CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2007

Mary Taylor, CPA
Auditor of State

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

TABLE OF CONTENTS

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Governing Board:

We have audited the accompanying basic financial statements of City Day Community School, Montgomery County, (the School), as of and for the year ended June 30, 2007 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 financial position of City Day Community School, Montgomery County, as of June 30, 2007, and the changes in its financial position and its cash flows 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 May 2, 2008, 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.

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 2, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007
(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, 2007. 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 2007 are as follows:

- Total net assets decreased ($122,344) in fiscal year 2007, which represents a (48.2%) decrease from the prior year because of decreases in non-operating revenues.

- Total assets decreased ($231,776), which represents a (48.3%) decrease from the prior year. The decrease is primarily due to decreases in cash holdings at the end of the fiscal year.

- The operating loss reported for fiscal year 2007 ($314,089) was $61,337 less than the operating loss reported for fiscal year 2006 ($375,426) or a 16.3% decrease.

Using this Financial Report

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

Statement of Net Assets

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

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

Table 1 provides a summary of the School's net assets for fiscal year 2007 compared with fiscal year 2006.

Table 1
Net Assets

	2007	2006
Assets:		
Current and Other Assets	$217,213	$426,578
Capital Assets, Net	30,964	53,375
Total Assets	248,177	479,953
Liabilities:		
Current Liabilities	116,864	226,296
Total Liabilities	116,864	226,296
Net Assets:		
Investment in Capital Assets	30,964	53,375
Unrestricted	100,349	200,282
Total Net Assets	$131,313	$253,657

Total net assets of the School decreased by ($122,344) or (48.2%). The decrease is applicable to a sufficient decrease in state and federal revenues. Also, 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, 2007 decreased by $99,933 from those reported at June 30, 2006.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007, as well as revenue and expense comparisons to fiscal year 2006.

Table 2
Changes in Net Assets

	2007	2006
Operating Revenues:		
Foundation Payments	$1,031,985	$ 951,541
Poverty Based Assistance	188,909	172,072
Non Operating Revenues:		
State and Federal Grants	154,983	310,938
Miscellaneous Revenues	36,000	37,901
Interest Earnings	762	735
Total Revenues	1,412,639	1,473,187

(Continued)

Table 2
Changes in Net Assets
(Continued)

	2007	2006
Operating Expenses:		
Salaries	730,194	626,652
Fringe Benefits	193,033	177,395
Building Rental	99,600	96,333
Other Purchased Services	451,385	455,413
Materials and Supplies	19,558	25,995
Depreciation	22,411	24,364
Other Expenses	18,802	92,887
Total Expenses	1,534,983	1,499,039
Increase (Decrease) in Net Assets	(122,344)	(25,852)
Net Assets at Beginning of Year	253,657	232,097
Prior Period Adjustment		47,412
Net Assets at End of Year	$ 131,313	$ 253,657

Operating revenue increased $97,281 during fiscal year 2007. The increase was the result of an increase in state foundation funding. Additionally, funding provided through Federal and State grants decreased ($155,955) compared to the prior year amount received.

Total expenses of the School reported for fiscal year 2007 increased by $35,944 compared to those reported for the previous fiscal year. The increases in expenses were due to an increase in salaries. Management will continue to control costs by monitoring all controllable expenses.

Capital Assets

At June 30, 2007, capital assets of the School were $232,032, which were offset by $201,068 in accumulated depreciation resulting in net capital assets of $30,964. Table 3 shows the categories of capital assets maintained by the School, net of accumulated depreciation, at June 30, 2007 and 2006.

Table 3
Capital Assets, Net of Depreciation

	2007	2006
Furniture & Equipment	$188,718	$188,718
Food Service Equipment	8,225	8,225
Vehicles	35,089	35,089
Total Capital Assets	232,032	232,032
Less: Accum. Depreciation	(201,068)	(178,657)
Total Net Capital Assets	$ 30,964	$ 53,375

The net decrease of $22,411 in total net capital assets due to current year depreciation expense.

