



**Auditor of State
Betty Montgomery**

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

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governance:

We have audited the accompanying Balance Sheet of City Day Community School, Inc., Montgomery County, (the School), as of and for the year ended June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Retained Earnings and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City Day Community School, Inc., Montgomery County, as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As shown in the financial statements, for the year ended June 30, 2002, the School has incurred a bank overdraft payable of \$6,827, an operating loss in the amount of \$510,817, and a net loss of \$314,442. Accordingly, there is substantial doubt about the School's ability to continue as a going concern. Management's plans in regards to this matter are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2003 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 21, 2003

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

**BALANCE SHEET
AS OF JUNE 30, 2002**

ASSETS

Current Assets

Intergovernmental Receivable	\$120,955
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Non-Current Assets

Furniture and Equipment, Net of Accumulated Depreciation	<u>104,190</u>
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Total Assets

225,145

LIABILITIES AND EQUITY

Liabilities

Overdraft Payable	6,827
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Accounts Payable	6,634
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Intergovernmental Payable	11,164
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Accrued Wages and Benefits Payable	<u>70,574</u>
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Total Liabilities

95,199

Fund Equity

Contributed Capital	4,500
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Retained Earnings	<u>125,446</u>
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Total Fund Equity

129,946

Total Liabilities and Fund Equity

\$225,145

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

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenues

State Foundation	\$780,569
Disadvantage Pupil Impact Aid	214,608
Food Service	388
Miscellaneous	9,435
Total Operating Revenues	<u>1,005,000</u>

Operating Expenses

Salaries	676,324
Fringe Benefits	190,484
Purchased Services	545,062
Materials and Supplies	38,772
Depreciation	35,522
Other Operating Expenses	29,653
Total Operating Expenses	<u>1,515,817</u>

Operating Loss

(510,817)

Non-Operating Revenues

Federal Grants	188,769
State Grants	5,000
Interest Income	2,606
Total Non-Operating Revenues	<u>196,375</u>

Net Loss

(314,442)

Retained Earnings at Beginning of Year, Restated

439,888

Retained Earnings at End of Year

\$125,446

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

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from State of Ohio	\$1,079,084
Cash Received from Miscellaneous Sources	9,435
Cash Received from Food Service	388
Cash Payments to Employees for Services	(820,680)
Cash Payments to Suppliers for Goods and Services	(642,729)

Net Cash Used For Operating Activities (374,502)

Cash Flows from Noncapital Financing Activities

Cash Received from Federal Grants	165,189
Cash Received from State Grants	5,000

Net Cash Provided By Noncapital Financing Activities 170,189

Cash Flows from Capital and Related Financing Activities

Cash Payments for Acquisition of Capital Assets	(5,649)
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Cash Flows from Investing Activities

Cash Received from Interest Income	2,606
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Net Decrease in Cash (207,356)

Cash at Beginning of Year 200,529

Deficit Cash at End of Year (6,827)

**Reconciliation of Operating Loss to Net Cash
Used For Operating Activities**

Operating Loss (510,817)

**Adjustments to Reconcile Operating Loss to Net
Cash Used For Operating Activities**

Depreciation	35,522
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Change in Assets and Liabilities

Decrease in Intergovernmental Receivable	72,743
(Decrease) in Accounts Payable	(29,242)
(Decrease) in Intergovernmental Payable	(2,728)
Increase in Accrued Wages and Benefits Payable	60,020

Net Cash Used For Operating Activities (\$374,502)

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

City Day Community School, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Specifically, the School's purpose is to be a model charter school serving children from kindergarten through grade four. 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 in May 1998. The Ohio Department of Education approved the proposal and entered into a contract with the developers, which provided for the commencement of School operations on August 27, 1998.

The School operates under a three-member Board of Governors, which is comprised of the developers. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Governors controls the School's one instructional facility staffed by five full time and two part time noncertified personnel, and thirteen certificated full time teaching personnel who provide services to approximately one hundred and seventy five students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity (i.e. net total assets) is segregated into contributed capital and retained earnings components.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

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 City Day Community School, Inc. and its sponsor, Ohio Department of Education, does not prescribe a budgetary process for the School.

D. Cash

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.

