615
Fringe benefits	140,595
Building rental	106,668
Other purchased services	224,842
Materials and supplies	28,658
Depreciation	22,758
Other	66,273
Total operating expenses	1,090,409
Operating income (loss)	(231,067)
Nonoperating revenues/(expenses):	
Federal & State Grants	138,517
Other Sources	19,982
Interest Income	1,948
Total nonoperating revenues (expenses)	160,447
Change in net assets	(70,620)
Total net assets-beginning	135,685
Total net assets-ending	$65,065

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

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

INCREASE (DECREASE) IN CASH	
Cash Flows from Operating Activities	
Cash from State of Ohio	$855,039
Cash Payments to Suppliers for Goods and Services	(470,509)
Cash Payments to Employees for Services and Benefits	(665,215)
Net cash Used for Operating Activities	(280,685)
Cash Flows From Noncapital Financing Activites	
Cash Received From Federal and State Grants	404,984
Net Cash Provided By Noncapital Financing Activities	404,984
Cash Flows From Investing Activites	
Cash Received From Interest Earnings	1,948
NET INCREASE IN CASH	126,247
Cash at Beginning of Year	
Cash at End of Year	126,247
Reconcilation of Operating Income (Loss) to Net Cash Provided (Used) For Operating Activities	
Operating Income (Loss)	(231,067)
Adjustments to Reconcile Operating Income to net cash provided (used) by operating activities	
Depreciation	22,758
Change in Assets and Liabilities	
(Decrease) in Intergovernmental Payable - Foundation & DPIA	(4,303)
(Decrease) in Accounts Payable	(51,292)
(Decrease) in Accrued Wages	(16,781)
Net Cash Used For Operating Activities	($280,685)

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

This page intentionally left blank.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE TEAR ENDED JUNE 30, 2004

1. DESCRIPTION OF THE 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 fiscal year 2004. 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. Management is not aware of any course of action or series of events that have occurred that might adversely affect the school's tax-exempt status. The creation of the School was initially proposed to the Ohio Department of Education, the sponsor, by the developers of the School during 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 five-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 controls the School's one instructional facility staffed by three non-certified personnel and seventeen certificated teaching personnel who provide services to approximately one hundred and fifty (150) students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (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

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/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 statement of net assets. Net assets are segregated into investments in capital assets and unrestricted components.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the School and its sponsor, Ohio Department of Education, included that the school agrees to comply with the financial plan that details an estimated budget for each year of the contract.

D. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting control purposes, the School segregates its cash. Individual fund integrity is maintained through School records and the USAS accounting system. Total cash for all funds is presented as "cash and cash equivalents" on the accompanying statement of net assets.

E. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital 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 did not capitalize any interest during the fiscal year. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Depreciation of furniture and equipment and vehicles is computed using the straight-line method over the estimated useful life of three to seven years. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the State Disadvantaged Pupil Impact Aid (DPIA) Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Amounts awarded under the above named programs for the 2004 school year totaled $961,874

H. Compensated Absences

The School does not record a liability for compensated absences because although no formal policy is in place, historically, the school has not paid out accumulated leave balances upon termination of employment.

I. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2004 are reported as accrued liabilities in the accompanying financial statements

J. Change in Accounting Principles

For fiscal year 2004, the School has implemented GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”, Statement No. 38, “Certain Financial Statement Note Disclosures”,

GASB Statement No. 34 creates new basic financial statements for reporting on the School’s financial activities and requires the inclusion of the Management’s Discussion and Analysis section, which provides a narrative introduction and overview of the financial statements to enhance the user’s ability to interpret the information within the statements.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, “The Financial Reporting Entity”. The implementation of this new statement had no effect on the School District’s financial statements for fiscal year 2004.

3. DEPOSITS AND INVESTMENTS

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

The School maintains its cash balances at one financial institution located in Dayton, Ohio. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At June 30, 2004 the School had a book cash balance of $126,247. The bank balance of the School’s deposits was $144,723 which resulted in $44,723 of the cash balances being uninsured.

4. RECEIVABLES

Receivables at June 30, 2004 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.

	Amount
National School Lunch	$12,003

5. CAPITAL ASSETS

A summary of the School's fixed assets at June 30, 2004, follows:

Furniture and Equipment	$155,620
Food Service Equipment	8,225
Vehicles	35,089
Less: Accumulated Depreciation	(132,526)
Net Capital Assets	$66,408

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains insurance coverage for rental/theft; general liability and directors and officers’ liability in amounts which the Board feels is adequate.

B. Workers’ Compensation

The School pays the State Workers’ Compensation System a premium for employee injury coverage during fiscal year 2004. The premium is calculated by multiplying the 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 health insurance benefits. The School pays 70% of the monthly premium and the employee is responsible for the remaining 30%. Insurance premiums vary by employee depending upon such factors as age, gender, and number of covered dependents.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite l00, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School 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 fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were $25,259, $20,225 and $8,394, respectively.

B. State Teachers Retirement System

The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

7. DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003 and 2002 were $52,594, $51,426 and $46,302, respectively.

8. STATE SCHOOL FUNDING DECISION

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

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

9. 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 require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the 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, 2004.

B. Pending Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the court of appeals, the issues have been briefed, and the case was heard on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the state public education system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. No oral argument has been set to date. The effect of this suit, if any, on the School is not presently determinable.

9. CONTINGENCIES (Continued)

C. State and Federal Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review resulted in the overpayment to the School in the amount of $31,682 for fiscal year 2004. The final expenditure reports for the Federal Charter School grant and Title I grant showed refunds due for unspent funds of $43,372 and $29,076, respectively. These amounts are reported as intergovernmental payables at June 30, 2004 for a total of $104,130.

