



**Auditor of State
Betty Montgomery**

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Balance Sheet – As of June 30, 2003.....	3
Statement of Revenues, Expenses, and Changes in Retained Earnings – For the Year Ended June 30, 2003.....	4
Statement of Cash Flows – For the Year Ended June 30, 2003	5
Notes to the Financial Statements	7
Independent Accountants' Report on Compliance and On Internal Control Required by <i>Government Auditing Standards</i>	17
Schedule of Findings.....	19
Schedule of Prior Year Findings	22

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 Board of Governance:

We have audited the accompanying financial statements of the City Day Community School, Inc., Montgomery County, (the School), as of and for the year ended June 30, 2003, 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 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 the School as of June 30, 2003, and the results of its operations and 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, 2003, the School has incurred a bank overdraft payable of \$38,650 and an operating loss in the amount of \$387,807. 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 April 14, 2004 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

April 14, 2004

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2003**

Assets

Current Assets

Intergovernmental Receivables \$224,690

Non-Current Assets

Fixed Assets (Net of Accumulated Depreciation) 89,166

Total Assets 313,856

Liabilities and Fund Equity

Current Liabilities

Bank Overdraft Payable 38,650

Accounts Payable 64,941

Intergovernmental Payable 35,985

Accrued Wages Payable 38,595

Total Liabilities 178,171

Fund Equity

Contributed Capital 4,500

Unreserved Retained Earnings 131,185

Total Fund Equity 135,685

Total Liabilities and Fund Equity \$313,856

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

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2003**

Operating Revenues	
Foundation Payments	\$581,218
Disadvantaged Pupil Impact Aid	168,760
Miscellaneous Operating Revenue	<u>6,866</u>
Total Operating Revenues	<u>756,844</u>
Operating Expenses	
Salaries	509,354
Fringe Benefits	142,196
Purchased Services	416,380
Materials and Supplies	11,593
Depreciation	43,223
Other Operating Expenses	<u>21,905</u>
Total Operating Expenses	<u>1,144,651</u>
Operating Loss	<u>(387,807)</u>
Non-Operating Revenues	
Federal and State Grants	400,201
Interest Earnings	<u>235</u>
Total Non-Operating Revenues	<u>400,436</u>
Net Income	12,629
Retained Earnings at Beginning of Year, Restated - Note 3	<u>118,556</u>
Retained Earnings at End of Year	<u><u>\$131,185</u></u>

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

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash received from State of Ohio	\$785,963
Cash Payments to Suppliers for Goods and Services	(395,165)
Cash Payments to Employees for Services and Benefits	(696,910)
Other Operating Income	<u>6,866</u>

Net Cash Used for Operating Activities (299,246)

Cash Flows from Noncapital Financing Activities

Financing from Bank for Overdraft Payable	31,823
Cash Received From Federal and State Grants	302,277
Interest Earnings	<u>235</u>

Net Cash Provided by Noncapital Financing Activities 334,335

Cash Flows from Capital and Related Financing Activities

Cash Payments for Acquisition of Capital Assets	<u>(35,089)</u>
---	-----------------

Net Change in Cash and Cash Equivalents 0

Cash and Cash Equivalents at Beginning of Year 0

Cash and Cash Equivalents at End of Year 0

Reconciliation of Operating Loss to Net Cash

Used for Operating Activities

Operating Loss (387,807)

Adjustments to Reconcile Operating Loss to

Net Cash Used for Operating Activities

Depreciation 43,223

Changes in Assets and Liabilities

(Increase) in Intergovernmental Receivables (5,811)

Increase in Accounts Payable 58,307

(Decrease) in Accrued Wages Payable (31,979)

Increase in Intergovernmental Payable 24,821

Total Adjustments 88,561

Net Cash Used by Operating Activities (\$299,246)

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

This page intentionally left blank.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

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 four during fiscal year 2003 and also 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 September 2000. 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 26, 2001. 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 non-certified 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 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 balance sheet. Equity (i.e. net total assets) is segregated into contributed capital and retained earnings components.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE TEAR ENDED JUNE 30, 2003
(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 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 balance sheet.

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. 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.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE TEAR ENDED JUNE 30, 2003
(Continued)**

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. Under this program, the School was awarded \$150,000 to offset startup costs of the School. Revenue received from this program is recognized as non-operating revenue in the accompanying financial statements. Amounts awarded under the above named programs for the 2003 school year totaled \$1,065,539.

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, 2003 are reported as accrued liabilities in the accompanying financial statements

3. PRIOR PERIOD ADJUSTMENT

The June 30, 2002 retained earnings was restated to exclude fixed asset items with original costs below the School's capitalization threshold (and the related accumulated depreciation).

Retained Earnings June 30, 2002	\$125,446
Less: Retained Earnings Threshold, Net	<u>(6,890)</u>
Restated Assets, Net June 30, 2002	<u>\$ 118,556</u>

4. 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."

At June 30, 2003, the School had a book cash balance of (\$38,650), which is presented as an overdraft payable in the accompanying financial statements. The bank balance of the School's deposits was \$6,623. The bank balance was covered by federal deposit insurance.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

5. RECEIVABLES

Receivables at June 30, 2003 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.