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

Contacting the School

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

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUTNY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

Assets	
Current Assets:	
Cash	$187,020
Receivables	
Intergovernmental	30,193
Total Current Assets	217,213
Non-current Assets:	
Capital assets (net of accumulated depreciation)	30,964
Total Assets	248,177
Liabilities	
Current Liabilities	
Accounts payable	26,052
Accrued wages payable	87,582
Intergovernmental payable	3,230
Total Liabilities	116,864
Net Assets:	
Investment in Capital Assets	30,964
Unrestricted	100,349
Total Net Assets	$131,313

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

CITY DAY COMMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

Operating Revenues:	
State Foundation Payments	$1,031,985
Poverty Based Assistance	188,909
Total operating revenues	1,220,894
Operating Expenses:	
Salaries	730,194
Fringe benefits	193,033
Building rental	99,600
Other purchased services	451,385
Materials and suppose	19,558
Depreciation	22,411
Other	18,802
Total operating expenses	1,534,983
Operating (loss)	(314,089)
Non-operating Revenues:	
Federal & State Grants	154,983
Other Sources	36,000
Interest Income	762
Total Non-operating Revenues	191,745
Change in net assets	(122,344)
Total net assets-beginning (Restated – see note 13)	253,657
Total net assets-ending	$ 131,313

The accompanying notes to the basic 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, 2007

Increase (Decrease) in Cash	
Cash Flows from Operating Activities	
Cash from State of Ohio	$1,214,431
Refunds to State of Ohio	(91,552)
Cash Payments to Suppliers for Goods and Services	(603,368)
Cash Payments to Employees for Services and Benefits	(974,496)
Net Cash Used for Operating Activities	(454,985)
Cash Flows From Non-capital Financing Activities	
Cash Received from Federal and State Grants	248,050
Cash Received from Local Contributions	36,000
Net Cash Provided by Non-capital Financing Activities	284,050
Cash Flows from Investing Activities	
Cash Received from Interest Earnings	762
Net Decrease in Cash	(170,173)
Cash at Beginning of Year	357,193
Cash at End of Year	$ 187,020
Reconciliation of Operating (Loss) to Net Cash (Used) For Operating Activities	
Operating (Loss)	(314,089)
Depreciation	22,411
Change in Assets and Liabilities:	
(Increase) in Intergovernmental Receivables	(6,463)
(Decrease) in Intergovernmental Payable	(170,762)
Increase in Accounts Payable	16,868
(Decrease) in Accrued Wages	(2,950)
Net Cash Used for Operating Activities	($454,985)

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

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1. DESCRIPTION OF THE ENTITY

City Day Community School, Inc. (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school exclusively for any educational, literary, scientific and related teaching service that qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Specifically, the School's purpose is to be a model charter school serving children from kindergarten through grade eight. 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. On February 26, 2007, the School signed an agreement with this same sponsor effective until June 30, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation – Enterprise Accounting

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

B. Measurement Focus/Basis of Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

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 a 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.

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, 2007 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 for non-interest bearing accounts and up to $100,000 for interest-bearing accounts at each bank. At June 30, 2007, the School had a book cash balance of $187,020. The bank balance of the School's deposits was $191,113, which resulted in $20,590 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, 2007 primarily consisted of intergovernmental (e.g. foundation and federal grants) receivables. All intergovernmental receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

	Amount
Title II-A Improving Teacher Quality	$ 4,787
National School Lunch	18,943
ODE FTE Final Adj. FY07	6,463
Total	$30,193

5. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2007 follows:

	Balance 07/01/2006	Additions	Deletions	Balance 06/30/2007
Capital Assets:				
Furniture & Equipment	$188,718			$188,718
Food Service Equipment	8,225			8,225
Vehicles	35,089			35,089
Total Capital Assets	232,032			232,032
Less: Accumulated Depreciation	(178,657)	($22,411)		(201,068)
Capital Assets, Net	$ 53,375	($22,411)	$0	$ 30,964

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 that 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 2007. 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.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll.

