NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Mary Taylor, CPA
Auditor of State

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

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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 business-type activities of New Choices Community School, Montgomery County, (the School), as of and for the year ended June 30, 2009, 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 business-type activities of New Choices Community School, Montgomery County, as of June 30, 2009, and the respective 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 $545,645, an operating loss of $304,081, and an accumulated deficit of $321,104, 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 February 22, 2010, 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.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(UNAUDITED)

The discussion and analysis of the New Choices Community School (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2009. 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.

Financial Highlights

Key financial highlights for fiscal year 2009 are as follows:

- Total net assets of the School increased $62,780 during fiscal year 2009, resulting in an ending accumulated deficit of $321,104 at June 30, 2009 compared to the accumulated deficit of $383,884 reported one year prior.

- Total assets decreased by $57,640 during the year due to a decrease in the amount of cash on hand reported at the end of the current year compared with the prior year as well as current year depreciation expense. The decrease in cash occurred as the School paid a significant portion of outstanding obligations existing at the beginning of the fiscal year.

- The School's operating loss for fiscal year 2009 was $304,081 compared with an operating loss of $475,236 reported for the prior year. Due to the financial difficulties encountered by the School in recent years, management has reduced operating expenditures where possible. Total operating expenditures for this fiscal year were $395,301 less than those reported for the previous year.

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.

Table 1 provides a summary of the School's net assets for fiscal year 2009 compared with fiscal year 2008.

Table 1
Net Assets

	2009	2008
Assets:		
Current and other assets	$ 24,741	$ 70,398
Capital assets, net	400,124	412,107
Total Assets	424,865	482,505
Liabilities:		
Current liabilities	570,386	641,806
Non-current liabilities	175,583	224,583
Total Liabilities	745,969	866,389
Net Assets:		
Invested in capital assets	175,541	138,524
Unrestricted	(496,645)	(522,408)
Total Net Assets (Deficit)	($321,104)	($383,884)

The total net assets of the School increased by $62,780 at June 30, 2009 compared to one year prior. The decrease in assets, primarily cash on hand and capital assets, was offset by the reduction in liabilities occurring during the year. During fiscal year 2009 the School continued to make significant payments on outstanding obligations of prior years which remained unpaid at the beginning of the fiscal year.

As noted in Table 1 above, total liabilities decreased by $120,420 from those reported at June 30, 2008. During the year, the School paid off amounts due on the line-of-credit ($26,981) and past due payments owed to the IRS and various other governmental entities for employer taxes and unremitted employee withholdings ($90,685). In addition, the School paid $49,000 of scheduled debt service payment on the mortgage note payable owed on the school building. Offsetting the reduction of these obligations is the increase in accounts payable and intergovernmental payable as the School delayed payments to various vendors and entities as available cash was being used to reduce obligations deemed most significant.

Total assets decreased by $57,640 over those reported for fiscal year 2008. Current and other assets reported at year-end decreased by $45,657 over those reported for the prior year due primarily to the decrease in cash on hand due to payments of the above noted obligations. Net capital assets decreased by 2.9 percent due to current year depreciation expense for fiscal year 2009.

Overall, the School reported an ending accumulated deficit of $321,104 at June 30, 2009 compared with the $383,884 deficit reported one year prior due to the payment of various obligations (debt and intergovernmental payable primarily) exceeding the decrease in cash on hand and net capital assets.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2009, as well as revenue and expense comparisons to fiscal year 2008.

Table 2
Change in Net Assets

	2009	2008
Operating Revenues:		
Foundation payments	$1,542,327	$1,766,473
Non Operating Revenues:		
Federal Grants	145,582	217,168
State Grants	10,747	11,200
Sinclair revenue	204,903	289,204
Other revenue	40,461	57,983
Total Revenues	1,944,020	2,342,028
Operating Expenses:		
Salaries	985,790	1,164,969
Fringe Benefits	208,782	284,817
Purchased services	563,968	693,913
Materials and supplies	36,281	41,770
Depreciation	11,983	12,272
Other expenses	39,604	43,968
Non Operating Expenses:		
Penalties and fees	14,356	
Interest and fiscal charges	20,476	22,911
Total Expenses	1,881,240	2,264,620
Change in Net Assets	62,780	77,408
Accumulated Deficit, Beginning of Year	(383,884)	(461,292)
Accumulated Deficit, End of Year	($ 321,104)	($ 383,884)

As shown in Table 2 above, total revenue received by the School for fiscal year 2009 was $398,008 less than the revenue received in the prior year, a 17.0 percent decrease. The decrease in funding received through the State Foundation funding program decreased $224,146 from the levels received in fiscal year 2008 due to the decrease in the number of students attending the School.

