



Mary Taylor, CPA
Auditor of State

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Directors:

We have audited the accompanying financial statements of the New Choices Community School, Montgomery County (the School), as of and for the year ended June 30, 2008, 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, 2008, 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.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As shown in the accompanying financial statements, the School has incurred a working capital deficiency of \$579,408, an operating loss of \$475,236, and an accumulated deficit of \$383,884, that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2009 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.

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

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

Mary Taylor, CPA
Auditor of State

September 3, 2009

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

The discussion and analysis New Choices Community School (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2008. 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 2008 are as follows:

- Total net assets of the School increased \$77,408 in fiscal year 2008, resulting in an ending accumulated deficit of \$383,884 at June 30, 2008 compared to the accumulated deficit of \$461,292 reported one year prior.
- Total assets increased by \$13,897 during the year due to an increase in the amount reported for current and other assets, primarily an increase in the cash balance on hand at year end, exceeding the decrease in the amount reported for net capital assets.
- The School's operating loss for fiscal year 2008 was \$475,326 compared with an operating loss of \$731,582 reported for the prior year due to management's tight control of operating expenditures due to the financial difficulties encountered by the School.

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 change in accumulated deficit, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

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

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.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Table 1 provides a summary of the School's net assets for fiscal year 2008 compared with fiscal year 2007.

**Table 1
Net Assets**

	2008	2007
Assets:		
Current and other assets	\$ 70,398	\$ 45,009
Capital assets, net	412,107	423,599
Total Assets	482,505	468,608
Liabilities:		
Current liabilities	641,806	656,317
Non-current liabilities	224,583	273,583
Total Liabilities	866,389	929,900
Net Assets:		
Invested in capital assets	138,524	60,016
Unrestricted	(522,408)	(521,308)
Total Net Assets	(\$383,884)	(\$461,292)

The total net assets of the School increased by \$77,408 during fiscal year 2008 due to an increase in the revenues recorded by the School as well as a reduction in the operating expenses during the year.

As noted in Table 1 above, total liabilities decreased by \$63,511 from those reported at June 30, 2007. During the year, the School paid \$98,000 of principal on notes and line-of-credit balances. In addition, \$139,896 was paid on amounts owed to the Internal Revenue Service during fiscal year 2008 for amounts owed for back taxes, which were obligations of prior years. The payment on these two liability accounts was somewhat offset by increase in the amounts reported as account payable at year-end as well as \$11,000 of additional borrowing against the line-of-credit during the year.

Total assets increased by \$13,897 over those reported for fiscal year 2007. Current and other assets reported at year-end increased by \$25,389 over those reported for the prior year due to an improved ending cash balance. Net capital assets decreased due to depreciation expense exceed current year additions for fiscal year 2008.

Overall, the School reported an ending accumulated deficit of \$383,884 at June 30, 2008 compared with the \$461,292 deficit reported one year prior. The net assets invested in capital assets increased due to the payment of capital related debt during the year. Unrestricted net assets slightly decreased over the amount reported for the prior year.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008, as well as revenue and expense comparisons to fiscal year 2007.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

**Table 2
Change in Net Assets**

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Foundation payments	\$1,766,473	\$1,562,861
Non Operating Revenues:		
Federal Grants	217,168	294,764
State Grants	11,200	8,383
Sinclair revenue	289,204	205,313
Other revenue	57,983	61,500
Total Revenues	<u>2,342,028</u>	<u>2,132,821</u>
Operating Expenses:		
Salaries	1,164,969	999,784
Fringe Benefits	284,817	345,533
Purchased services	693,913	744,505
Materials and supplies	41,770	126,661
Depreciation	12,272	27,837
Other expenses	43,968	50,123
Non Operating Expenses:		
Interest and fiscal charges	22,911	48,112
Total Expenses	<u>2,264,620</u>	<u>2,342,555</u>
Change in Net Assets	77,408	(209,734)
Net Assets(Deficit), beginning of year	<u>(461,292)</u>	<u>(251,558)</u>
Net Assets, end of year	<u>(\$ 383,884)</u>	<u>(\$ 461,292)</u>

As shown in Table 2 above, total revenue received by the School for fiscal year 2008 was \$209,207 more than the revenue received in the prior year, a 9.81 percent increase. The increase in funding received through the State Foundation funding program increased \$203,612 from the levels received in fiscal year 2007 due to a significant increase in the number of students attending the School as well as an increase in the per pupil funding amount used in the funding calculation. Federal grants awarded through the Ohio Department of Education (ODE) decreased \$77,596 for fiscal year 2008 from the amounts recognized in the prior year due to the decrease in the grant allocation by ODE.

