NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2005

Auditor of State
Betty Montgomery

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

TABLE OF CONTENTS

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

New Choices Community School
Montgomery County
601 South Keowee Street
Dayton, Ohio 45410

To the Board of Governance:

We have audited the accompanying basic financial statements of New Choices Community School, Montgomery County, (the School), as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the School, as of June 30, 2005, and the respective changes in financial position and 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 November 6, 2006, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Betty Montgomery

Betty Montgomery
Auditor of State

November 6, 2006

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of New Choices Community School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2005 are as follows:

- Total net assets increased $145,469 during fiscal year 2005, which represents a 264% increase from fiscal year 2004. This increase is primarily due to the increase in non-operating revenues.

- Total assets decreased $25,719, which represents a 6% decrease from the prior year. The decrease is primarily due to the decrease in intergovernmental receivables at the end of the fiscal year 2005.

- The operating loss reported for fiscal year 2005 in the amount of ($390,529) was $537,364 less than the operating income of $146,835 reported for fiscal year 2004 or a 366% decrease in operating revenue.

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 accumulated deficit/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 are the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid. This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2005 compared with fiscal year 2004.

Table 1
Net Assets

	2005	2004
Assets:		
Current and other assets	$ 271,036	$ 218,081
Intergovernmental Receivables	56,287	129,268
Capital assets, net	50,170	55,863
Total Assets	377,493	403,212
Liabilities:		
Accounts Payable	23,888	24,906
Loan Payable	166,929	345,051
Intergovernmental Payable	68,261	69,725
Accrued Wages and Benefits	24,701	17,055
Compensated Absences	3,452	1,682
Total Liabilities	287,231	458,419
Net Capital Assets:		
Investment in Capital Assets	50,170	55,863
Unrestricted/(Accumulated Deficit)	40,092	(111,070)
Total Net Capital Assets	$90,262	$ (55,207)

Total net assets increased $145,469 during fiscal year 2005, which represents a 264% increase from fiscal year 2004. This increase is primarily due to the increase in non-operating revenues.

As noted in Table 1 above, total assets of the School decreased by $25,719 at June 30, 2005. A decrease in intergovernmental receivables of $72,981 is the primary reason for this decrease.

Total liabilities of the School at June 30, 2005 decreased over those reported at June 30, 2004 by $171,188. In the prior year, Eastway Corporation, Inc. managed operations for the School. During December 2004, the School reverted to managing its own operations. The fiscal year 2004 financial audit reported accounts payable in the amount of $345,051 which was due to Eastway Corporation. At June 30, 2005, this liability was reduced to $166,929, a decrease of $178,122, or 52% (see Note 6).

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

Table 2
Changes in Net Assets

	2005	2004
Operating Revenues:		
Foundation Revenue	$ 907,193	$ 948,413
Disadvantaged Pupil Impact Aid	28,293	16,876
Special Education Weighted Funding	48,735	11,420
Total Operating Revenues	984,221	976,709
Non-Operating Revenues		
Federal	184,511	202,956
State Grants	26,408	7,404
Sinclair Revenue	297,205	
Other Revenue	27,874	21,963
Total Non-Operating Revenues	535,998	232,323
Total Revenues	1,520,219	1,209,032
Operating Expenses		
Salaries	600,126	339,631
Fringe Benefits	142,803	96,056
Purchased Services	581,664	299,762
Materials and Supplies	21,336	5,157
Depreciation	24,303	20,581
Other Operating Expenses	4,518	68,687
Total Operating Expenses	1,374,750	829,874
Change in Net Assets	145,469	379,158
Net Assets/(Accumulated Deficit) (Restated)	(55,207)	(434,365)
Net Assets/(Accumulated Deficit) End of Year	$ 90,262	($ 55,207)

The increase in revenue totaled $311,187 or 26%. The increase in operating revenue noted for fiscal year 2005 is the result of an increase in the number of students enrolled in the School, as well as increases in the per pupil funding amount for fiscal year 2005. Additionally, during fiscal year 2005, the School received funding from Sinclair Community College in the amount of $297,205, which it did not receive in 2004.