7. DEFINED BENEFIT PENSION PLANS (Continued)

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 2007, 10.68% 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, 2007, 2006 and 2005 were $8,398, $4,156, and $12,056; 100% has been contributed for fiscal years 2007, 2006, and 2005.

B. State Teachers Retirement System

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

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, 2007, 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. For fiscal year 2006, the portion used to fund pension obligations was also 13%. 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.

7. DEFINED BENEFIT PENSION PLANS (Continued)

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 STRS Ohio for the fiscal years ended June 30, 2007, 2006 and 2005 were $99,227, $71,767, and $57,526; 100% has been contributed for fiscal years 2007, 2006, and 2005. No contributions were made to the DC and Combined Plans for fiscal year 2007.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2007 all members the Board of Trustees have elected Social Security. The Board's liability is 6.2% of wages.

8. 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, 2007.

B. Pending Litigation

A lawsuit entitled *Beverly Blount-Hill, et al. v. State of Ohio, et al., Case #3:*04CV197 was filed in the U.S. District Court, Southern District of Ohio, Western Division in October 2004. The suit alleges that the funding provisions of the Ohio Community schools Act, O.R.C. Section 3314, violate both the Ohio and Federal constitutions. If the funding scheme is determined to be unconstitutional, it could have financial ramifications for all community/charter schools. The case is still currently pending, and the effect of this suit, if any, on the School cannot presently be determined.

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 2007, the review resulted in the School receiving an additional $6,463 for fiscal year 2007. This amount is included as an intergovernmental receivable on the Statement of Net Assets.

9. PURCHASED SERVICES

For the fiscal period July 1, 2006 through June 30, 2007, purchased service expenses were payments for services rendered by various vendors as follows:

Consultants' Services	$203,172
Property Services	17,018
Communication	59,390
Utilities	48,344
Food Services	95,274
Other Purchased Services	28,187
Subtotal Purchased Services	451,385
Building Rental Expense	99,600
Total Purchased services	$550,985

The School has been renting its building on a month-to-month lease for $8,300 per month since their lease expired in August 2003. The lease was with BJ Building Co., Inc., and is being renegotiated.

10. 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.

All STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled $7,633 for fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS were $282,743,000 and STRS had 119,184 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. The portion is based on years of service, Medicare eligibility, and retirement status.

10. 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, 2007, employer contributions to fund health care benefits were 3.32% of covered payroll, compared to 3.42% of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at $35,800. However, the surcharge is capped at 2% of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled $3,987.

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. The target level for the health care reserve is 150% of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were $158,751,207. At June 30, 2006 SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,492 participants eligible to receive benefits.

11. IRS TAX PENALTY CONTINGENCY

During fiscal year 2006, the Internal Revenue Service assessed approximately $50,000 in penalties for the School's late filing of its Form 990 for fiscal years 2003 and 2004. This amount was recorded in the School's statement of net assets for the fiscal year ended June 30, 2006 as an intergovernmental payable. During the fiscal year ended June 30, 2007, this assessment was appealed with the IRS by the School's Treasurer. In April 2007, the School received notice from the IRS of its abatement of this liability in full.

12. PRIOR PERIOD ADJUSTMENT

The June 30, 2006 intergovernmental payable balance was restated to exclude an adjustment for the assessment of approximately $50,000 in IRS penalties and interest for the late filing of Form 990 for fiscal years 2003 and 2004 as referenced in Note 11 of these financial statements that were abated during the current fiscal year:

Net Assets at 6/30/2006 (As previously reported)	$206,245
Add: IRS Abatement of Tax Penalties & Interest Prior Periods (Net)	47,412
Net Assets at 6/30/2006 – (Restated)	$253,657

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
320 South Main Street
Dayton, Ohio 45402

To the Governing Board:

We have audited the accompanying basic financial statements of City Day Community School (the School) as of and for the year ended June 30, 2007, as listed in the table of contents and have issued our report thereon dated May 2, 2008. 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 as a basis for designing our audit procedures for expressing our opinion on the basic financial statements, but not to opine on the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 and 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School's internal control will not prevent or detect a material financial statement misstatement.

