



**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006



Mary Taylor, CPA
Auditor of State

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City Day Community School
Montgomery County
318 South Main Street
Dayton, Ohio 45449

To the Governing Board:

We have audited the accompanying financial statements of the City Day Community School, Montgomery County, (the School), as of and for the fiscal year ended June 30, 2006, 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 the School, as of June 30, 2006, 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 16, 2007, 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.

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.

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

Mary Taylor, CPA
Auditor of State

February 16, 2007

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(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, 2006. 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 2006 are as follows:

- Total net assets decreased \$25,852 during fiscal year 2006, which represents an 11% decrease from the prior year.
- Total assets increased \$148,135 which represents a 44.6% increase from the prior year. The increase is primarily due to increases in cash holdings at the end of the fiscal year.
- The operating loss reported for fiscal year 2006 (\$375,426) was \$232,957 more than the operating loss reported for fiscal year 2005 (\$142,469) or a 163.5% increase.

Using this Financial Report

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

Statement of Net Assets

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

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

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 2006 compared with fiscal year 2005.

Table 1		
Net Assets		
	<u>2006</u>	<u>2005</u>
Assets:		
Current and other assets	\$426,578	\$272,402
Capital assets, net	<u>53,375</u>	<u>59,416</u>
Total Assets	<u>479,953</u>	<u>331,818</u>
Liabilities:		
Current liabilities	<u>273,708</u>	<u>99,721</u>
Total Liabilities	273,708	99,721
Net Assets:		
Investment in Capital Assets	53,375	59,416
Unrestricted	<u>152,870</u>	<u>172,681</u>
Total Net Assets	<u>\$206,245</u>	<u>\$232,097</u>

Total net assets of the School decreased by (\$25,852) or (11.0%) percent. Management continues efforts to maintain operating costs at a reasonable level to ensure the financial stability of the School.

As noted in Table 1 above, reported unrestricted net assets at June 30, 2006 decreased by (\$19,811) from those reported at June 30, 2005.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, as well as revenue and expense comparisons to fiscal year 2005.

Table 2		
Changes in Net Assets		
	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Foundation payments	\$951,541	\$872,446
Poverty Based Assistance	172,072	188,824
Non Operating Revenues:		
State and federal grants	310,938	288,532
Miscellaneous revenues	37,901	9,354
Interest Earnings	<u>735</u>	<u>350</u>
Total Revenues	<u>1,473,187</u>	<u>1,359,506</u>

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

**Table 2
Changes in Net Assets
(Continued)**

	<u>2006</u>	<u>2005</u>
Operating Expenses:		
Salaries	626,652	542,924
Fringe benefits	177,395	178,796
Building rental	96,333	80,000
Other purchased services	455,413	325,555
Materials and supplies	25,995	24,531
Depreciation	24,363	21,768
Other expenses	<u>92,888</u>	<u>30,165</u>
Total Expenses	<u>1,499,039</u>	<u>1,203,739</u>
 Increase (Decrease) in net assets	 (25,852)	 155,767
 Net assets, beginning of year	 232,097	 76,330
Prior Period Adjustment		
Net assets, end of year	<u><u>\$206,245</u></u>	<u><u>\$232,097</u></u>

Operating revenue increased \$62,343 during fiscal year 2006. The increase was the result of an increase in state foundation funding. Additionally, funding provided through Federal and State grants increased \$22,406 compare to the prior year amount received.

Total expenses of the School reported for fiscal year 2006 increase by \$295,300 compare to those reported for the previous fiscal year. Purchase services expenses increase by \$129,858 or 39.9% percent from fiscal year 2005 amounts. The increases in expenses were directly related to the additional increases in revenues that were generated for the period.

Capital Assets

At June 30, 2006, capital assets of the School were \$232,032 off-set by \$178,657 in accumulated depreciation resulting in net capital assets of \$53,375. Table 3 shows the categories of capital assets maintained by the School, net of accumulated depreciation, at June 30, 2006 and 2005.