E. Estimates

The preparation of the financial statements in conformity with 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. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The School maintains a capitalization threshold of five hundred dollars. The School did not capitalize any interest during the fiscal year. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Depreciation of furniture and equipment and vehicles is computed using the straight-line method over the estimated useful life of three to seven years. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

G. Intergovernmental Revenue

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Under this program, the School was awarded \$150,000 to offset startup costs of the School, however, such was applied for and approved after year end (see note 15a). Revenue received from this program is not recognized as non-operating revenue in the accompanying financial statements. Amounts awarded under the above named programs for the 2002 school year totaled \$1,188,946.

H. Accrued Liabilities

Obligations incurred but unbilled prior to June 30, 2002 are reported as accrued liabilities in the accompanying financial statements.

I. Exchange and Non Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

J. Contributed Capital

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

3. ACCOUNTING CHANGE

A. Fixed Assets

The School's fiscal year 2001 fixed asset figure included fixed assets whose original individual cost was less than the five hundred dollar threshold. Accordingly, the beginning fixed asset balance was restated for fiscal year 2002.

Fixed Assets, Net, June 30, 2001	\$144,971
Less: Assets Below Threshold, Net	<u>(10,908)</u>
Fixed Assets, June 30, 2001, Restated	<u>\$134,063</u>

B. Compensated Absences

The School does not have a formal written leave policy. School employees did, however, earned leave throughout the audit period and the School does have informal procedures for accumulation limits. Historically, the School has not paid any employees upon termination; however, no such policy is in place. As the School had not adopted a policy to pay employees leave balances out upon termination, no compensated absences shall be accrued. Accordingly, the compensated absences liability was restated for fiscal year 2001 from \$21,599 to \$0.

C. Net Prior Period Adjustment

Effect on Retained Earnings:

Retained Earnings, June 30, 2001	\$429,197
Adjustment for Fixed Assets	(10,908)
Adjustment for Compensated Absences	<u>21,599</u>
Restated Retained Earnings, June 30, 2001	<u>\$439,888</u>

Effect on Net Loss:

Net Loss June 30, 2001	(\$42,041)
Adjustment for Fixed Assets	(10,908)
Adjustment for Compensated Absences	<u>21,599</u>
Restated Net Loss June 30, 2001	<u>(\$31,350)</u>

4. DEPOSITS

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."

At June 30, 2002, the School had a cash balance of (\$6,827), which is presented as overdraft payable in the accompanying financial statements. The bank balance of the School's deposits was \$13,525. Of the bank balance \$13,525 was covered by federal depository insurance. Non-compliance with federal requirements could potentially subject the School to a successful claim by the Federal Deposit Insurance Corporation.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

5. RECEIVABLES

Receivables at June 30, 2002 primarily consisted of intergovernmental (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.

<u>Intergovernmental Receivable</u>	
Title I	\$84,522
Title VI	291
Title IV	2,019
Title VI-R	11,733
National School Lunch	<u>22,390</u>
Total Intergovernmental Receivable	<u>\$120,955</u>

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2002 follows:

Furniture and Equipment	\$ 164,708
Food Service Equipment	8,225
Leasehold Improvements	9,411
Less: Accumulated Depreciation	<u>(78,154)</u>
Net Fixed Assets	<u>\$ 104,190</u>

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

B. Workers' Compensation

The School pays the State Workers' Compensation System a premium for employee injury coverage in fiscal year 2002. The premium is calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State.

C. Employee, Medical, Dental, and Vision Benefits

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

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 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 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, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was 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, 2002, 2001, and 2000 were \$8,394, \$28,333, and \$13,231, respectively; 100 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000.

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. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2001, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$46,302, \$81,027, and \$59,878, respectively; 100 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. POST-EMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School, this amount equaled \$21,933 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$13,129.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. 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.

11. CONTINGENCIES

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2002.

B. Pending Litigation

The School is party to 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.

A suit was filed in Franklin County Common Please Court on May 14, 2001, alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. The effect of this suit, if any, on City Day Community School is not presently determinable.

The school is also a party to a lawsuit brought by a Board member. The effect of this suit, if any, on City Day Community School is not presently determinable.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

11. CONTINGENCIES (Continued)

C. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The review resulted in the overpayment to the School in the amount of \$11,164. This amount is reflected as an intergovernmental payable at June 30, 2002.