Total expenses of the School reported for the fiscal year were $383,380 lower than those reported for the fiscal year 2008, a decrease of 16.9 percent. The two categories of expenses that decreased significantly from the prior year were salaries and fringe benefits, which decreased by $179,179 or 15.4 percent, and $76,035 or 26.7 percent, respectively; due to the School employing fewer employees during fiscal year 2009. Other categories of expenses decreased as the School eliminated all unnecessary spending during the year as efforts were made to reduce outstanding obligations owed at the beginning of the year.

Capital Assets

At June 30, 2009, the capital assets of the School consisted of $541,949 of land, buildings and improvement, and furniture and equipment which was offset by $141,825 in accumulated depreciation resulting in net capital assets of $400,124. The School had no capital asset purchases during the year while depreciation expense for the year was $11,983.

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

Debt

At June 30, 2009, the School had total debt obligations of $313,897; $138,314 which is due for payment within the next year. See Notes 9 and 10 to the financial statements for additional information.

The mortgage note payable the School has with a local financial institution for the purchase of the school building comprises $224,583 of the total debt obligations at year-end. During fiscal year 2009 the School made $49,000 of scheduled payments on this note with another $49,000 due to be paid in the subsequent year.

The remaining $89,314 of loans payable resulted from services rendered in prior fiscal years by Eastway Corporation which were not fully reimbursed by the School. This obligation was only recently brought to the attention of the School which thought it had paid Eastway Corporation in full several years back. Since no repayment schedule has been negotiated with Eastway Corporation, the entire balance of the loan is reported as a current liability.

In addition, the School paid off a $26,981 unsecured line of credit with a local institution during the year.

Economic Future

While the School continues its financial struggle, management is committed to restoring financial stability. During the current fiscal year, the School settled obligations owed to the IRS and other governmental agencies for unremitted employer taxes and employee withholdings related to previous fiscal years totaling $105,041 as well as paying of the $26,981 owed on a line of credit. However, the efforts to pay off these obligation limited the cash available to pay to the day-to-day operating costs of the School which has resulted in the payment of some current obligations to be pushed to future periods.

The new treasurer has restored accountability to the financial records maintained by the School which has allowed management to have an accurate understanding of the amount of cash the School has to pay obligations owed. Outstanding obligations have been prioritized and payment schedules have been established where possible. It is the intent of management to continue efforts to reduce all valid obligations owed by the School during the next fiscal year.

Contacting the School

This financial report is designed to provide a general overview of the finances of the New Choices Community School, 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 the Treasurer of New Choices Community School, 601 S. Keowee St., Dayton, Ohio 45410 or call (937) 224-8201.

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2009

Assets:	
Current assets:	
Cash and cash equivalents	$852
Receivables:	
Intergovernmental	23,889
Total current assets	24,741
Non-current assets:	
Capital assets:	
Non-depreciable	35,215
Depreciable, net of accumulated depreciation	364,909
Total Non-current assets	400,124
Total Assets	424,865
Liabilities:	
Current Liabilities:	
Accounts payable	285,601
Accrued wages payable	91,165
Intergovernmental payable	45,698
Compensated absences payable	9,608
Demand loan payable	89,314
Notes payable, current portion	49,000
Total Current Liabilities	570,386
Non-current Liabilities:	
Notes payable, less current portion	175,583
Total Liabilities	745,969
Net Assets:	
Invested in Capital Assets, Net of Related Debt	175,541
Accumulated Deficit	(496,645)
Total Net Assets	($321,104)

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, 2009

Operating Revenues:	
Foundation revenue	$1,542,327
Total Operating Revenues	1,542,327
Operating Expenses:	
Salaries	985,790
Fringe benefits	208,782
Purchased services:	
Building rental payments	96,000
Sponsor contractual fees	41,416
Other purchased services	426,552
Materials and supplies	36,281
Depreciation	11,983
Other	39,604
Total Operating Expenses	1,846,408
Operating Loss	(304,081)
Non-Operating Revenues and (Expenses):	
Federal grants	145,582
State grants	10,747
Sinclair revenue	204,903
Rental income	27,115
Other revenue	13,344
Interest earnings	2
Penalties and fees	(14,356)
Interest on debt obligations	(20,476)
Total Non-Operating Revenues and (Expenses)	366,861
Change in Net Assets	62,780
Accumulated Deficit, Beginning of Year	(383,884)
Accumulated Deficit, End of Year	($321,104)

See accompanying notes to the financial statements.

