CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

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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 financial statements of City Day Community School, Montgomery County, (the School), as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of City Day Community School, Montgomery County, as of June 30, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2006, 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 *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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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 supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

February 22, 2006

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005
(UNAUDITED)

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, 2005. 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 2005 are as follows:

- Total net assets increased $155,767 in fiscal year 2005, which represents a 204.1% increase from the prior year because of increases in both operating & non-operating revenues.
- Total assets increased $115,895, which represents a 53.7% increase from the prior year. The increase is primarily due to increases in cash holdings and intergovernmental receivables at the end of the fiscal year.
- The operating loss reported for fiscal year 2005 of ($142,469) was $77,333 less than the operating loss reported for fiscal year 2004 of ($219,802), or a 35.2% 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 presentation information are 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 2005 compared

Table 1

Net Assets

	2005	2004
Assets:		
Current and other assets	$272,402	$149,515
Capital assets, net	59,416	66,408
Total Assets	331,818	215,923
Liabilities:		
Current Liabilities	99,721	139,593
Total Liabilities	99,721	139,593
Net Assets:		
Invested in Capital Assets	59,416	66,408
Unrestricted	172,681	9,922
Total Net Assets	$232,097	$ 76,330

Total net assets of the School increased by $155,767 or 204.1%. 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, 2005 increased by $162,759 from those reported at June 30, 2004.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005, as well as revenue and expense comparisons to fiscal year 2004.

Table 2
Changes in Net Assets

	2005	2004
Operating Revenues:		
Foundation payments	$872,446	$702,143
Disadvantaged Pupil	188,824	157,199
Non Operating Revenues:		
State and federal grants	288,532	138,517
Miscellaneous revenues	9,354	19,982
Interest Earnings	350	1,948
Total Revenues	1,359,506	1,019,789
Operating Expenses:		
Salaries	542,924	500,615
Fringe benefits	178,796	140,595
Building rental	80,000	106,668
Other purchased services	325,555	224,842
Materials and supplies	24,531	28,658
Depreciation	21,768	22,758
Other expenses	30,165	55,008
Total Expenses	1,203,739	1,079,144
Increase (Decrease) in net assets	155,767	(59,355)
Net assets, beginning of year	76,330	135,685
Net assets, end of year	$232,097	$76,330

Operating revenue increased $201,928 during fiscal year 2005. The increase was the result of an increase in state foundation funding. Additionally, funding provided through Federal and State grants increased $150,015 compared to the prior year amount received.

Total expenses of the School reported for fiscal year 2005 increased by $124,595 from those reported for the previous fiscal year. Purchased services expenses increased by $100,713 or 44.8% from fiscal year 2004 amounts. The increases in expenses were directly related to the additional increases in revenues that were generated for the period. Management will continue to control costs by monitoring all controllable rental expenses.

Capital Assets

At June 30, 2005 capital assets of the School were $213,710 offset by $154,294 in accumulated depreciation, resulting in net capital assets of $59,416. Table 3 shows the categories of capital assets maintained by the School, net of accumulated depreciation, at June 30, 2005 and 2004.

Table 3
Capital Assets, Net of Depreciation

	2005	2004
Furniture & Equipment	$170,396	$155,620
Food Service Equipment	8,225	8,225
Vehicles	35,089	35,089
Less: Accumulated Depreciation	(154,294)	(132,526)
Totals	$59,416	$66,408

The net decrease of $6,992 in total net capital assets is due to current year depreciation expense of $21,768 less the purchase of new computer equipments during FY2005 of $14,776.

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

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005

Assets	
Current assets	
Cash	$193,904
Intergovernmental Receivables	78,498
Total current assets	272,402
Non-current assets	
Capital assets (net of accumulated depreciation)	59,416
Total assets	331,818
Liabilities	
Current liabilities	
Accounts payable	29,068
Accrued wages payable & payroll tax liabilities	58,824
Intergovernmental Payable	11,829
Total current liabilities	99,721
Net Assets	
Investment in Capital Assets	59,416
Unrestricted	172,681
Total net assets	$232,097

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

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

Operating revenues:	
State Foundation Payments	$ 872,446
Disadvantaged Pupil	188,824
Total operating revenues	1,061,270
Operating expenses:	
Salaries	542,924
Fringe benefits	178,796
Building rental	80,000
Purchased services	325,555
Materials and supplies	24,531
Depreciation	21,768
Other	30,165
Total operating expenses	1,203,739
Operating income (loss)	(142,469)
Non-operating revenues/(expenses):	
Federal & State Grants	288,532
Other Sources	9,354
Interest Income	350
Total non-operating revenues (expenses)	298,236
Change in net assets	155,767
Net assets - Beginning	76,330
Net assets - Ending	$ 232,097