Additionally, total operating expenses for FY 05 increased by $544,876 over the fiscal year 2004 amount. This increase is primarily due to increases in expenditures for salaries and purchased services between years.

Capital Assets

At June 30, 2005, the capital assets of the School consisted of $120,068 of furniture and equipment, offset by $69,898 in accumulated depreciation, resulting in net capital assets of $50,170. Current period purchases of capital asset additions in FY 05 totaled $18,610. Payments for the capital expenditures items comprising this amount were made in July 2006 subsequent to the June 30, 2005 cut-off date of these financial statements. See Note 7 to the basic financial statements for more detailed information on the School's capital assets.

Debt

The School entered into a contract on July 1, 2002 with Eastway Corporation for management services. Under this contract, Eastway was required to provide core management services to include accounting and reporting, financial, payroll, budgeting, quality assurance, program evaluation, information systems management, clinical information system management recruitment and hiring, personnel management, employee relations and employee benefits management. Terms of this contract provides for the receipt of a management fee equal to 10% of the School's total expenses. Amounts due Eastway for expenditures paid on behalf of the School under this contract are shown as loan payable on the statement of net assets.

During December 2004, the School terminated its contract with Eastway and reverted to the management of its own operations.

At June 30, 2005, the School had debt from loans payable to Eastway Corporation, Inc. in the amount of $166,929 for services provided in prior fiscal years. See Note 6 of the notes to the basic financial statements for more detailed information on the School's liability under this contract at June 30, 2005.

Contacting the School

This financial report is designed to provide a general overview of the finances of New Choices 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:

New Choices Community School
Attn: Treasurer
601 South Keowee Street
Dayton, Ohio 45410
(937) 224-8201

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005

Assets	
Cash	$271,036
Intergovernmental Receivables	56,287
Total Current Assets	327,323
Non-Current Assets	
Capital assets, (Net of Accumulated Depreciation)	50,170
Total Assets	377,493
Liabilities	
Accounts Payable	23,888
Loan Payable	166,929
Intergovernmental Payable	68,261
Accrued Wages and Benefits	24,701
Compensated Absences	3,452
Total Liabilities	287,231
Net Assets	
Investment in Capital Assets	50,170
Unrestricted	40,092
Total Net Assets	$90,262

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

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

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

Operating Revenues	
Foundation Revenue	$907,193
Disadvantaged Public Impact Aid	28,293
Special Education Weighted Funding	48,735
Total Operating Revenues	984,221
Operating Expenses	
Salaries	600,126
Fringe Benefits	142,803
Purchased Services	581,664
Materials and Supplies	21,336
Depreciation	24,303
Other Operating Expenses	4,518
Total Operating Expenses	1,374,750
Operating Loss	(390,529)
Non-Operating Revenues	
Federal Grants	184,511
State Grants	26,408
Sinclair Revenue	297,205
Other Revenue	27,874
Total Non-Operating Revenues	535,998
Change in Net Assets	145,469
Accumulated Deficit Beginning of Year	(55,207)
Net Assets End of Year	$90,262

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

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

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

Decrease in Cash and Cash Equivalents	
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$894,471
Cash Payments to Employees for Services and Benefits	(651,478)
Cash Payments to Suppliers for Goods and Services	(620,895)
Net Cash Used for Operating Activities	(377,902)
Cash Flows from Noncapital Financing Activities	
Federal and State Grants	283,900
Local Grants	297,205
Donations	27,874
Net Cash Provided by Noncapital Financing Activities	608,979
Cash Flows from Capital and Related Financing Activities	
Payment for Eastway Loan	(178,122)
Net Increase in Cash and Cash Equivalents	52,955
Cash and Cash Equivalents, Beginning of Year	218,081
Cash and Cash Equivalents, End of Year	271,036
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Income (Loss)	(390,529)
Adjustments to Reconcile Operating Loss	
to Net Cash Used for Operating Activities:	
Depreciation	24,303
Changes in assets and liabilities:	
Increase (Decrease) in Accounts Payable	(1,018)
Increase (Decrease) in Accrued Wages and Benefits Payable	7,646
Increase (Decrease) in Compensated Absences Payable	1,770
Increase (Decrease) in Intergovernmental Payable	(20,074)
Total Adjustments	12,627
Net Cash Used for Operating Activities	($377,902)