Total expenses of the School reported for the fiscal year were \$77,935 lower than those reported for the fiscal year 2007, a decrease of 3.33 percent. One category of expenses reported an increase in fiscal year 2008 compared with the prior year; salaries increase by \$165,185, 16.52 percent, due to annual wage increases and staff added. Other categories of expenses reported significant decreases due to tight monitoring of operating expense by management due to the financial difficulties the School encountered the past eighteen months.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Capital Assets

At June 30, 2008, the capital assets of the School consisted of \$541,949 of land, buildings and improvement, and furniture and equipment which was offset by \$129,842 in accumulated depreciation resulting in net capital assets of \$412,107. The School had capital asset purchases of \$780 during the year while depreciation expense for the year was \$12,272.

See Note 4 of the notes to the basic financial statements for additional information on the School's capital assets.

Debt

At June 30, 2008, the School had total debt obligations of \$389,878; \$273,583 owed on a mortgage note payable, 89,314 owed on a loan payable to Eastway Corporation, and \$26,981 on an unsecured line of credit. The mortgage note was incurred in the prior year to provide financing to purchase the building currently being used to house the junior high classes. The loan to Eastway Corporation is for the liquidation of amounts still payable to Eastway as of June 30, 2004. The line of credit is used to provide financing for operating activities.

During the year, the School made total principal payments of \$90,000 on two mortgage notes; \$41,000 paid to the Boys and Girls Club of Dayton to satisfy that obligation and \$49,000 to Fifth Third Bank related to the mortgage note payable still outstanding at year-end.

No payments were made during fiscal year 2008 on the remaining loan amount of \$89,314 that was owed to Eastway Corporation for services provided in prior years. The loan was to be repaid by June 30, 2006.

The School also paid \$8,000 to Fifth Third Bank related to the unsecured line of credit it has with the institution. However, during the year the School also drew an additional \$11,000 on that line of credit which resulted in a year-end obligation of \$26,981.

See Notes 9 and 10 of the notes to the basic financial statements for additional information related to the debt obligations of the School.

Contacting the School

This financial report is designed to provide a general overview of the finances of the New Choices Community School, Inc., Inc. 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, Inc.
Attn: Treasurer
601 South Keowee Street
Dayton, Ohio 45410
(937) 224-820

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2008**

Assets:

Current Assets:

Cash and Cash Equivalents	\$52,119
Intergovernmental Receivables	10,279
Total Current Assets	<u>62,398</u>

Non-current Assets:

Security Deposit	8,000
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Capital Assets:

Non-depreciable	35,215
Capital Assets, net of accumulated depreciation	376,892
Total Non-current assets	<u>420,107</u>

Total Assets	<u>482,505</u>
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Liabilities:

Current Liabilities:

Accounts Payable	263,726
Accrued Wages Payable	90,928
Intergovernmental Payable	105,444
Compensated Absences Payable	16,413
Line of Credit Payable	26,981
Notes payable	138,314
Total Current Liabilities	<u>641,806</u>

NonCurrent Liabilities:

Notes payable	<u>224,583</u>
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Total Liabilities	<u>866,389</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	138,524
Accumulated Deficit	<u>(522,408)</u>

