



**THE NEW CITY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

INITIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

**THE NEW CITY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets – As of June 30, 2005	7
Statement of Revenues, Expenses and Changes in Net Assets - For the Period Ended June 30, 2005.....	8
Statement of Cash Flows – For the Period Ended June 30, 2005	9
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	21

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

The New City Community School
Montgomery County
1516 Salem Avenue
Dayton, Ohio 45406

To the Board of Directors:

We have audited the accompanying basic financial statements of The New City Community School, Montgomery County, (the School), as of and for the period of December 1, 2004 through June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New City Community School as of June 30, 2005, and the changes in its financial position and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

As shown in the accompanying financial statements for the period December 1, 2004 through June 30, 2005, the School has an accumulated deficit of \$110,832. Additionally, the School subsequently borrowed additional funds to meet operating expenses as described in Note 17.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2005, 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 Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 14, 2005

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005**

The discussion and analysis of The New City School's (the School) financial performance provides an overall review of the School's financial activities for the period December 1, 2004 through June 30, 2005. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the period from December 1, 2004 through June 30, 2005 are as follows:

In total, the accumulated deficit was (\$110,832) at June 30, 2005.

The School had operating revenues of \$223,956 and operating expenses of \$392,294. The School also received \$37,220 in federal and state grants and \$20,286 in gifts and contributions. The total change in the accumulated deficit for the period was \$110,832.

Using the Basic Financial Statements

This annual report consists of the management discussion and analysis, the basic financial statements and the notes to those statements. The basic financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Change in Net Assets, and a Statement of Cash Flows. These statements are organized so the reader can understand the School's financial activities.

Reporting the School's Financial Activities

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the School, including all short-term and long-term financial resources and obligations. These documents look at all financial transactions and ask the question, "How did we do financially during the period?" These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting records revenue when earned and expenses when incurred regardless of when cash is received or paid.

These two statements report the School's accumulated deficit and changes in the accumulated deficit. This change in the accumulated deficit is important because it tells the reader whether, for the School as a whole, the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The statement of cash flows provides information about how the School finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

Table 1 provides a summary of the School's accumulated deficit for fiscal year 2005. Since this is the first year of operations for the School, comparison with prior year is not available. A comparative analysis will be provided in future years when prior year information is available.

**Table 1
Accumulated Deficit**

	2005
Assets	
Current and Other Assets	\$8,459
Capital Assets, Net	3,861
Total Assets	12,320
 Liabilities	
Current Liabilities	123,152
Total Liabilities	123,152
 Accumulated Deficit	
Invested in Capital Assets	3,861
Restricted	4,598
Unrestricted	(119,291)
Total Accumulated Deficit	(\$110,832)

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the School's liabilities exceeded its assets by \$110,832. In the first year of operation the School experienced a lot of start-up costs. The majority of these costs were funded by notes and existing payables to the First United Methodist Church and the First United Methodist Development Corporation. Low enrollment of 24 to 28 students and the focus on children with learning disabilities created the low State Foundation revenues and high cost per student. For approximately every two students there was a teacher or tutor. The program was designed to meet the educational needs of these children and the program was shown very successful through student test scores.

Table 2 shows the changes in the accumulated deficit for the period December 1, 2004 through June 30, 2005, as well as a listing of revenues and expenses. Since this is the first year of operation for the School, revenue and expense comparisons are not available. In future years, when prior-year information is available, a comparative analysis will be presented.

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

**Table 2
Changes in Net Assets**

	2005
Operating Revenues	
State Foundation Payments	\$218,106
Sales	5,850
Total Operating Revenues	223,956
Non- Operating Revenues	
Federal Grants	34,220
State Grants	3,000
Gifts and Contributions	20,286
Total Non-Operating Revenues	57,506
Total Revenues	281,462
 Operating Expenses	
Salaries	230,538
Fringe Benefits	42,849
Purchased Services	87,062
Materials and Supplies	28,524
Depreciation	115
Other	3,206
Total Operating Expenses	392,294
 Decrease in Net Assets	 (\$110,832)

Community schools receive no support from taxes. The State Foundation Program, which pays the School approximately \$5,300 per student, and Federal and State Grants are, by far, the primary support for the School's students. State Foundation payments accounted for approximately 77 percent of all revenues and Federal and State grants accounted for another 13 percent of revenues.

Capital Assets

At June 30, 2005, the School had \$3,861 invested in machinery and equipment.

For more information on capital assets, see Note 5 of the Basic Financial Statements.

Debt

At June 30, 2005, the School had a promissory note outstanding in the amount of \$18,750 to the First United Methodist Church.

For more information on the School's debt, see Note 13 of the Basic Financial Statements.

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

Current Financial Issues and Concerns

The School is sponsored by the Lucas County Educational Service Center. The School relies on the State Foundation Funds as well as Federal and State Grants to provide the monies necessary to begin and carry on the activities of the School.