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

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1. DESCRIPTION OF THE ENTITY

New Choices Community School (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school that promotes excellence in education, character development, and mental health wellness for at-risk youth in Montgomery County Ohio. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and other operations. The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the school. The School qualified as an exempt organization under Section 501(c) (3) of the Internal Revenue Code.

The School was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 30, 2001. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of an eight-member Board of Directors. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 3 non-certified and 9 certificated teaching personnel who provide services to approximately 155 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of New Choices Community School have been prepared in conformity with generally accepted accounting principles (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 and 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/or 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. With this measurement focus, all assets and all liabilities are included in the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

The School must adopt a spending plan as set forth in the Ohio Revised Code 5705.391, which requires annual appropriations and annual revenue estimates.

D. Cash and Cash Equivalents

All cash received by the School is maintained in demand deposit accounts.

E. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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. The School maintains a capitalization threshold of two-thousand five hundred dollars. The School does not possess any infrastructure. 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 is computed using the straight-line method over an estimated useful life of five years.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid (DPIA) Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the primary mission of the School. For the School, operating revenues include foundation payments disadvantaged pupil impact aid, and special education weighted funding received from the State of Ohio. Operating expenses are necessary costs incurred to support the School’s primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School’s primary mission. Various state, federal and private grants comprise the non-operating revenues and expenses of the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2005, including:

Accounts Payable – The liability for this item at June 30, 2005 totaled $23,888. This amount represents amounts due vendors for goods and services received in FY 05.

Loan Payable – The School has a liability to Eastway Corporation for services performed under a management agreement with the School in prior years in the amount of $166,929. This liability is described in more detail in Note 6.

Compensated Absences – The School records a liability for accumulated unused paid leave time when earned for all employees. This amount totaled $3,452 at June 30, 2005.

Accrued Wages and Benefits and Intergovernmental Payable – Amounts representing payroll and related benefits earned but unpaid at June 30, 2005 totaled $24,701 in accrued wages and benefits and $68,261 in intergovernmental payables.

J. Federal tax exemption status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. 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.

K. Exchange and Non Exchange Transactions

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

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the School has implemented GASB Statement No. 40, "Deposits and Investment Risk Disclosure".

GASB 40 establishes and modifies the disclosure requirements related to risk associated with deposits and investments. The implementation of this statement does not result in any change to the School's financial statements.

4. CASH AND DEPOSITS

At June 30, 2005, the carrying amount of the School's deposits was $271,036. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2005, $114,528 of the School's bank balance of $314,528 was exposed to custodial risk as discussed below, while $200,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits.

Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School.

The School has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either 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 and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2005 consisted of amounts due from the Ohio Department of Education for federal grant pass-through and child nutrition credits. These amounts totaled $56,287.

6. LOANS PAYABLE

The School entered into a contract on July 1, 2002 with Eastway Corporation for management services. Under this contract, Eastway was required to provide core management services to include accounting and reporting, financial, payroll, budgeting, quality assurance, program evaluation, information systems management, clinical information system management, recruitment and hiring, personnel management, employee relations and employee benefits management. Terms of this contract provided for the receipt of a management fee equal to 10% of the School's total expenses.

During December 2004, the School terminated its contract with Eastway and reverted to the management of its own operations.

On January 12, 2005, the School entered into a Settlement Agreement and Mutual Release, with Eastway, which created a loan payable to Eastway for a term of 18 months, zero interest, with payments beginning January 31, 2005 and ending June 30, 2006.