Total Accumulated Deficit	<u><u>(\$383,884)</u></u>
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See accompanying notes to the financial statements.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN ACCUMULATED DEFICIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Operating Revenues:	
Foundation Revenue	\$1,766,473
Total Operating Revenues	<u>1,766,473</u>
Operating Expenses:	
Salaries	1,164,969
Fringe Benefits	284,817
Purchased Services:	
Building Rental Payments	105,000
Sponsor Contractual Fees	38,750
Other Purchased Services	550,163
Materials and Supplies	41,770
Depreciation	12,272
Other	43,968
Total Operating Expenses	<u>2,241,709</u>
Operating Loss	<u>(475,236)</u>
Non-Operating Revenues and (Expenses):	
Federal Grants	217,168
State Grants	11,200
Sinclair Revenue	289,204
Rental income	35,754
Other Revenue	22,229
Interest and Fiscal Charges	(22,911)
Total Non-Operating Revenues and (Expenses)	<u>552,644</u>
Change in Net Assets	77,408
Accumulated Deficit Beginning of Year	<u>(461,292)</u>
Accumulated Deficit End of Year	<u><u>(\$383,884)</u></u>

See accompanying notes to the financial statements.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash from State of Ohio	\$1,764,557
Cash Payments to Suppliers for Goods and Services	(608,673)
Cash Payments to Employees for Services and Benefits	<u>(1,575,803)</u>

Net Cash Used for Operating Activities (419,919)

Cash Flows from Noncapital Financing Activities

Federal and State Grants	239,014
Local Grants	289,204
Other Non-operating Revenues	<u>57,983</u>

Net Cash Provided by Noncapital Financing Activities 586,201

Cash Flows from Capital and Related Financing Activities

Proceeds from Line of Credit	11,000
Payment for Capital Acquisitions	(780)
Payment on Line of Credit	(8,000)
Payment on Notes Payable	(90,000)
Interest and Fiscal Charges	<u>(26,383)</u>

Net Cash Used for Capital and Related Financing Activities (114,163)

Net Increase in Cash and Cash Equivalents 52,119

Cash and Cash Equivalents, Beginning of Year

Cash and Cash Equivalents, End of Year 52,119

Reconciliation of Operating Loss to Net Cash Used for Operating Activities:

Operating Loss (475,236)

Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:

Depreciation 12,272

Changes in Assets and Liabilities:

Increase in Intergovernmental Receivable Related to State Foundation Program	(1,916)
Decrease in Prepaid Expenses	18,000
Increase in Accounts Payable	153,098
Increase in Accrued Wages Payable	9,989
Decrease in Intergovernmental Payable	(138,274)
Increase in Compensated Absences Payable	<u>2,148</u>
Total Adjustments	<u>55,317</u>

Net Cash Used for Operating Activities (\$419,919)

See accompanying notes to the financial statements.

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**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE SCHOOL AND REPORTING 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 qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code.

The School was initially approved for operation under contract with the Ohio State Board of Education (Sponsor) for a period of five years commencing with fiscal year July 1, 2001. On June 10, 2005 the Sponsor contract was assigned to St. Aloysius Orphanage (SAO). A new Sponsor contract was entered into between the School and SAO on June 30, 2005 for an original term of July 1, 2005 through June 30, 2006. This contract is extended thereafter for additional one-year terms from July 1 to June 30 unless either party notifies the other in writing at least ninety days prior to June 30 that it does not wish to renew the contract. Neither party has cancelled the contract, therefore the Sponsor contract with SAO was extended to cover fiscal year 2008.

The School operates under the direction of a seven-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, admissions standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 30 staff members who provide services to approximately 233 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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; however the School has elected not to follow any FASB statements or interpretations after November 30, 1989. The more significant of the School's accounting policies are described below.

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in 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/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund 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. The difference between total assets and liabilities are defined as net assets. The statement of revenues, expenses and change in accumulated deficit increases (i.e., revenues) and decreases (i.e., 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 utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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 monies received by the School are maintained in demand deposit accounts.

E. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid expenses using the consumption method. A current asset for the prepaid amount is recorded at the time the expenditure is made and an expense in the year in which the services are consumed.

F. 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.

G. 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 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 expense is computed using the straight-line method over estimated useful lives as follows: buildings – 40 years; building improvements – 15 years; and equipment – 5 years.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Intergovernmental Revenues

The School currently participates in the State Foundation Program. The foundation funding is recognized as operating revenues in the accounting period in which they are earned, essentially the same as the fiscal year.

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

I. 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 includes State Foundation payments 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 federal, state and private grants, as well as miscellaneous revenues, comprise the non-operating revenues and expenses of the School.