**Table 3
Capital Assets, Net of
Depreciation**

	<u>2006</u>	<u>2005</u>
Furniture & Equipment	\$188,718	\$170,396
Food Service Equipment	8,225	8,225
Vehicles	35,089	35,089
Less: Accumulated Depreciation	<u>(178,657)</u>	<u>(154,294)</u>
 Totals	 <u><u>\$53,375</u></u>	 <u><u>\$59,416</u></u>

The net decrease of \$6,041 in total net capital assets is due to current year depreciation expense of \$24,363 less the purchase of new computer equipments during FY2006 of \$18,322.

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**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006
(UNAUDITED)
(Continued)**

Contacting the School

This financial report is designed to provide a general overview of the finances of the City Day Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: City Day Community School, 320 South Main Street, Dayton, OH 45402.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006**

Assets

Current assets

Cash	\$ 357,193
Receivables	
Intergovernmental	<u>69,385</u>
Total current assets	426,578

Non-current assets

Capital assets (net of accumulated depreciation)	<u>53,375</u>
Total assets	<u>479,953</u>

Liabilities

Current liabilities

Accounts payable	9,184
Accrued wages payable & payroll tax liabilities	90,532
Intergovernmental payable	<u>173,992</u>
Total current liabilities	<u>273,708</u>
Total liabilities	<u>273,708</u>

Net Assets

Investment in Capital Assets	53,375
Unrestricted	<u>152,870</u>
Total net assets	<u>\$ 206,245</u>

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, 2006**

Operating revenues:	
State Foundation payments	\$ 951,541
Poverty Based Assistance	<u>172,072</u>
Total operating revenues	1,123,613
Operating expenses:	
Salaries	626,652
Fringe benefits	177,395
Building rental	96,333
Other purchased services	455,413
Materials and supplies	25,995
Depreciation	24,363
Other	<u>92,888</u>
Total operating expenses	<u>1,499,039</u>
Operating (loss)	(375,426)
Non-operating revenues:	
Federal & State Grants	310,938
Other Sources	37,901
Interest Income	<u>735</u>
Total non-operating revenues	<u>349,574</u>
Change in net assets	(25,852)
Total net assets-beginning	<u>232,097</u>
Total net assets-ending	\$ <u><u>206,245</u></u>

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, 2006**

INCREASE (DECREASE) IN CASH

Cash Flows from Operating Activities

Cash from State of Ohio	\$	1,270,008
Cash Payments to Suppliers for Goods and Services		(627,070)
Cash Payments to Employees for Services and Benefits		<u>(765,171)</u>
Net Cash Used for Operating Activities		(122,233)

Cash Flows From Non-capital Financing Activities

Cash Received From Federal and State Grants		265,208
Cash Received From Local Contributions		<u>37,901</u>
Net Cash Provided By Non-capital Financing Activities		303,109

Cash Flows Used By Capital and Related Financing Activities

Cash payments used for capital acquisitions		(18,322)
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Cash Flows From Investing Activities

Cash Received From Interest Earnings		<u>735</u>
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NET INCREASE IN CASH 163,289

Cash at Beginning of Year 193,904

Cash at End of Year \$ 357,193

Reconciliation of Operating (Loss) to Net Cash (Used) For Operating Activities

Operating (Loss)	\$	(375,426)
Depreciation		24,363

Change in Assets and Liabilities

Decrease in Intergovernmental Receivables - Foundation		54,843
Increase in Intergovernmental Payable - Foundation		91,552
Increase in Intergovernmental Payable - Benefits & Penalties		70,611
(Decrease) in Accounts Payable		(19,884)
Increase in Accrued Wages		<u>31,708</u>

Net Cash Used For Operating Activities \$ (122,233)

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

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**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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 seven during fiscal year 2006. 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 seventeen certificated teaching personnel who provide services to approximately one hundred and eighty-five (185) students.