At June 30, 2005, the School had debt from loans payable to Eastway Corporation, Inc. in the amount of $166,929 for services provided in prior fiscal years. A summary of the activity of this loan for the fiscal year ended June 30, 2005 are as follows:

6. LOANS PAYABLE (Continued)

	Balance 7/1/04	Increase	Decrease	Balance 6/30/05	Amount Due in One Year
Loan Payable (Eastway Corp.)	$345,051	$0	$178,122	$166,929	$166,929

7. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and Equipment	$ 101,458	$ 18,610	$ -	$ 120,068
Less: Accumulated Depreciation	(45,595)	(24,303)	-	(69,898)
Net Capital Assets	$ 55,863	$ (5,693)	$ -	$ 50,170

8. 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.

Professional liability and vehicle coverage is provided by Acordia/Baldwin and Whitney Insurance Company. Professional liability has a $1,000,000 single occurrence limit and $3,000,000 aggregate limit. Automobile liability has a $1,000,000 combined single limit of liability and no deductible.

B. Workers' Compensation

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

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute, Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite l00, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853. It is also posted on SERS website, www.ohsers.org under Forms and Publications.

9. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were $11,243, $9,263, and $7,965 respectively.

B. State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary, multiplied by 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 of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of their annual covered salaries. The School 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's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004 and 2003 were $46,997, $38,699 and $60,118 respectively.

10. POST-EMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio.

Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, which is currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year ended June 30, 2005, the Board allocated employer contributions equal to 1.0% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.3 billion on June 30, 2005. For the School, this amount equaled $3,615 during the 2005 fiscal year.

For the year ended June 30, 2005, net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, the allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at $27,400. For the School, the amount to fund health care benefits, including the surcharge, was $3,648 for fiscal year 2005.

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 fund is 150% of the projected claims less premium contributions for the next fiscal year. Expenses for health care at June 30, 2005, were $178,221,113 and the target level was $267.3 million. At June 30, 2005, the Retirement System's net assets available for payment of health care benefits of $267.5 million. The number of benefit recipients currently receiving heath care benefits is approximately 58,123.

11. STATE SCHOOL FUNDING DECISION

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. Such disallowed claims would have a material adverse effect on the overall financial position of the School at June 30, 2005.

11. STATE SCHOOL FUNDING DECISION (Continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review has resulted in state funding being adjusted for fiscal year 2005. The adjustment to state funding for the School is an increase in the amount of $7,325 for fiscal year 2005. This amount is included in the financial statements as an intergovernmental receivable.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging that Ohio's Community (i.e., Charter) Schools program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts pending appeal of the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and the case was heard for oral argument on November 18, 2003. On August 24, 2004, the Court of Appeals rendered a decision that Community Schools are part of the State public education system and this matter was sent to the Ohio Supreme Court. The Ohio Supreme Court accepted the appeal from the Court of Appeals for review on February 16, 2005. Oral argument occurred November 29, 2005. The effect of this suit, if any, on the New Choices Community School is not presently determinable.

D. State Contract

The School received approximately 100% of its operating income from the State of Ohio. Accordingly, the risk exists that the ability to continue the contract with the state of Ohio could affect the financial status of the School.

12. MANAGEMENT SERVICES CONTRACT

The School entered into a one-year contract with Eastway Corporation for management services on July 1, 2002. Under the contract, Eastway was required to provide core management services including accounting and reporting, financial, payroll, budgeting, quality assurance, program evaluation, information systems management, clinical information system management, recruitment and hiring, personnel management, employee relations and employee benefit management. Eastway received a management fee equal to 10% of the School's total expenses for those services. On November 25, 2003, the School's Board passed a resolution approving the "Continued Security Agreement" between New Choices Community School and Eastway Corporation. This agreement continued until December 31, 2004, in which time New Choices took over the management oversight responsibility of the School. For the year ended June 30, 2005, the School expensed $87,075 under this contract.