J. Accrued Liabilities Payable

Accounts Payable - payments due to various vendors for goods received or services provided during fiscal year 2008 which were not paid until after the close of the fiscal year.

Accrued Wages Payable – salary payments made after year-end that were for services rendered in rendered in fiscal year 2008. Teaching personnel are paid in 26 equal installments, ending with the last pay period in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2008 for all salary payments made to teaching personnel during the months of July and August 2008 that related to fiscal year 2008 contracts.

Intergovernmental Payable – payment for the employer's share of the retirement contribution (\$12,730), workers' compensation (\$710) and Medicare (\$1,319) associated with services rendered during fiscal year 2008 that were paid in the subsequent fiscal year.

In addition, during the prior fiscal year it was determined by the School that federal payroll taxes withheld from employee's wages were not remitted to the Internal Revenue Service as required. At the beginning of the year the School's liability was \$230,581. During the current fiscal year payments totaling \$139,896 were made against this liability resulting in \$90,685 of remaining liability at June 30, 2008. Shortly after year-end, the School settled the liability by paying the IRS in full for the remaining amounts owed.

During Fiscal Year 2008, the Internal Revenue Service placed liens in favor of the United States on the School's Building located at 601 South Keowee Street in the amount of \$146,779.

K. 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 a tax-exempt organization 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.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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 specific purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

3. CASH AND DEPOSITS

The School does not have a policy addressing custodial credit risk for its deposits. At June 30, 2008, the carrying amount of the School's deposits was \$52,119 and the bank balance was \$64,648, all of which was covered by depository insurance of the Federal Deposit Insurance Corporation (FDIC).

4. CAPITAL ASSETS

A summary of the School's capital assets at June 30, 2008, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 35,215			\$ 35,215
Buildings and Improvements	393,285	\$ 780		394,065
Furniture and Equipment	112,669			112,669
	<u>541,169</u>	<u>780</u>		<u>541,949</u>
Less: Accumulated Depreciation on				
Buildings and improvements	9,978	10,030		20,008
Furniture and equipment	107,592	2,242		109,834
Net Capital Assets	<u>117,570</u>	<u>12,272</u>		<u>129,842</u>
Total Net Capital Assets	<u>\$423,599</u>	<u>(\$11,492)</u>	<u>\$0</u>	<u>\$412,107</u>

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

5. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Professional liability and vehicle coverage is provided by Philadelphia Insurance Company in the following amounts: Professional liability has a \$1 million single occurrence limit and \$3 million aggregate limit. Property is covered for \$945,000. Property content coverage is \$100,000 at the School owned facility and \$50,000 at the rented property. Loss of business income coverage is maximum \$600,000. Automobile liability has a \$1 million combined single limit of liability and no deductible. Employee theft coverage is \$15,000 per occurrence.

There has been no reduction in coverage from the prior year and settled claims have not exceeded the School's coverage in any of the past three years.

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.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 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 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$16,992, \$26,981 and \$29,885 respectively; 100 percent has been contributed for all fiscal years.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

6. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan Description - The School participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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 benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent 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 to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$133,144, \$95,611, and \$83,850 respectively; 100 percent has been contributed for all fiscal years.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

7. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$5,073, \$12,035, and \$13,900 respectively; 100 percent has been contributed for all fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$801, \$1,311, and \$1,655 respectively; 100 percent has been contributed for all fiscal years.

B. State Teachers Retirement System

Plan Description – The School contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$9,510, \$7,355, and \$6,450 respectively; 100 percent has been contributed for all fiscal years.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

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 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, 2008.

B. State funding

The Ohio Department of Education conducts reviews of enrollment data and FTE calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review has resulted in an increase of state funding by \$4,253 for fiscal year 2008 which is included in the financial statements as an intergovernmental receivable.

C. State Contract

The School receives 100 percent of its operating income from the State of Ohio under the State Foundation program. Accordingly, the risk exists that the ability to continue the contract with the State of Ohio could affect the financial status of the School.

In September 2008, the Attorney General of Ohio declared his intention to revoke the State Charter of the School due to perceived lack of progress in attaining satisfactory test results on the annual "State Report Card" published by the Ohio Department of Education. The management of the School strongly objects to the Attorney General's intention and will aggressively work towards maintaining its State Charter. If the Attorney General continues to pursue this course of action and is successful in revoking the State Charter of the School, the School will be forced to cease operating as a community school.