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Increase (Decrease) In Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash from State of Ohio	$1,546,580
Cash payments to suppliers for goods and services	(581,809)
Cash payments to employees for services and benefits	(1,289,055)
Net Cash Used for Operating Activities	(324,284)
Cash Flows from Noncapital Financing Activities:	
Federal and state grants	138,466
Local grants	204,903
Other non-operating revenues	40,461
Principal payments - line of credit	(26,981)
Interest payments - line of credit	(1,042)
Penalties and fees paid - intergovernmental liability	(14,356)
Net Cash Provided by Non-capital Financing Activities	341,451
Cash Flows from Capital and Related Financing Activities:	
Principal payments - mortgage note payable	(49,000)
Interest payments - mortgage note payable	(19,434)
Net Cash Used for Capital and Related Financing Activities	(68,434)
Net Decrease in Cash and Cash Equivalents	(51,267)
Cash and Cash Equivalents, Beginning of Year	52,119
Cash and Cash Equivalents, End of the Year	$852
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	($304,081)
Adjustments to Reconcile Operating Loss to Net Cash Used for Operating Activities:	
Depreciation	11,983
Changes in assets and liabilities:	
Decrease in intergovernmental receivable related to state foundation program	4,253
Decrease in security deposit	8,000
Increase in accounts payable	21,875
Increase in accrued wages payable	237
Decrease in intergovernmental payable	(59,746)
Increase in compensated absences payable	(6,805)
Total Adjustments	(20,203)
Net Cash Used for Operating Activities	($324,284)

See accompanying notes to the financial statements.

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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 again to cover fiscal year 2009.

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 22 staff members who provide services to 215 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.

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 reflects 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, 2009, 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.

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 2009 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 fiscal year 2009. Teaching personnel are paid in 24 equal installments, ending in August, for services rendered during the previous school year. Therefore, a liability has been recognized at June 30, 2009 for all salary payments made to teaching personnel during the months of July and August 2009 that related to fiscal year 2009 contracts.

Intergovernmental Payable – payment for the employer's share of the retirement contribution ($12,763), workers' compensation ($712) and Medicare ($1,322) associated with services rendered during fiscal year 2009 that were paid in the subsequent fiscal year. In addition the School owes various state and local government agencies for obligations occurring prior to June 30, 2009; including the Auditor of State ($16,664), the Montgomery County Juvenile Court ($8,192), the City of Dayton ($2,118), Ohio Department of Jobs and Family Services ($2,842), the Montgomery County Educational Service Center ($934), and the Ohio Department of Taxation ($151).

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 for unpaid employer and withholding taxes owed to various governmental entities was $90,685; repayment of all taxes owed from prior periods occurred during fiscal year 2009.

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.

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, 2009, the carrying amount of the School's deposits was $852 and the bank balance was $12,967, 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 for the year ended June 30, 2009, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 35,215			$ 35,215
Buildings and Improvements	394,065			394,065
Furniture and Equipment	112,669			112,669
	541,949			541,949
Less: Accumulated Depreciation on				
Buildings and Improvements	(20,008)	($10,030)		(30,038)
Furniture and Equipment	(109,834)	(1,953)		(111,787)
	(129,842)	(11,983)		(141,825)
Total Net Capital Assets	$412,107	($11,983)	$0	$400,124

5. RISK MANAGEMENT

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. Insurance 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. 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.

5. RISK MANAGEMENT (Continued)

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.

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. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

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 2009, 9.09 percent of annual covered salary was the portion used to fund pension and death 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, 2009, 2008 and 2007 were $12,661, $16,992, and $26,981 respectively; 100 percent has been contributed for all fiscal years.

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.

6. DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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 defined 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, 2009, 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 2008, 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, 2009, 2008, and 2007 were $107,244, $133,144, and $95,611, respectively; 100 percent has been contributed for all fiscal years.

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.

7. POST-EMPLOYMENT BENEFITS (Continued)

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 2009, 4.91 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 2009, 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, 2009, 2008, and 2007 were $5,920, $5,073, and $12,035 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 2009, 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, 2009, 2008, and 2007 were $919, $801, and $1,311 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 2009, STRS Ohio allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. The School's contributions for health care for the fiscal years ended June 30, 2009, 2008, and 2007 were $8,250, $9,510, and $7,355 respectively; 100 percent has been contributed for all fiscal years.

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. Management is not aware of any such disallowed claims which could have a material adverse effect on the overall financial position of the School at June 30, 2009.

8. CONTINGENCIES (Continued)

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 revealed an underpayment of state funding to the school by $10,023. This amount has not been included in the financial statements.

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.

9. SHORT-TERM OBLIGATIONS PAYABLE

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

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Loan - Eastway Corp.	$ 89,314			$89,314
Line of credit - Fifth Third Bank	26,981		($26,981)	
Total	$116,295	$0	($26,981)	$89,314

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 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.