On April 26, 2005 the School entered into a two year (fiscal years 2006 and 2007) sponsorship contract with The Educational Resource Consultants of Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental nonprofit organizations. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the School's accounting policies are described below:

A. Basis of Presentation – Enterprise Accounting

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

B. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Net assets are segregated into investments in capital assets and unrestricted components.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(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

Community schools must adopt a spending plan under Ohio Revised Code, Section 5705.391 that requires annual appropriations and annual revenues estimates. The contract between the School and its sponsor, The Educational Resource Consultants of Ohio, requires the school 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" 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.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program and the Poverty Based Assistance (PBA) 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 2006 school year totaled \$1,434,551.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2006 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, 2006, the School had a book cash balance of \$357,193. The bank balance of the School's deposits was \$360,373 which resulted in \$260,373 of the cash balances being uninsured, but being collateralized with securities held in a single financial institution's pool of investments to collateralize all public deposits.

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, 2006 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>
Title I	\$46,431
National School Lunch	<u>22,954</u>
Total	<u><u>\$69,385</u></u>

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

5. CAPITAL ASSETS

A summary of the School's fixed assets at June 30, 2006, follows:

	Balance 07/01/2005	Additions	Deletions	Balance 06/30/2006
Capital Assets:				
Furniture & Equipment	\$170,396	\$18,322	\$0	\$188,718
Food Service Equipment	8,225	0	0	8,225
	35,089	0	0	35,089
Total Capital Assets	<u>213,710</u>	<u>18,322</u>	<u>0</u>	<u>232,032</u>
Less:				
Accumulated Depreciation	(154,294)	(24,363)	0	(178,657)
Capital Assets, Net	<u>\$ 59,416</u>	<u>(\$ 6,041)</u>	<u>\$0</u>	<u>\$ 53,375</u>

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 2006. 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 100, Columbus, Ohio 43215-3476.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57% 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, 2006, 2005 and 2004 were \$4,156, \$12,056 and \$25,259; 88.47% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account.

Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2006, 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, 2006, 2005 and 2004 were \$71,767, \$57,526 and \$45,071; 98% has been contributed for fiscal year 2006 and 100% for fiscal years 2005 and 2004. No contributions were made to the DC and Combined Plans for fiscal year 2006.

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, 2006.

B. Pending Litigation

A suit was filed in US District Court, Southern District of Ohio, Western Division, on October 6, 2004, which challenges the funding of charter schools under Equal Protection, Due Process and claims violation of a right to vote on the bodies administrating public schools. The case is still pending. The effect of this suit, if any, on the 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. For fiscal year 2006, the review resulted in the School owing the state \$22,070 for fiscal year 2006 and \$69,482 for fiscal year 2005. These amounts are included as intergovernmental payable on the Statement of Net Assets.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

10. PURCHASED SERVICES

For the fiscal period, July 1, 2005 through June 30, 2006, purchased service expenses were payments for services rendered by various vendors as follows:

Consultants' Services	\$172,986
Property Services	13,518
Communication	51,736
Utilities	45,988
Food Services	128,450
Other Purchase Services	<u>42,735</u>
Sub-Total Purchase Services	455,413
Building Rental Expense	<u>96,333</u>
Total Purchase Services	<u>\$551,746</u>

The School has been renting on a month-to-month lease for \$8,028 per month since their lease expired in August 2003. The lease was with BJ Building Co., Inc and is being renegotiated.

11. NONCOMPLIANCE

The School failed to comply with requirements regarding an internal control process to provide reasonable assurance of the integrity of its financial reporting.

12. 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, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) 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.

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.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

12. POST-EMPLOYMENT BENEFITS (Continued)

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, 2006, 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two 2% of each employee's salary. For the School, the amount contributed to fund health benefits during fiscal year 2006 was \$1,344. 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.