9. SHORT-TERM OBLIGATIONS

A summary of the School's short term obligations activity for the year follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Loan Payable (Eastway Corporation)	\$ 89,314			\$ 89,314
Line of credit - Fifth Third Bank	23,981	\$11,000	(\$8,000)	26,981
Total	<u>\$113,295</u>	<u>\$11,000</u>	<u>(\$8,000)</u>	<u>\$116,295</u>

A. Loan 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.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

9. SHORT-TERM OBLIGATIONS (Continued)

In December 2004, the School terminated the contract with Eastway and reverted to the management of its own operation. By agreement dated January 12, 2005, between Eastway Corporation and New Choices Community School (School) a settlement was reached for the liquidation of amounts still payable to Eastway by the School through a down payment and a promissory note. Terms of the agreement provided for a down payment of \$50,000 and a promissory note of \$384,365 repaid through eighteen monthly installments of \$21,353.61, commencing on January 31, 2005 and continuing until June 30, 2006 when the last monthly installment payment shall be due and payable, for a total payment of \$434,365. This note is unsecured and interest-free.

The delivery by the School to Eastway Corporation of the \$50,000 down payment along with the execution of the promissory note for \$384,365 shall constitute full and complete settlement of all claims which have been asserted or may be asserted by Eastway against the School.

During fiscal year 2008, no payments were made to Eastway Corporation on the loan. The remaining loan amount of \$89,314 is now past due as the entire loan amount was to be repaid by June 30, 2006.

B. Line of Credit

During fiscal year 2008, the school borrowed an additional \$11,000 against a \$35,000 line of credit it established in February 2006 with Fifth Third bank. The amount along with the \$23,981 drawn in previous fiscal years, was used to provide financing for operating activities. The interest rate provision of the line of credit is a floating rate per annum equal to two percent in excess of the rate of interest established from time to time by Fifth Third Bank at its principal office as its "Prime Rate", whether or not Fifth Third Bank shall at times lend to borrowers at lower rates of interest or, if there is not such prime rate, then such other rate may be substituted by Fifth Third Bank for the Prime rate. In the event of a change in said prime rate, the interest rate on the line of credit shall be changed immediately to the new prime rate plus two percent. During fiscal year 2008, the School paid \$8,000 in principal payments on the line of credit. At June 30, 2008 the interest rate was 9.00 percent.

10. LONG-TERM DEBT OBLIGATIONS

In the prior fiscal year, the School entered into two notes payable agreements to provide financing for the acquisition of capital assets.

On December 22, 2006 the School signed a mortgage term note to Fifth Third Bank for \$343,000 payable in 84 equal monthly installments which commenced on February 6, 2007. This note carried a 7.63 percent fixed interest rate. This note is secured with a first mortgage lien against the property at 601 South Keowee Street, Dayton, Ohio 45410.

On December 22, 2006 the School signed a promissory note to the Dayton Boys Club for \$82,000 payable in twelve equal monthly installments which commenced on February 1, 2007. No interest will accrue on this Note; except that if any monthly payment is not paid in full within 30 days after its due date, the lender has the option to declare this Note an interest bearing note, with interest to accrue at the rate of 10 percent per annum on any unpaid balance. This note is secured with a second mortgage lien against the property listed above.

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

10. LONG-TERM DEBT OBLIGATIONS (Continued)

Annual debt service requirements to maturity for these notes payable are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2009	\$49,000	\$19,225	\$68,225
2010	49,000	15,474	64,474
2011	49,000	11,724	60,724
2012	49,000	7,993	56,993
2013	49,000	4,222	53,222
2014	28,583	732	29,315
Total	<u>\$273,583</u>	<u>\$59,370</u>	<u>\$332,953</u>

The long-term obligation activity of the School for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Amount due within 1 year
Notes Payable:					
Fifth Third Bank	\$322,583		(\$49,000)	\$273,583	\$49,000
Boys and Girls Club	41,000		(41,000)		
Total	<u>\$363,583</u>	<u>\$0</u>	<u>(\$90,000)</u>	<u>\$273,583</u>	<u>\$49,000</u>