	<u>Amount</u>
STRS	\$5,811
Title I	182,691
Title II-A	3,010
Title II-D	3,328
Title IV-A	2,547
Title V	813
Title VI	291
Title VI-R	11,733
Part B-IDEA	7,615
National School Lunch	6,851
Total	<u><u>\$224,690</u></u>

6. FIXED ASSETS

A summary of the School's fixed assets at June 30, 2003, follows:

Furniture and Equipment	\$155,620
Food Service Equipment	8,225
Vehicles	35,089
Less: Accumulated Depreciation	<u>(109,768)</u>
Net Fixed Assets	<u><u>\$89,166</u></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 during fiscal year 2003. The premium is calculated by multiplying the monthly gross total payroll by a factor that is calculated by the State.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

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.

8. 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 100, Columbus, Ohio 43215-3476.

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 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 2003, 8.17 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, 2003, 2002 and 2001 were \$20,225, \$8,394, and \$28,333, respectively; 57.13 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

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.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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.

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, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. 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, 2003, 2002 and 2001 were \$51,426, \$46,302, and \$81,027, respectively; 100 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. STRS owed the School \$5,811 at June 30, 2003 for overpayment of pension obligations during fiscal year 2003.

9. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For fiscal year ended June 30, 2003, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.011 billion on June 30, 2002. For the School, this amount equaled \$3,710 during the 2003 fiscal year.

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

For SERS, the Ohio Revised Code gives 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. 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, 2003, the allocation rate is 5.83 percent. 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 2003, the minimum pay has been established at \$14,500. For the School, the amount to fund health care benefits, including the surcharge, was \$10,797 for fiscal year 2003.

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 annual health care expenses. Expenses for health care at June 30, 2002, were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, the Retirement System's net assets available for payment of health care benefits of \$303.6 million. The number of benefit recipients currently receiving health care benefits is approximately 50,000.

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.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

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 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, 2003.

B. Pending Litigation

The School is party to legal proceedings. The School's management is of the opinion that the 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 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 set for oral argument on November 18, 2003. The effect of this suit, if any, on the School is not presently determinable. The school is also party to a lawsuit brought by Board member Jane Dixon. However, the effect of these suits, if any, on City Day Community School is not presently determinable.

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 \$35,985. This amount is reflected as an intergovernmental payable at June 30, 2003.

12. OPERATING LEASE

On August 23, 1999, the School entered into 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 \$192,810. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Minimum Lease Payment</u>
2004	<u><u>\$35,000</u></u>

The lease expired as of August, 2003, and the School was renting on a month-to-month basis for \$7,367 per month.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)**

13. PURCHASED SERVICES

For the fiscal period July 1, 2002 through June 30, 2003, purchased service expenses were payments for services rendered by various vendors as follows:

Consultants' Services	\$ 106,132
Property Services	213,682
Communications	7,439
Utilities	47,101
Food Services	42,026
	<u>\$ 416,380</u>

14. MANAGEMENT'S PLAN REGARDING OPERATING LOSS

The School's significant recurring operating losses 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 terminations, increasing employee contributions to health care, and re-bidding insurance.

15. SUBSEQUENT EVENTS

A. The School's contract with the Ohio State Board of Education began in 1998 and terminated on June 30, 2003. On July 1, 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).

B. A former board member (until June 5, 2003) engaged in a lawsuit against two other former board members and the Auditor of State of Ohio on or about October 1, 2001. During the lawsuit, financial records were subpoenaed by the plaintiff. As of March 19, 2004, a summary judgment was issued dismissing the complaint by the Montgomery County Common Pleas Court.

C. On October 31, 2003, the Business Manager position was abolished by the Board. On November 3, 2003, the former business manager was arrested for criminal trespass, theft and resisting arrest when he returned to the school and removed critical files. These files were not available during the audit and duplicates were requested when possible.

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Governance:

We have audited the financial statements of City Day Community School, Inc., Montgomery County (the School), as of and for the year ended June 30, 2003, and have issued our report thereon dated April 14, 2004, wherein we noted the 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School in a separate letter dated April 14, 2004.

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. A reportable condition is described in the accompanying schedule of findings as item 2003-003.

**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. We believe the reportable condition described above as item 2003-003 is a material weaknesses. 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 April 14, 2004.

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



Betty Montgomery
Auditor of State

April 14, 2004

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2003**

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

FINDING NUMBER 2003-001

Finding for Recovery – Repaid during Audit

City Day Community School entered into an eight month lease agreement with Vineyard Christian Fellowship for a bus. The lease agreement that commenced on November 1, 2002, indicated that the total of all monthly rental payments should be \$2,000, however the School actually paid Vineyard Christian Fellowship a total of \$2,250 as of July 28, 2003. Therefore, the School overpaid Vineyard Christian Fellowship by \$250.