13. PURCHASED SERVICES

For the period ended June 30, 2005, purchased services expenses were payments for services rendered by various vendors as follows:

Contract Services	$ 355,238
Occupancy Costs	63,476
Educational Supplies	6,333
Advertising	6,373
Building Maintenance	108,960
Other	41,284
	$ 581,664

14. OPERATING LEASES

The School leases its facilities from the Dayton Boys and Girls Club under an initial lease agreement beginning September 23, 2002 and ending June 30, 2005. The monthly lease payments during fiscal year 2005 were $5,000. Total rental payments for fiscal year 2005 were $60,000.

15. SUBSEQUENT EVENTS

On June 10, 2005, the School entered into a one year agreement with St. Aloysius Orphanage to provide sponsorship services for a fee of 2% of operating funds received, effective July 1, 2005.

On February 6, 2006, the School entered into agreement with Fifth Third Bank to obtain a $35,000 revolving line of credit, at 2% interest.

On July 10, 2006, the School entered into a four year agreement with St. Aloysius Orphanage to provide sponsorship services for a fee of 21/2% of operating funds received, effective July 1, 2006.

The School is in the process of negotiating the purchase of a facility from the Boys and Girls Club, which it is currently leasing. The School's officials are working with Fifth Third Bank to obtain a 25-year loan for this purchase. On October 1, 2006, the School entered into an agreement with the Boys and Girls Club to purchase the facility for $425,000.

16. ACCOUNTABILITY

Contrary to federal law the School reported wages of their employees under the same EIN as Eastway Corporation and not the EIN of the School.

Additionally, contrary to federal, state, and local guidelines the School failed to remit payroll withholdings of federal income tax, Medicare taxes, state income taxes, local income taxes, State Teachers Retirement, and School Employees' Retirement.

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

New Choices Community School
Montgomery County
601 South Keowee Street
Dayton, Ohio 45410

To the Board of Governance:

We have audited the financial statements of the business-type activities of New Choices Community School (the School) as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures 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. Reportable conditions are described in the accompanying schedule of findings as items 2005-009 through 2005-011.

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. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School's management dated November 6, 2006, 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 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 2005-001 through 2005-008. In a separate letter to the School's management dated November 6, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Board of Governance. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

November 6, 2006

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2005

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

FINDING NUMBER 2005-001

Internal Revenue Code Chapter 26 [26 U.S.C.] – Collection of Income Tax at Source on Wages; 26 U.S.C. 3401 through 3406 also (26 C.F.R.) 1.6041-2 and ORC 5747.06, indicates that the employees' wages of the School, should be reported under an Employer Identification Number (EIN) assigned to New Choices Community School, in accordance with the Collection of Ohio Income Tax at source.

Wages of the employees of the School were reported as Eastway Corporation's wages and not the School's. The School did not report wages to federal agencies or the State of Ohio under the entity name and identification number of New Choices Community School.

New Choices Community School should file all applicable federal and state forms for wages earned for the period correctly identifying wages earned as the School's expenditures under a separate EIN. This will help to provide compliance with applicable federal and state laws and requirements, and help reduce the possibility of additional expenditures to the school for fines imposed for improper tax filings.

FINDING NUMBER 2005-002

26 USC 3402 (a) states that, in general, except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary of Treasury.

During the audit period, the School did not remit to the United States Treasury, $30,974 of federal income taxes withheld from employee wages.

The School should remit all federal income taxes withheld. This will help reduce the possibility of additional expenditures to the school for fines imposed for late tax filings.

FINDING NUMBER 2005-003

26 USC 3102 (a) states that the tax imposed by section 3101 shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages as and when paid. **26 USC 3111 (a)** states that in addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to the percentages of the wages (as defined in section 3121[a]) paid by him with respect to employment.

During the audit period, the School did not remit to the United States Treasury, Medicare taxes totaling $5,869 withheld from employee wages.

The School should remit all Medicare taxes withheld. This will help reduce the possibility of additional expenditures to the school for fines imposed for late tax filings.

FINDING NUMBER 2005-004

Ohio Rev. Code § 5747.06 states that except as provided in division (E)(3) of the same statute, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer, shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in his adjusted gross income during the calendar year. The employer shall deduct and withhold the tax on the date that the employer directly, indirectly, or constructively pays the compensation to, or credits the compensation to the benefit of, the employee. The method of determining the amount to be withheld shall be prescribed by rule of the tax commissioner.