Internal Control Over Financial Reporting
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain matters that we reported to the School's management in a separate letter dated May 2, 2008.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items: 2007-001 through 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School's management in a separate letter dated May 2, 2008.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the School's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the governing board, audit committee, management, and the Community School's sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 2, 2008

SCHEDULE OF FINDINGS
JUNE 30, 2007

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

FINDING NUMBER 2007-001

Material Noncompliance

Ohio Rev. Code Section 121.22 (C) states all meetings of any public body are to be open to the public at all times. A member of a public body must be present in person at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of a regular or special meeting of any such public body shall be promptly prepared, filed and maintained and shall be open to public inspection. The minutes need only reflect the general subject matter of discussions in executive sessions authorized under division (G) or (J) of this section.

Ohio Rev. Code Section 121.22(B)(1)(a) defines "public body" as any board, commission, committee, council, or similar decision-making body of a state agency, institution, or authority, and any legislative authority or board, commission, committee, council, agency, authority, or similar decision-making body of any county, township, municipal corporation, school district, or other political subdivision or local public institution.

Contrary to the abovementioned section of code, the minutes for the meetings held from February 2007 through June 2007 were omitted from the minute book. To comply with this section of code, the Board should implement policies and procedures to promptly record the Board minutes and make them open to public inspection in a timely manner.

Officials' Response: *Effective FY08 (July 2007) - City Day Community School's sponsor installed a completely new Governing Board. This new Board was unable to locate or obtain copies of the missing board minutes for meetings held prior to its formation. The new Governing Board now abides by a set of policies and procedures to ensure that all meeting minutes are promptly prepared, approved and maintained. Additionally, the meeting minutes shall be open for public inspection upon request.*

FINDING NUMBER 2007-002

Significant Deficiency and Material Noncompliance

Ohio Admin. Code Section 117-2-02(D)(4) states, in part, that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

(c) Fixed asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Fixed assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

Further, **Ohio Admin. Code Section 117-2-02(E)** states that each local public office should establish a capitalization threshold for any individual item of $5,000 or more, at a minimum, eighty per cent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

FINDING NUMBER 2007-002
(Continued)

The Capital Asset records did not include some of the general requirements mentioned above. For example they did not contain: voucher number, asset location, or asset tag number. Additionally, the School's Board did not approve a capital asset policy, including a capitalization threshold, method of depreciation, useful lives, etc., to be used when recording assets on the financial statements. This could result in an insufficient audit trail, and untimely recognition of the theft of assets. The School should maintain an asset list that details the required information. Additionally, these assets should be identified with tags so they may be verified to the capital asset listing.

Officials' Response: *City Day Community School is in the process of revising its present fixed asset policy and listing to include the grant used to purchase the assets, location and tag number of assets that has been purchase and/or dispose of by the School.*

FINDING NUMBER 2007-003

Significant Deficiency and Material Noncompliance

Ohio Rev. Code Section 3309.23, 3309.47, 3309.49 and 3309.51 require enrollment of certain employees in the Public School Employees Retirement System (SERS), and to withhold from the employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate system the amounts withheld, matched with an appropriate percentage of employer matching contributions.

Contrary to the abovementioned section of code, the School had overpaid SERS $5,348 as of June 30, 2007. This has been an ongoing situation, as the school also had an over payment to SERS of $7,022 as of June 30, 2006. The School should contact SERS to determine the most appropriate means of resolving this situation.

Officials' Response: *The School initiated inquiries with SERS regarding this overpayment. Per correspondence with SERS, this matter has been resolved/corrected in Fy 08. Starting with the FY 09 school year, the SERS amount withheld from the School's Foundation payments will be reviewed and adjusted in July and January of each year.*

CITY DAY COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2006-001	AOS Bulletin 2000-005, Ohio Revised Code Section 3314.03 failure to implement internal controls	Yes	
2006-002	Lack of effective monitoring control system	Yes	

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 17, 2008