11. OTHER PURCHASED SERVICES

During the fiscal year ended June 30, 2008, other purchased service expenses for services rendered by various vendors were as follows:

Professional & Technical Services	\$214,074
Property Services	111,466
Communications	11,382
Utilities	82,064
Contract craft or labor	48,125
Other	83,052
	<u>\$550,163</u>

12. OPERATING LEASES:

During fiscal year 2008, the School entered into two lease agreements for space to hold classes. One was a sublease agreement with the East End Community School. This was a one-year agreement effective July 1, 2007 and required monthly rental payments of \$8,000 with an additional \$8,000 required as a security deposit. After the termination of the sublease agreement, the School entered into a rental agreement with the Holy Family Roman Catholic Church for the lease of the same property. The terms and amounts of the lease agreement are the same as those in the sublease agreement. Total lease payments for fiscal year 2008 were \$72,000.

On November 1, 2007 the School entered into a lease agreement with Real Estate Investors Place, LLC to rent space to provide educational services. The agreement was for a one-year period effective November 1, 2007 and called for monthly rental payments of \$1,000. The lease automatically renewed for an additional one-year period unless either party provided a written notice of termination no later than 30 days prior to end of the term or renewal term. On May 5, 2008 the School notified Real Estate Investors Place that they would not be renewing the lease agreement. Total lease payments for fiscal year 2008 were \$7,000

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2008
(Continued)**

13. MANAGEMENT'S PLAN FOR CONTINUED EXISTENCE

As shown in the accompanying financial statements, the New Choices Community School had a total accumulated deficit of \$383,884 as of June 30, 2008 which is primarily due to payables including intergovernmental payables. The School's long range plans are to decrease expenditures. This will be accomplished by eliminating the junior high, discontinuing the lease for the high school building, and controlling staffing levels as appropriate.

14. SUBSEQUENT EVENTS

The liens in favor of the United States that were placed on the School's Building located at 601 South Keowee Street in the amount of \$146,779 by the Internal Revenue Service (IRS) were all released by November 2009 after the School paid all amounts due to the IRS for unpaid taxes, penalties and interest.

On September 12, 2007, the Ohio Attorney General filed a complaint in Montgomery County Ohio Court of Common Pleas against New Choices Community School, its sponsor St. Aloysius Orphanage, and individual members of the School's governing authority. The Attorney General claimed that Ohio's community schools are charitable/public trusts over which he has regulatory power. The claim contends the School's academic and financial records establish that it is a failing charitable/public trust. Originally the complaint sought to close the School and distribute its assets. Subsequently, the complaint was amended to seek the removal of the School's governing authority as alternative relief. On September 25, 2008 the trial court grant the defendants' motion for judgment on the pleadings, dismissing all claims against the School, concluding that community schools are not charitable/public trusts over which the Attorney General has regulatory power. On October 24, 2008, the Attorney General appealed the trial court's decision to the Ohio Second Court of Appeals, filing a brief of appellant on March 3, 2009. Briefing in the appeal finished in May 2009. Oral Argument was held on for July 28, 2009. A decision is expected by the end of 2009.

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Directors:

We have audited the financial statements of the business-type activities of the New Choices Community School, Montgomery County (the School) as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 3, 2009, wherein we noted that the School has incurred a working capital deficiency of \$579,408, an operating loss of \$475,236, and an accumulated deficit of \$383,884 for the year ended June 30, 2008, that raises substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 financial statements, but not to opine on the effectiveness of 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 findings 2008-001 and 2008-003 described in the accompanying schedule of to be significant deficiencies in internal control over financial reporting.

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.

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**Internal Control Over Financial Reporting
(Continued)**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe finding numbers 2008-001 and 2008-003, described above, to also be material weaknesses.

We also noted certain internal control matters that we reported to the School's management in a separate letter dated September 3, 2009.

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 as items 2008-001, 2008-002, and 2008-004.

We also noted certain noncompliance or other matters that we reported to the School's management in a separate letter dated September 3, 2009.