During the audit period, the School did not remit to the State of Ohio, $9,437, in state taxes withheld from employee wages. The School should remit all state income taxes withheld. This will help reduce the possibility of additional expenditures to the school for fines imposed for late tax filings.

FINDING NUMBER 2005-005

Pursuant to §36.104 (A) of the City of Dayton Income Tax Ordinance, every employer shall at the time of payment of any salary, wage, commission, or other compensation deduct the tax imposed by this chapter from the gross salaries, wages, commissions, or other compensation due by the employer to his employees who are subject to the tax.

During the Period, the School did not remit to the City of Dayton, $6,972 of city income taxes withheld from employee wages.

The School should remit all city income taxes withheld. This will help reduce the possibility of additional expenditures to the school for fines imposed for late tax filings.

FINDING NUMBER 2005-006

Ohio Rev. Code §3314.10 and §3307.26 state that each teacher shall contribute ten percent of his or her compensation to the State Teachers Retirement System (STRS). The contribution for all teachers shall be deducted by the employer on each payroll in an amount equal to the applicable percent of the teachers' paid compensation for such payroll period or other period as the Governing Authority may approve.

As of June 30, 2005, the School owed STRS $1,207 for amounts withheld from employee wages, but not remitted. The School should remit all STRS withholdings withheld. This will help reduce the possibility of additional expenditures to the school for fines imposed for late pension filings.

FINDING NUMBER 2005-007

Ohio Rev. Code §3314.10 and §3309.47 state that each school employee's retirement contributor shall contribute ten percent of his compensation to the employees' savings fund. The contributions by the director of the school employees' retirement board shall be deducted by the employer from the compensation of each contributor on each payroll of such contributor for each payroll period and shall be an amount equal to the required percent of such contributor's compensation. **Ohio Rev. Code §3309.49** states that each employer shall pay to the School Employees' Retirement System (SERS) an amount certified by the secretary that shall be a certain percent of the earnable compensation of all employees, and shall be known as the "employer contribution."

As of June 30, 2005, the School owed SERS $5,637 for contributions withheld from employee wages but not remitted to SERS. The School should remit all SERS withholdings withheld. This will help reduce the possibility of additional expenditures to the school for fines imposed for late pension filings.

FINDING NUMBER 2005-008

Ohio Rev. Code § 149.351 states all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Ohio Rev. Code § 149.41.

Supporting documentation for 100% of intergovernmental receivables totaling $56,287 and two expenditures totaling $7,583.33 could not be located. All documentation and records should be maintained.

The School should review their policy for the retention of public records to determine compliance with the above section of the Ohio Revised Code.

FINDING NUMBER 2005-009

Loan Agreement

The Board entered into a debt agreement on January 12, 2005, for $434,365 with the Eastway Corporation (the school's former management company) of which $89,314 is unsupported by documentation. The Board subsequently approved a resolution on February 2, 2006, retroactive to the original debt agreement date to amend the amount to $345,051, the amount calculated by the Auditor of State. However, this was not approved by Eastway's Board.

By entering into an agreement to expend monies without proper supporting documentation the School cold run the risk of illegally expending public monies.

The School should have evidence that goods or services were received before approval of loan payments to Eastway. The School should also enter into a revised debt agreement with Eastway Corporation for the amount of $345,051.

FINDING NUMBER 2005-010

Capital Assets Policy

The Community School has not developed and implemented a Board approved capital asset policy to address asset capitalization issues, and procedures to account for additions and deletions of capital assets throughout the year. In addition, the School did not have a capital asset accounting system which maintains a total capital asset listing and other supplemental information for the School's asset inventory, nor did the School perform periodic physical inventories of the capital assets. Failure to obtain timely records or employ adequate controls over the acquisition and disposal of capital assets could result in misappropriation of assets and misstatements of recorded assets.