The School has also relied on loans from the First United Methodist Church to meet its operational needs. Management of the School will watch closely as the second year of operations unfold and work to get the school into a more positive spending pattern. The School has revised the charter with Lucas County Educational Service Center to add grade levels 7-12 for the 2005-2006 school year. This will help increase student enrollment, decrease the student-teacher ratio, and decrease per student costs. Enrollment for the 2005 – 2006 school year has increased from 24 to 54 students.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Carl Shye, Treasurer, The New City School, 1516 Salem Avenue, Dayton, OH 45406.

**THE NEW CITY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005**

Assets:

Current Assets

Equity in Pooled Cash and Cash Equivalents	\$8,152
Prepaid Items	52
Accounts Receivable, Net of Uncollectible Accounts	255
Total Current Assets	<u>8,459</u>

Non-Current Assets

Capital Assets, Net	<u>3,861</u>
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Total Assets	<u><u>\$12,320</u></u>
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Liabilities:

Current Liabilities

Accrued Wages and Benefits Payable	\$27,040
Compensated Absences Payable	2,386
Intergovernmental Payable	10,900
Accounts Payable	64,076
Note Payable	18,750
Total Current Liabilities	<u>123,152</u>

Accumulated Deficit

Invested in Capital Assets	3,861
Restricted for Special Purposes	4,598
Unrestricted	<u>(119,291)</u>

Total Accumulated Deficit	<u><u>(\$110,832)</u></u>
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See accompanying notes to the basic financial statements

**THE NEW CITY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD ENDED JUNE 30, 2005**

Operating Revenues:

State foundation	\$218,106
Sales	5,850
Total Operating Revenues	<u>223,956</u>

Operating Expenses

Salaries	230,538
Fringe Benefits	42,849
Purchased Services	87,062
Materials and Supplies	28,524
Depreciation	115
Other	3,206
Total Operating Expenses	<u>392,294</u>

Operating Loss	<u>(168,338)</u>
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Non-Operating Revenues

Federal Grants	34,220
State Grants	3,000
Gifts and Contributions	20,286
Total Non-Operating Revenues	<u>57,506</u>

Change in Accumulated Deficit	(110,832)
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Accumulated Deficit - December 1, 2004	<u> </u>
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Accumulated Deficit - June 30, 2005	<u><u>(\$110,832)</u></u>
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See accompanying notes to the basic financial statements.

**THE NEW CITY COMMUNITY SCHOOL
MONTGOMERY COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED JUNE 30, 2005**

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State foundation	\$218,106
Cash Received from Students for Sales	5,595
Cash Payments for Employee Services and Benefits	(222,290)
Cash Payments for Goods and Services	(63,019)
Cash Payments for Other Operating Expenses	<u>(2,520)</u>
Net Cash Used In Operating Activities	<u>(64,128)</u>

Cash Flows from Noncapital Financing Activities:

Federal Grants	34,220
State Grants	3,000
Gifts and Contributions	20,286
First United Methodist Church Loan	<u>18,750</u>
Net Cash Provided by Noncapital Financing Activities	<u>76,256</u>

Cash Flows from Capital and Related Financing Activities

Acquisition of Capital Asset	<u>(3,976)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(3,976)</u>

Net Increase in Cash and Cash Equivalents 8,152

Cash and Cash Equivalents - December 1, 2004

Cash and Cash Equivalents - June 30, 2005 \$8,152

**Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities:**

Operating Loss (\$168,338)

**Adjustments to Reconcile Operating Loss to
Net Cash Provided by Operating Activities:**

Depreciation 115

Changes in Assets and Liabilities:

Increase in Prepaid Items	(52)
Increase in Accounts Receivable	(255)
Increase in Accrued Wages and Benefits	27,040
Increase in Compensated Absences Payable	2,386
Increase in Intergovernmental Payable	10,900
Increase in Accounts Payable	<u>64,076</u>
Net Cash Used In Operating Activities	<u><u>(\$64,128)</u></u>

See accompanying notes to the basic financial statements.

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**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The New City School (the "School") is a 501(c)(3) nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to serve as a Charter/Community School for children with learning disabilities. 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 all 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. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

The School provides opportunities for children with learning disabilities, develops and implements a research based curriculum, provides intense remediation to students, provides an educational and social resource for families of children with learning disabilities and performs all other incidental acts permitted under Title 17 of the Ohio Revised Code.

The School was approved under contract with its Sponsor, the Lucas County Educational Service Center, for a period of five years thru June 30, 2009. The School began operations on December 1, 2004. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration. The Governing Authority is responsible for the operations of the School.

The School operates under the direction of a Board of Directors, consisting of eight members. The Sponsor appoints one voting or one non-voting member of the Board at its sole discretion and also swears in all new or renewing Board members. The Directors serve for a period of three to five years on a staggered basis. Vacancies are filled by a majority vote of the remaining members. The Board of Directors is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards and qualification of teachers.

The Board of Directors controls the School's one instructional/support facility which was staffed by 18 personnel who provided instructional services to 24 students during fiscal year 2005. The School Contracts with an outside party for Treasurer services.