Net health care cost for the year ending June 30, 2005 (the latest information available), 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, SERS had net assets available for payment of health care benefits of \$267.5 million. The number of participants eligible to receive benefits is 58,123.

13. IRS TAX PENALTY CONTINGENCIES

The Internal Revenue Services during fiscal year 2006 has proposed approximately \$59,321 in penalty for the school late filing of its Form 990 for fiscal years 2003 and 2004. This amount has been recorded in the current year financial statements in the intergovernmental payable. The School is contesting the proposed penalty with the Internal Revenue Service.



Mary Taylor, CPA

Auditor of State

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 (the School) as of and for the fiscal year ended June 30, 2006, which collectively comprise the School's basic financial statements as listed in the table of contents and have issued our report thereon dated February 16, 2007. 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 certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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 2006-002.

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 2006-002 listed above to be a material weakness. In a separate letter to the School's management dated February 16, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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

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 2006-001. In a separate letter to the School's management dated February 16, 2007, 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 16, 2007

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

AOS 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 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 2006 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:

- I/G Receivable was understated \$46,431
- I/G Payable was understated \$100,121
- Unrestricted Net Assets were overstated \$53,690

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

- State Foundation payments were overstated \$254,767
- PBA was understated \$172,072
- Other Operating Expenses were understated \$8,569

On the Statement of Cash Flows:

- Cash Received from State of Ohio was understated \$80,609
- Cash Payments to Suppliers were overstated \$664
- Cash Payments to Employees were understated \$73,118
- Cash Received from Federal and State Grants was overstated \$36,149
- Cash Received from Other Sources was understated \$27,994

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 include a \$69,482 Ohio Department of Education (ODE) foundation adjustment for 2005 and a \$22,070 ODE foundation adjustment for 2006 in intergovernmental payables. Also, a \$46,431 receivable for the Title I program was not included.

The failure to disclose all assets and liabilities in the financial statements impedes management's ability to make informed decisions and resulted in additional audit cost to the School. Procedures should be developed and implemented to provide for the integrity of the financial statements and related assets.

FINDING NUMBER 2006-001 (Continued)

Client Response: The majority of the reclassifications and adjustments referred to in this finding relates to the audit adjustment to record a liability of \$91,552 to Ohio Department of Education as a result of an overpayment of Foundation revenue for FY06. Management had not been made aware of this adjustment until after the issuance of its compiled financial statements to the Auditor of State.

FINDING NUMBER 2006-002

An effective monitoring control system had not been implemented which would assist management in detecting material misstatements in financial statements. Budgetary statements comparing the budget with year to date activity were not presented to the Board for review. 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:

- 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 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 adopt 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.

Client Response: During FY05, the Governing Board appointed an Audit Committee to review and monitor the financial activities of the School. The Committee met on a monthly basis during FY06 to review financial reports prepared by the Treasurer. Reports reviewed by this Committee include the monthly balance sheet, statement of revenues and expenditures and monthly bank reconciliations. In addition to these reports, this Committee also receives a copy of the Cash Position Report that is provided to the sponsor on a bi-monthly basis. The Cash Position Report compares current year spending plan budget information with the monthly actual activities of the school. This information is then projected out to the end of the fiscal year showing what the projected cash flow should be. The reports are then presented to the full board at its regularly scheduled meeting and approved for inclusion in their minutes. Based upon the Auditor's recommendation for this finding, Management will implement procedures for documenting the reports reviewed by the Audit Committee in minutes that are maintained along with the accompanying reports reviewed. Management will also insure that the minutes of the full Board's meetings reflect the discussions relative to the presentation of these financial reports by the Audit Committee.

**CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	AOS Bulletin 2000-005 & ORC Sec. 3314.03 - Failure to implement internal controls over accounting system	No	Repeated as Finding 2006-001
2005-002	The School should implement effective monitoring control system	No	Repeated as Finding 2006-002



Mary Taylor, CPA
Auditor of State

**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 20, 2007**