Additionally, the School depreciated its FY 05 additions of equipment and furnishings over 5 years, which has been consistent with prior year's depreciation of the same category. According to the School's capital assets policy equipment and furnishings have an estimated useful life of 7 years. Thus, the School did not depreciate its equipment and furnishings according to the estimated useful life policy approved by the School, which could result in a lack of consistency in the financial statements between years.

The School should review the useful life policy currently in use, determine the desired useful life and formally adopt a policy to ensure consistent reporting.

To assist the School in maintaining adequate controls over their capital assets, and reduce the risk that the School's capital assets will be materially misstated, the Governing Board should develop and implement appropriate capital asset policies and procedures to be performed throughout the year for the timely maintenance of capital asset records.

At a minimum, these policies and procedures should address capitalization issues and establishing a capitalization threshold; tagging and recording of purchased assets meeting the School's established capitalization threshold; accounting for asset additions and deletions; performance of an annual physical inventory of capital assets and reconciliation to asset records; computing of periodic depreciation; and asset disposal procedures. Capital asset records should include such information as a description of the item, the cost, the acquisition date, location, tag number, and any other supporting information. Reasonable estimated lives for assets should also be developed and used in the periodic depreciation of assets.

The School should also develop and maintain a capital asset accounting system which accurately represents all capital assets owned by the School. The system should be capable of maintaining a complete asset inventory indicating asset tag number; location; date acquired, cost, manufacture, model and serial number, and useful life.

Implementation of a comprehensive capital asset policy and procedure will allow the Board to use accurate information in decision making procedures, including replacement of items, and give an accurate accounting for annual depreciation and maintenance expenses. Further, accurate records will increase the School's ability to secure recovery in the event of the loss of assets.

FINDING NUMBER 2005-011

Auditor of State Bulletin 2000-005 states all community schools are required to prepare an annual financial report in accordance with generally accepted accounting principles (GAAP). The annual financial report is required to be filed with the Auditor of State within one hundred and fifty days after the close of the fiscal year.

FINDING NUMBER 2005-011
(Continued)

Additionally, the Auditor of State Bulletin 2000-005 states the management of each community school is 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 its assets, the efficiency of effectiveness of its operation, and its compliance with applicable laws, regulations, and contracts.

The School received an extension to this deadline until January 31, 2006. They did not file their annual financial report until March 20, 2006. Further, the School did not have adequate controls over cash reconciliations, record retention of accounts payable, and cash disbursements. In designing its internal control process, management should consider policies and procedures that provide for the following:

- Appropriate authorization and approval of transactions;
- Adequately design records to facilitate classification and summarization of transactions;
- Security of assets and records;
- Segregation of incompatible duties;
- Periodic reconciliations of account balances;
- Periodic verification of assets.

To comply with the abovementioned Auditor of State Bulletin, the School should file their annual financial report by the required deadline. Additionally, the School should design and implement control procedures based on the abovementioned auditor of state bulletin.

Auditor's Comment:
As of the date of this report, all of the remittances required in Finding Numbers 2005-002 through 2005-007 have been paid.

Officials' Response:
We are in receipt of the Management Letter, Schedule of Findings and the Adjustments or Reclassifications to our financial statements. We have no substantial disagreement with any of the aforementioned documents. We believe we have corrected all of the findings, except for the creation of a capital policy, and that is now on the board agenda.

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2004-001	ORC Sec. 149.43 – The School failed to retain all required public records	No	Not Corrected – Repeated in part as Finding 2005-008
2004-002	26 U.S.C. 3401 - 3406, 26 C.F.R. 1.6041-2 & ORC Sec. 5747.06 – Failure to file federal and State taxes under a separate employer identification number (EIN)	No	Not Corrected – Repeated as Finding 2005-001
2004-003	The School should file its annual report on a time basis in accordance with AOS Bulletin 2000-05	No	Not Corrected – Repeated as Finding 2005-011
2004-004	The School should develop and adopt a Capital Assets Policy	No	Not Corrected – Repeated as Finding 2005-010

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NEW CHOICES 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
NOVEMBER 28, 2006