10. PURCHASED SERVICES

For the fiscal period July 1, 2003 through June 30, 2004, purchased service expenses were payments for services rendered by various vendors as follows:

Consultants' Services	$ 94,876
Property Services	20,408
Communication	8,696
Utilities	43,256
Food Services	57,606
Sub-Total Other Purchase Services	224,842
Building Rental Expense	106,668
Total Purchase Services	$331,510

The School has been renting the facilities on a month-to-month basis for $6,667 per month since their lease expired in August 2003. The lease was with BJ Building Co., Inc, and is being renegotiated.

11. POST EMPLOYMENT BENEFITS:

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the health care allocation is 4.91%. In addition, SERS levies a surcharge to fund heath care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established as $25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for health care fund.

11. POST EMPLOYMENT BENEFITS (continued):

Health care benefits are financed on a pay-as-you go basis. The target level for health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were $223,443,805 and the target level was $335.2 million. At June 30, 2004, the Retirement's System's net assets available for payment of health care benefits was 300.8 million. The number of benefit recipients currently receiving health care benefits is approximately 62,000.

For the School, the amount to fund heath care benefits, including the surcharge, was $13,644 for fiscal year 2004.

The State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Ohio Revised Code (ORC), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form a monthly premium.

The ORC grants authority to STRS Ohio to provide health care coverage to eligible recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently, 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal years ended June 30, 2004, and June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The Balance in the Health Care Stabilization Fund was $3.1 billion on June 30, 2004.

For fiscal year ended June 30, 2004, the health care cost paid by STRS Ohio were $268,739.000. There were 111,853 eligible benefit recipients.

For the School, the amount to fund heath care benefits was $4,046 for fiscal year 2004.

12. SUBSEQUENT EVENTS:

On April 26, 2005, the School signed a contract with The Education Resource Consultants of Ohio, Inc. to sponsor the School through June 30, 2007.

13. NONCOMPLIANCE

The School did not comply with requirements regarding design and implementation of an internal control system.

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Governing Board:

We have audited the basic financial statements of the City Day Community School, Montgomery County, (the School), as of and for the year ended June 30, 2004, and have issued our report thereon dated July 22, 2005, wherein we noted the School implemented a new financial reporting model, as required by the provisions of Governmental Auditing Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments.* We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We also consider reportable condition 2004-002 listed above to be a material weakness. In a separate letter to the School's management dated July 22, 2005, we reported other matters involving the internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonable assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate report to the School's management dated July 22, 2005, we reported other matters related to noncompliance we deemed immaterial

We intend this report solely for the information and use of the audit committee, management, and the Governing Board. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

July 22, 2005

SCHEDULE OF FINDINGS
JUNE 30, 2004

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

FINDING NUMBER 2004-001

AOS Bulletin 2000-005 and Ohio Revised Code Section 3314.03 (B)(5) require that the management of each community school be 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 assets, the efficiency and effectiveness of its operations, 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 of transactions.
- Adequately designed records to facilitate classification and summarization of transactions
- Security of assets and records
- Periodic reconciliations of account balances
- Periodic verification of assets

The following deficiencies were noted:

1. The School's Financial Report for 2004 contained errors which resulted in numerous reclassifications and adjustments to correctly report the financial activity during and at the end of the period as follows.

   Statement of Net Assets:
   - Capital assets were understated $20,465
   - Accrued Wages were overstated $31,070
   - I/G Payable was understated $24,774

   Statement of Revenues, Expenses and Changes in Net Assets:
   - State Foundation payments were understated $78,959
   - Depreciation was overstated $20,465
   - Federal & State Grants were overstated $72,449

   Statement of Cash Flows:
   - Cash Received from State of Ohio was understated $75,003
   - Cash Payments to Employees were understated $ 117,969
   - Cash Payments to Suppliers were understated $83,665
   - Other Operating Revenue was overstated $62,666
   - Cash Received from Federal and State Grants was understated 150,647

   In addition, several errors were noted in the notes to the financial statements. Adjustments to correct the significant errors above are reflected in the financial statements and notes.

2. The School depreciation schedule had not been updated for fiscal year 2004, and included items that had been should have removed in fiscal year 2002 because individual items were less than the School's $ 500 threshold, did not include a $ 531.30 credenza purchased July 11, 2001, and the columns on the schedule did not foot. This depreciation schedule did not agree with the financial statements.

FINDING NUMBER 2004-001
(Continued)

These errors resulted from a failure to maintain the records in an organized and secure manner. Additionally, regular reviews were not performed. Failure to maintain public records to support the financial statements impedes management's ability to make informed decisions and the audit process, resulting in additional audit cost to the School. Procedures should be developed and implemented to provide for the integrity the financial records and related assets.

FINDING NUMBER 2004-002

An effective monitoring control system had not been implemented which would assist management in monitoring the daily operations of the School. For example, only one budgetary statement comparing the budget with year to date activity was presented to the Board for review.

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

Monitoring controls should assist management in detecting material misstatements in the financial or other information presented. Such controls may include, but are not limited to the following:

- Regular review of budget and actual figures
- Review of key performance indicators
- Review of revenues/expenditures with independently accumulated information (budgets, past performance, etc.)
- Review of unusual or significant items or long outstanding items
- Identification of unusual fluctuations
- Monitoring that grant monies are used in accordance with grant requirements
- Ensuring an adequate segregation of duties exist.

The Board should take an active role in monitoring the financial records of the School to provide for increased accuracy and usefulness of the information reported.

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	AOS Bulletin 2000-005, Ohio Revised Code Section 3314.03 failure to implement internal controls	No	Repeated as Finding 2004-001
2003-002	Lack of effective monitoring control system	No	Repeated as Finding 2004-002

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY DAY COMMUNITY SCHOOL

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
SEPTEMBER 27, 2005