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a finding for recovery for public money illegally expended is hereby issued against Brian Adams, Treasurer, and Vineyard Christian Fellowship, jointly and severally, in the amount of \$250. The Treasurer reimbursed the School \$250 via check #1117, on April 14, 2004. To reduce the risk of overpaying a vendor, the School should develop and implement procedures to preclude overpayment of obligations.

FINDING NUMBER 2003-002

AOS Audit Bulletin 2000-005, Ohio Rev. Code Section 3314.03, and Ohio Rev. Code Chapter 117 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 operation, and its compliance with applicable laws, regulations and contracts. In designing its internal control process, management should consider policies and procedures that provide for the following:

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

The following deficiencies were noted:

- a) Available records were not maintained in an orderly, logical or consistent manner and in a central location to provide for immediate accessibility. Receipt and expenditure support was filed by vendor, however there were duplicate files for some vendors and supporting documents for payroll and non-payroll expenditures were commingled. Records for fiscal year 2003 were commingled with those for fiscal year 2002. Nonpublic personnel information, such as W-4 exemption information, was routinely commingled with regular public records and payroll records were found in several locations.

FINDING NUMBER 2003-002
(Continued)

- b) The School failed to retain invoices for 15% of the items tested, canceled checks for 10% of the items tested, bank statements for July through December 2002, lease agreements, and insurance policies, necessitating the validation of bank balances, expenditure transactions and compliance with applicable laws and contracts be obtained from outside sources.
- c) The financial records for the School's banking activities were not maintained or reported in an accurate manner, and bank accounts were not timely or accurately reconciled. Monthly bank reconciliations were not performed between July and November of 2002, which resulted in inaccurate information being presented to the Governing Board, and inaccurate revenue and expenditure information being forwarded to the Ohio Department of Education at year-end. Also, the school did not have an accurate picture of their financial position during that period which could have resulted in additional expenses due to overdrafts.
- d) Intergovernmental revenue received prior to June 30, 2003 totaling \$62,250 was not posted until November, 2003, which resulted in a change to the School's ledgers.
- e) The School did not utilize an effective accounting system. Accounting records prepared for management did not agree to the underlying accounting records. The accounting software program utilized allowed the user flexibility in dating the entries posted. Postings to fiscal year 2003 were made as late as February 2004 and three different cash ledgers were presented during the course of the audit, which did not agree with the draft financial statements.
- f) The School's Annual Financial Report for 2003 contained errors and required reclassifications and adjustments to correctly report the school's financial activity during the fiscal period. Cash and cash equivalents was overstated by \$39,826; intergovernmental receivable was understated by \$43,995; accounts payable was understated by \$30,262; and accrued wages were overstated by \$36,219. National School Lunchroom Federal Grant revenue totaling \$54,843 was misclassified as Food Service revenue and DPIA revenue totaling \$66,872 was misclassified as State Foundation. There were several other less significant account misclassifications noted. 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.
- g) The School's detailed fixed asset listing contained nine assets that did not meet the \$500 threshold requirements and should not have been included. Additionally, an asset that had an acquisition date in fiscal year 2002 was not included on the detailed fixed asset listing. This detailed fixed asset listing did not agree with the fixed asset amounts posted to the initial financial statements. The Fixed Asset listing overstated the School's fixed assets by \$36,711 and Accumulated Depreciation by \$22,792, which resulted in changes to the School's records and financial statements.

Failure to maintain public records in an orderly, readily accessible manner could impede management's ability to make timely informed decisions and impeded the audit process, resulting in additional audit costs to the School.

**FINDING NUMBER 2003-002
(Continued)**

To provide for improved internal/external access to records and to provide for accurate and timely decisions, the School should take necessary steps to provide that all public records are retained and properly filed in an efficient, orderly and consistent manner. Procedures should be developed and implemented to provide for the timely and accurate posting to an accounting system with controls such as independent checks over computer input and output, as well as, reconciliation to depository accounts. This will decrease the likelihood of misstated financial information and provide that the School's financial activity and cash position is accurately presented and reported to management and the Board.

The School should develop internal control procedures that are designed to prevent errors and reduce the risk that misstatements would not be detected in a timely manner during daily routine activities. This should include routine review of financial activity by the Board of Governance.

FINDING NUMBER 2003-003

An effective monitoring control system had not been implemented which would assist management in detecting material misstatements in financial or other information. The School should develop and implement a monitoring control system to determine that material misstatements or misappropriation of assets do not occur.

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 School did not have policies in place to create an effective monitoring control system. Such policies should be created, approved by the Board, and distributed to all employees affected. The Board of Governance should take an active role in monitoring the financial records of the School to provide for increased accuracy and usefulness of the information reported.

CLIENT RESPONSE

City Day Community School has responded to the issues included in this report. A copy of their response may be obtained from Brian G. Adams, CFO, City Day Community School, 318 South Main Street, Dayton, Ohio 45402.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10357-001	AOS Bulletin 2000-005: Lease agreement did not contain fiscal funding or cancellation clause.	Yes	Lease agreement expired at end of FY03. School now leases month-to-month.
2002-10357-002	Failed to implement an effective monitoring system.	No	No corrective action taken. Repeated as Finding # 2003-004



**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
JUNE 1, 2004**