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

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

INCREASE (DECREASE) IN CASH	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$ 1,006,428
Cash Payments to State of Ohio	(31,682)
Cash Payments to Suppliers for Goods and Services	(444,832)
Cash Payments to Employees for Services and Benefits	(672,881)
Net Cash Used for Operating Activities	(142,967)
Cash Flows From Non-capital Financing Activities	
Cash Received From Federal and State Grants	276,879
Cash Payments to Grantor	(72,449)
Cash Received From Local Contributions	9,354
Net Cash Provided By Non-capital Financing Activities	213,784
Cash Flows From Capital and Related Financing Activities	
Cash payments used for capital acquisitions	(14,775)
Cash Flows From Investing Activities	
Cash Received From Interest Earnings	350
NET INCREASE IN CASH	56,392
Cash at Beginning of Year (Restated)	137,512
Cash at End of Year	**$** 193,904

Reconcilation of Operating Income (Loss) to Net Cash Provided (Used) For Operating Activities

Operating Income (Loss)	$ (142,469)
Adjustments to Reconcile Operating Income to net cash provided (used) by operating activities	
Depreciation	21,768
Change in Assets and Liabilities	
(Increase) in I/G Receivable – Foundation	(54,842)
(Decrease) in I/G Payable - Foundation and DPIA	(31,682)
Increase in I/G Payable – Benefits	11,829
Increase in Accounts Payable	15,419
Increase in Accrued Wages	37,010
Net Cash Used For Operating Activities	**$** (142,967)

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

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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 2005. 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. 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 fourteen certificated teaching personnel who provide services to approximately one hundred fifty-six (156) students.

The Sponsorship agreement with the Ohio Department of Education expired as of June 30, 2005. On April 26, 2005 the School entered into a contract with a new sponsor, The Educational Resource Consultants of Ohio, for fiscal years 2006 and 2007.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Community schools must adopt a spending plan under Ohio Revised Code, Section 5705.391 that requires annual appropriations and annual revenue estimates. The contract between the School and its sponsor, the Ohio Department of Education, requires the school to comply with the financial plan that details an estimated budget for each year of the contract.

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. Total cash for all funds is presented as “cash” 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. The school does not have any infrastructure.

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 2005 school year totaled $1,349,802.

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, 2005 are reported as accrued liabilities in the accompanying financial statements.

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,” as amended by GASB Statement No. 40, “Deposit and Investment Risk Disclosures”.

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, 2005, the School had a book cash balance of $193,904. The bank balance of the School’s deposits was $228,869, which resulted in $128,869 of the cash balances being uninsured.

The School had no deposit policy for custodial risk beyond the requirement of state statute. Ohio law requires that deposits either be insured or be protected by eligible securities pledged to and deposited either with the school or a qualified trustee by the financial institution as security for repayment or by a collateral pool of eligible securities deposited with a qualified trustee to secure repayment of all public monies deposited in the financial institution whose market value shall be at least one hundred five percent of deposits being secured.

4. RECEIVABLES

Receivables at June 30, 2005 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
I/G Receivable Foundation	$ 54,842
National School Lunch	23,656
Total	$ 78,498

5. CAPITAL ASSETS

A summary of the School's fixed assets at June 30, 2005, follows:

	Balance 7/1/2004	Additions	Deletions	Balance 6/30/2005
Capital Assets Being Depreciated				
Furniture and Equipment	$155,620	$14,776		$170,396
Food Service Equipment	8,225			8,225
Vehicles	35,089			35,089
Total Capital Assets Being Depreciated	198,934	14,776		213,710
Less: Accumulated Depreciation	(132,526)	(21,768)		(154,294)
Capital Assets, Net	$ 66,408	($ 6,992)		$ 59,416

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 2005. 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 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were $12,056, $25,259, and $20,225; 94%, 100%, and 100% has been contributed for fiscal years 2005, 2004 and 2003, 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, Ohio 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, 2005, plan members were required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% 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 District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004 and 2003 were $44,935, $52,594 and $51,426; 85% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. No contributions were made to the DC and Combined Plans for fiscal year 2005.

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, 2005.

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. Oral argument occurred on November 29, 2005. The effect of this suit, if any, on the School is not presently determinable.

9. 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 for fiscal year 2005 resulted in an Intergovernmental Receivable of $54,842.

10. PURCHASED SERVICES

For the fiscal period July 1, 2004 through June 30, 2005, purchased service expenses were payments for services rendered by various vendors as follows:

Consulting Services	$145,407
Property Services	13,654
Communication	45,556
Utilities	38,842
Food Services	60,610
Other Purchased Services	21,486
Sub-Total Purchased Services	$325,555
Building Rental Expense	80,000
Total Purchased Services	$405,555

The School has been renting space on a month-to-month agreement 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 School District 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 funded on a pay-as-you-go basis.