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.

During prior fiscal years, the School made payments to Eastway totaling $345,051 which the School thought settled the amount owed in full at the time. Recently the School has been notified that Eastway did not consider the matter settled and it is seeking the remaining $89,314 due on the note payable. The School is working with Eastway to settle this matter.

During fiscal year 2009, no payments were made to Eastway Corporation on the loan. The remaining loan amount of $89,314 is now considered past due, as the entire loan amount was to be repaid by June 30, 2006, and therefore reported as a current liability.

9. SHORT-TERM OBLIGATIONS PAYABLE (Continued)

B. Line of Credit

In prior years, the School had borrowed against and unsecured, $35,000 line of credit with Fifth Third Bank. 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. Throughout fiscal year 2009, the interest rate was 9.00 percent.

The unpaid principal on this line of credit at the beginning of the year was $26,981 and the School was able to pay the entire balance during the fiscal year.

10. Long-Term Debt Obligation:

The long-term obligation activity of the School for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Payments	Ending Balance	Amount due within 1 year
Fifth Third Bank Notes Payable	$273,583	$0	($49,000)	$224,583	$49,000

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

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

Fiscal Year Ended June 30,	Principal	Interest	Total
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	$224,583	$40,145	$264,728

11. OTHER PURCHASED SERVICES

During the fiscal year ended June 30, 2009, other purchased service expenses for services rendered by various vendors were as follows:

Professional & Technical Services	$ 98,905
Property Services	65,557
Communications	9,483
Utilities	105,927
Contract craft or labor	44,600
Other	102,080
	$ 426,552

12. OPERATING LEASES

During fiscal year 2009, the school leased space to hold classes under a sublease agreement with the Holy Family Roman Catholic Church (Holy Family) for a one-year period and required monthly rental payments of $7,000. Late in fiscal year 2009, the School notified Holy Family that it would not renew the lease for fiscal year 2010. Total rental payments made to Holy Family for the year totaled $92,000.

13. MANAGEMENT'S PLAN FOR CONTINUED EXISTENCE

As shown in the accompanying financial statements, the School had a total accumulated deficit at June 30, 2009 of $321,104 which is primarily due to payables. While the deficit reported for the current year is $62,780 less than the deficit reported one year prior, management plans to continue decreasing expenditures until outstanding obligations have been paid in full. In addition, it is the hope of the School that student enrollment will increase over the next few years which would in turn increase the state foundation revenue received.

14. SUBSEQUENT EVENTS

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 granted 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 District Court of Appeals which denied the Attorney General's Appeal in September 2009. The Attorney General has indicated that he will not appeal to Ohio Supreme Court effectively vindicating the school from claims brought against them.

On September 21, 2009 the Board approved a resolution to close the Holy Family Monmouth facility rented from the Holy Family Roman Catholic Church, to eliminate grades 7 and 8 and operate grades 9 through 12 at the Keowee Street location at 601 S. Keowee Street.

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 New Choices Community School, Montgomery County, (the School) as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated February 22, 2010, wherein we noted that the School has incurred a working capital deficiency of $545,645, and operating loss of $304,081, and an accumulated deficit of $321,104 for the year ended June 30, 2009, 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.

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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain internal control matters that we reported to the School's management in a separate letter dated February 22, 2010.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the School's management in a separate letter dated February 22, 2010.

We intend this report solely for the information and use of the management, the Board of Directors, finance committee, and the Community School's Sponsor. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 22, 2010

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2008-001	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.	Yes	Corrected
2008-002	Ohio Attorney General Opinion 82-006 – Expenditures that are not for a proper public purpose.	No	Partially corrected – repeated as a management letter comment
2008-003	Understatement of Eastway Corporation Loan Payable	No	Partially corrected – repeated as a management letter comment
2008-004	Ohio Rev. Code Section 117.38 – Failure to file GAAP report with AOS within 150 dated and publish notice in a local newspaper.	Yes	Corrected

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

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

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether New Choices Community School (the School) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on February 18, 2009.

2. We read the policy to determine it included the following requirements from Ohio Rev. Code Section 3313.666(B):

    1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;

    2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Rev. Code Section 3313.666;

    3) A procedure for reporting prohibited incidents;

    4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;

    5) A procedure for documenting any prohibited incident that is reported;

    6) A procedure for responding to and investigating any reported incident;

    7) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;

8) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment to the Constitution of the United States;

3. We read the policy, noting it did not include the following requirements from Ohio Rev. Code Section 3313.666(B):

   1) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;

   2) A requirement that the school administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Director's and the School's Sponsor and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 22, 2010

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
MARCH 23, 2010

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