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 management, the governing board, finance committee, management, and the School's sponsor. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 3, 2009

**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2008**

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

FINDING NUMBER 2008-001

NONCOMPLIANCE FINDING AND MATERIAL WEAKNESS

Ohio Rev. Code Section 3314.03(B)(5) and AOS Bulletin 2000-005 provide that the management of each community School be responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of assets, the efficiency and effectiveness of its operations, and its compliance with applicable laws, regulations and contracts.

The School's Financial Report for 2008 contained errors which resulted in numerous reclassifications and adjustments to correctly report the financial activity during and at the end of the period as follows:

On the Statement of Net Assets

Cash and Cash Equivalents was understated by \$16,196
Depreciable Capital Assets, Net of Accumulated Depreciation was understated by \$2,697
Accounts Payable was understated by \$109,415
Invested in Capital Assets, Net of Related debt was understated \$78,508
Accumulated Deficit was overstated \$169,030

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

Other Purchased Services was understated by \$109,109
Materials and Supplies was overstated by \$474
Depreciation was overstated by \$ 1,917
Other Revenue was understated by \$16,196

On the Statement of Cash Flows

Cash Payments to Suppliers for Goods and Services were overstated by \$780
Other Non-Operating revenues was understated by \$16,196
Payment for Capital Acquisitions was understated \$780

The School should design and implement the required control including detailed timely reviews of these cycles. These reviews should be documented and reported to the Board as part of its regular meetings. This will allow management to provide accurate and timely financial information to the Board for decision making purposes. Procedures should be developed and implemented to provide for the integrity of the financial records. Additionally, the amounts in the financial statements, notes to the financial statements, and MD&A should be supported by the appropriate documentation.

Officials' Response:

Procedures have been developed and implemented to provide for the integrity of the financial records. Appropriate documentation will be provided for the notes and the MD&A. The Treasurer and Administrators are working closely with the CPA firm to provide all documentation for the integrity of the GAAP financial statements.

FINDING NUMBER 2008-002

NONCOMPLIANCE FINDING

Governmental entities, without regard to their specific nature, may not expend public monies unless they are for a proper (i.e. valid) public purpose.

Ohio Attorney General Opinion 82-006, addresses the expenditure of funds for proper public purposes. This opinion, citing Ohio Supreme Court case of State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides guidance as to what may be construed as a public purpose. First, the expenditure is required for the general good of all inhabitants. As stated in McClure, “generally, a public purpose has for its objective the promotion of the public health, safety, morals, general welfare, security, prosperity, and contentment of all the inhabitants...” Id. At 324. Second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The School paid the following finance charges, penalties, late fees and related expenses:

- \$229 in late fees for not paying invoices in a timely manner;
- \$378 in finance charges on the SAM's Club purchasing card for not paying the balance in full from month to month;
- \$610 in overdraft fees to Huntington and Fifth Third Bank; and
- Further, the School owed \$37,624 in penalties and late fees to the IRS as of June 30, 2008 for not reporting quarterly payroll amounts in a timely manner and not remitting all employee federal tax and Medicare withholdings.

Policies and procedures should be developed and implemented to verify the School's compliance with various reporting requirements and steps should be implemented to verify that all payments are made on time. This will reduce the penalties, fines and fees assessed against the School and further provide funds are used for educational purposes.

Officials' Response:

Policies and procedures have been developed to make certain payments are made timely and without penalties and fees. This will allow tax dollars to be spent for proper public purposes only.

FINDING NUMBER 2008-003

MATERIAL WEAKNESS

Understatement of Eastway Corporation Loan Payable

The Board entered into a debt agreement on January 12, 2005, for \$434,365 with the Eastway Corporation (Eastway), the School's former management company, for the liquidation of amounts still payable to Eastway as of June 30, 2004. The Board approved a resolution on February 2, 2006, retroactive to the original debt agreement date to amend the amount to \$345,051. An adjustment was made to the financial statements to reflect the correct balance of the loan payable.

The School should implement procedures so that the Eastway Corporation Loan Payable is properly recorded and reflected on the financial statements. Additionally, the school should remit the remaining amount of the loan.

Officials' Response:

Documentation has been requested from Eastway Corporation for the original loan and all other amendments to that loan and the outstanding balance.