STRS retirees who participated in the DB or combined plans and their 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. All benefit recipients pay a portion of 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% of covered payroll. For the fiscal year ended June 30, 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled $3,457 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was $3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were $254,780,000 and STRS had 111,395 eligible benefit recipients.

11. POST-EMPLOYMENT BENEFITS

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. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health 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 2005, the minimum pay was established at $27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the 2005 fiscal year, School District paid $3,912 to fund health care benefits, including the surcharge

Net health care costs for the year ending June 30, 2005 were $178,221,113. The target level for the health care fund is 150% of projected claims less premium contributions for the next fiscal year. At June 30, 2005, the value of the health care fund was $267.5 million, which is about 168% of next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. The number of participants eligible to receive benefits is 58,123.

12. BEGINNING CASH BALANCE – RESTATED

The June 30, 2004 cash balance was restated to include outstanding checks which were written in prior periods. These checks have been determined no longer valid due to the period of time they have been outstanding.

Cash as reported June 30, 2004	$126,247
Add: Outstanding checks returned to cash	11,265
Restated Cash, June 30, 2004	$137,512

The School's beginning net assets also increased by $11,265 from $65,065 to $76,330.

Auditor of State
Betty Montgomery

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 financial statements of City Day Community School, Montgomery County, (the School), as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents and have issued our report thereon dated February 22, 2006. 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*.

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 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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-002.

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 consider reportable condition 2005-002 listed above to be a material weakness. In a separate letter to the School's management dated February 22, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the School's management dated February 22, 2006, 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

February 22, 2006

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

FINDING NUMBER 2005-001

Noncompliance Citation

Pursuant to AOS Bulletin 2000-005, Ohio Revised Code Section 3314.03 and Ohio Administrative Code Chapter 117-2-01 and 117-2-02 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:

The School's Financial Report for the fiscal year ended June 30, 2005, contained errors which resulted in numerous reclassifications and adjustments to correctly report the financial activity during and at the end the period as follows.

On the Statement of Net Assets:

- Intergovernmental Receivable was understated $ 46,960
- Accounts Payable were understated $ 9,499
- Accrued Wages were understated $ 39,268
- Intergovernmental Payable was understated $ 11,829
  Unrestricted Net Assets were overstated $ 13,636

On the Statement of Revenues, Expenses and Changes in Net Assets:

- State Foundation payments were overstated $ 133,982
- DPIA was understated $ 188,824
- Salaries were understated $ 39,268
- Fringe Benefits were understated $ 19,711
- Other Purchased Services was understated $ 6,360
- Other Operating Expenses were understated $ 3,139

FINDING NUMBER 2005-001
(Continued)

On the Statement of Cash Flows:

- Cash Received from State of Ohio was understated $ 117,807
- Cash Payment to State of Ohio of $ 31,682 was not included
- Cash Payments to Suppliers were overstated $ 2,730
- Cash Payments to Employees were understated $ 16,018
- Cash Received from Federal and State Grants was overstated $ 10,653
- Cash Payments to Grantors of $ 72,449 was not included
- Cash Beginning Balance was not restated for prior period adjustment of $ 11,265

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.

These errors resulted from a failure to maintain records in an organized and secure manner. Accounts Payable only included invoices paid in July, 2005 and Accrued Wages only included the first pay in July, 2005 although some employees were paid five pays after June 30, 2005 that had been earned as of June 10, 2005.

Failure to maintain records to support the financial statements impedes management's ability to make informed decisions and the audit process, resulting in additional audit costs to the School. Procedures should be developed and implemented to provide for the integrity of the financial statements and related assets.

FINDING NUMBER 2005-002

An effective monitoring control system had not been implemented which would assist management in detecting material misstatements in financial statements. The Board had not adopted accounting policies and procedures for receipts, purchasing, payroll, cash, investments, intergovernmental receivables, accounts payable, accrued wages, intergovernmental payables, net asset classifications and capital assets.

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:

- 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.

FINDING NUMBER 2005-002
(Continued)

The Governing Board should develop and implement a monitoring control system to determine that material misstatements or misappropriation of assets do not occur. The Governing 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. The Governing Board should also adopt and implement policies and procedures for receipts, purchasing, payroll, cash, investments, intergovernmental receivables, accounts payable, accrued wages, intergovernmental payables and net asset classifications. For capital assets, the policies should include the maintenance of a capital asset inventory, physical inventories, depreciation methods and the threshold for what is to be included.

C ITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2004-001	AOS Bulletin 2000-005, Ohio Revised Code Section 3314.03 failure to implement internal controls	No	Repeated as Finding 2005-001
2004-002	Lack of effective monitoring control system	No	Repeated as Finding 2005-002, as modified

Auditor of State
Betty Montgomery

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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
MARCH 28, 2006