12. LEASES

On August 23, 1999, the School entered a noncancellable building lease for a term of four years. In addition to the stated rent, the School must also pay any taxes, insurance, and utilities related to the building. Total lease payments made during the year were \$212,282. The lease contains an option to renew for an additional five years at \$1,215,276, payable in monthly installments, with a written request submitted within 90 days before the expiration of the initial term under this lease. The future minimum lease payments as of June 30, 2002, are as follows:

Year Ending June 30,	Minimum Lease Payments
2003	\$210,000
2004	<u>35,000</u>
	<u>\$245,000</u>

Auditor of State Bulletin 2000-005 states lease agreements which extend beyond the current fiscal year should contain a fiscal funding or cancellation clause. The School's building lease does not contain such a clause.

13. PURCHASED SERVICES

For the fiscal period July 1, 2001 through June 30, 2002, purchased service expenses were payments for services rendered by various vendors as follows:

Consultants	\$117,127
Misc. Property Services	77,016
Building Rent	212,282
Travel & Communications	9,581
Utilities	35,512
Food Services	90,544
Pupil Transportation	<u>3,000</u>
 Total	 <u>\$545,062</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002
(Continued)**

14. MANAGEMENT'S PLAN REGARDING NET LOSS

The School's significant recurring operating loss and negative cash flows from operating activities over the past two years raise doubt about its ability to continue as a going concern. Management plans to decrease the net loss by increasing student enrollment, by providing transportation of students who were lost when Dayton Public Schools stopped transportation. Also, the School is negotiating with the landlord to secure lower monthly rental expense or move at the end of this current lease period. The School is also looking to reduce operating costs through employee terminations, increasing employee contributions to health care, and re-bidding health insurance.

15. SUBSEQUENT EVENTS

A. Grant Received Subsequent to Year End

On September 4, 2002 the School applied for a \$150,000 Federal Charter School Sub Grant, to be effective from October 1, 2001 to September 30, 2002. On September 10, 2002 the Ohio Department of Education approved such funds. The School received the \$150,000 of grant monies on October 4, 2002. Although these funds were retroactive to the fiscal year ending June 30, 2002, the School did not meet the eligibility requirements for the grant as of that date, and therefore are not included as a receivable on the balance sheet.

B. School Placed on Probation by State

The School's contract with the Ohio State Board of Education began in 1998 and will terminate on June 30, 2003. On January 14, 2003, the State Board of Education approved the renewal of the School's contract for a term of one year from July 1, 2003 through June 30, 2004, and placed them in continuous improvement status (probation).

C. Opening Line of Credit

On July 13, 2002 the Board approved applying for a \$50,000 line of credit from Bank One, to be paid off by June 30, 2003. Such note was entered with Bank One on July 15, 2002.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Governance:

We have audited the financial statements of City Day Community School, Inc., (the School), as of and for the year ended June 30, 2002, and have issued our report thereon dated March 21, 2003, wherein we noted that there is substantial doubt about the School's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10357-001. We also noted a certain immaterial instance of noncompliance that we have reported to management of the School in a separate letter dated March 21, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain 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 the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10357-002.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School in a separate letter dated March 21, 2003.

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



Betty Montgomery
Auditor of State

March 21, 2003

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

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

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

FINDING NUMBER 2002-10357-001

Auditor of State Bulletin 2000-005 states 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.

The School's building lease does not contain such a clause. To comply with the above mentioned Auditor of State Bulletin, the School should amend the lease to contain a fiscal funding or cancellation clause.

FINDING NUMBER 2002-10357-002

The School failed to implement an effective monitoring control system. Such was evident due to the declining retained earnings, cash balance, operating loss, and net loss of the School. Although financial reports were presented to the Board on a monthly basis, actions were not taken by the Board as a whole to alleviate the declining financial position of the School.

Effective monitoring controls should include, identifying unexpected results or exceptions (including significant compliance exceptions), investigating underlying causes, and taking corrective action. As part of such controls, the Board should approve a budget annually and monitor budget verses actual financial activity monthly. Additionally the School should implement policies to create an effective monitoring control system. Such policies should be implemented and approved by the Board, and distributed to all employees affected.



**Auditor of State
Betty Montgomery**

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CITY DAY COMMUNITY SCHOOL, INC.

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 10, 2003**