FINDING NUMBER 2008-004

NONCOMPLIANCE FINDING

Ohio Rev. Code Section 3314.03(A)(8) requires community schools to have financial audits by the Auditor of State. The contract between the sponsor and the governing authority shall require financial records of the school to be maintained in the same manner as are financial records of school districts, pursuant to rules of the Auditor of State, and all audits shall be conducted in accordance with section 117.10 of the Revised Code.

In addition, **Ohio Rev. Code Section 117.38** requires that each public office file a financial report with the Auditor of State for each fiscal year. The Auditor of State may prescribe forms for such reports and if such form is not prescribed the public office shall submit its report in the form utilized by the public office. The report shall be certified by the proper officer or board and filed with the Auditor of State within 150 days of the close of the fiscal year. At the time the report is filed with the Auditor of State, the chief fiscal officer shall publish notice in a newspaper of general circulation in the subdivision that the annual financial report has been completed and is available for public inspection at the office of the chief financial officer. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of the Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the School to prepare its annual financial report in accordance with generally accepted accounting principles.

The School did not receive an extension beyond the November 30, 2008 deadline. The annual financial report was filed April 9, 2009, more than 4 months past the deadline. Also, the School did not publish a local notice indicating that the report was available for inspection once it was completed.

The School should implement procedures to verify that the annual financial report is prepared and filed by the required deadline and that the proper notice is published.

Officials' Response:

No response was received for this finding

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**NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Ohio Rev. Code Section 3314.03(B)(5) & AOS Bulletin 2000-005 – Failure to design and implement an internal control process that provides reasonable assurance of the integrity of the school's financial reporting.	No	Not Corrected – Repeated as Finding 2008-001
2007-002	26 U.S.C. 3402 (a) - Failures to remit federal income taxes withheld from employee wages.	Yes	Corrected
2007-003	26 U.S.C. 3102 (a) - Failure to remit Medicare taxes withheld from employee wages.	Yes	Corrected
2007-004	Ohio Rev. Code Section 5747.06(A) - Failure to remit State Taxes withheld from employee wages.	Yes	Corrected
2007-005	36.105 (A) of the City of Dayton Income Tax Ordinance - Failure to remit City taxes withheld from the employee wages.	Yes	Corrected
2007-006	Ohio Rev. Code Section 3307.26 - Failure to remit STRS withholdings from the employees wages.	Yes	Corrected
2007-007	Ohio Rev. Code Section 3309.47 - Failure to remit SERS withholdings from the employees wages.	Yes	Corrected
2007-008	Ohio Admin Code 117-2-02(D)(4)(c) – Failure to maintain capital asset policies and procedures.	Yes	Corrected
2007-009	Ohio Attorney General Opinion 82-006 – Expenditures that are not for a proper public purpose.	No	Not Corrected – Repeated as Finding 2008-002
2007-010	School Accounting Records – Numerous posting errors, not utilizing sequential check numbers variances between invoices and payments.	Yes	Corrected
2007-011	Failure to establish a management risk assessment process.	Yes	Corrected
2007-012	Understatement of Eastway Corporation Loan Payable.	No	Not Corrected – Repeated as Finding 2008-003

New Choices Community School
Montgomery County
Schedule of Prior Audit Findings
Page 2

2007-013	Ohio Rev. Code Section 3314.011 – Failure to execute a bond for the Treasurer and the amount was not approved by the Board.	Yes	Corrected
2007-014	Ohio Rev. Code Section 117.38 – Failure file GAAP report with AOS within 150 days and publish notice in a local newspaper	No	Not Corrected – Repeated as Finding 2008-004
2007-015	Finding for Recovery – Payroll Overpayments	No	Not Corrected – Repeated as Finding 2008-005
2007-016	Ohio Rev. Code Sections 3314.03(A)(11)(d) and 149.351(A) – Findings for Recovery for expenditures made without supporting documentation	Yes	Corrected
2007-017	Ohio Rev. Code Sections 3314.03(A)(11)(d) and 149.351(A) – Findings for Recovery repaid under audit for expenditures made without supporting documentation	Yes	Corrected



Mary Taylor, CPA
Auditor of State

**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
DECEMBER 8, 2009**