The primary government of the School consists of three funds, several departments and the Board that is not legally separate from the School. This includes general operations and student related activities of the School. The School is associated with the Metropolitan Dayton Education Computer Association (MDECA), which is defined as a jointly governed organization. It is a computer consortium of area schools sharing computer resources. (See Note 14)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The School's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets. The statement of cash flows provides information about how the School finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The School's basic financial statements are prepared using the accrual basis of accounting.

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, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, unless specifically provided in the School's contract with its Sponsor. The contract between the School and its Sponsor requires a detailed school budget for each year of the contract; however, the budget does not have to follow the provisions of Ohio Revised Code Section 5705, except the School must annually file a spending plan pursuant to Ohio Rev. Code Section 5705.391 with the Ohio Department of Education.

E. Cash

All monies received by the School are maintained in a demand deposit account.

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. These items are reported as assets on the statement of net assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expense is reported in the period in which services are consumed.

G. Capital Assets and Depreciation

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The School maintains a capitalization threshold of \$1,000. The School does not have any infrastructure. Improvements are capitalized. The cost 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.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Machinery and Equipment	6-8 years

H. Net Assets and Accumulated Deficit

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount reflected as "Restricted for Special Purposes" represents federal and state grants. The School had an accumulated deficit (liabilities were greater than assets) at June 30, 2005.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Compensated Absences

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School will compensate the employees for the benefits through paid time off or some other means. The School records a liability for accumulated unused vacation and personal leave time when earned for all employees.

J. Accrued liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the statement of net assets.

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the School, these revenues are payments from the State Foundation Program and sales of classroom supplies. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the School. All revenues and expenses not meeting these definitions are reported as non-operating.

L. Intergovernmental Revenues

The School currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

The School also participates in the Federal Title VI-B Grant Program and the State EMIS Grant. Under these programs, the School was awarded and received \$34,220 and \$3,000, respectively, during fiscal year 2005.

M. Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

3. DEPOSITS

At fiscal year-end, the School had \$600 in un-deposited cash on hand. The carrying amount of the School's deposits was \$7,552 and the bank balance was \$7,402. The entire bank balance was covered by federal depository insurance.

4. RECEIVABLES

Receivables at June 30, 2005, consisted of accounts receivable for student fees. In August of 2005, the Board passed a resolution to stop collecting fees from students. At that time, the remaining fees outstanding were forgiven. Therefore, much of the receivable for student fees at June 30, 2005, is considered uncollectible. The gross amount of accounts receivable from student fees was \$9,000 at fiscal year-end. The uncollectible portion due to amounts forgiven was \$8,745, for a net receivable of \$255. The net receivable will be received within one year.

5. CAPITAL ASSETS

Capital asset activity for the period December 1, 2004, through June 30, 2005, was as follows:

	Balance 12/01/04	Additions	Deductions	Balance 6/30/05
Machinery and Equipment	\$0	\$3,976	\$0	\$3,976
Less Accumulated Depreciation:				
Machinery and Equipment	0	(115)	0	(115)
Capital Assets, Net	<u>\$0</u>	<u>\$3,861</u>	<u>\$0</u>	<u>\$3,861</u>

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

6. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and contracted personnel; and natural disasters. During the period December 1, 2004 through June 30, 2005, the School was named on the Sponsor's policy for property insurance and general liability insurance.

B. Workers' Compensation

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

7. PURCHASED SERVICES

For the period December 1, 2004 through June 30, 2005, purchased services were as follows:

Professional and Technical Services	\$57,778
Property Services	21,915
Travel and Meetings	3,584
Communications	3,785
	\$87,062
	\$87,062

8. PERSONNEL AGREEMENT

The School entered into a service contract for Treasurer Services. Total payments for the period December 1, 2004 through June 30, 2005 were \$6,779.

9. OPERATING LEASES

The School entered into a rental agreement with the First U.M.C. Community Development Corporation for use of classrooms and office space. This agreement was for one academic year. According to the agreement, the rent was \$3,000 per month. During the period December 1, 2004 through June 30, 2005, the School made total payments of \$5,000. The lease has not been renegotiated. As of June 30, 2005, the School owes the Development Corporation \$16,000 which is included in accounts payable.

The School also assumed payment on a lease agreement between Alpha School and General Electric Capital Corporation for the use of an office copier. This agreement expires in July of 2009. According to the agreement, the rent is \$115 per month. During the period December 1, 2004 through June 30, 2005, the School made total payments of \$778. Required future payments according to the agreement are as follows:

Fiscal Year	Amount
2006	\$1,380
2007	1,380
2008	1,380
2009	1,380
	\$5,520

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For the period December 1, 2004 through June 30, 2005, plan members were required to contribute 10 percent of their annual covered salary and the School was required to contribute at an actuarially determined rate of 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 2005, 10.57 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, up to a statutory maximum amount, by the SERS' Retirement Board. The School's required contribution for pension obligations to SERS for the period December 1, 2004 through June 30, 2005 was \$2,316; 50 percent has been contributed.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 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 Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

10. DEFINED BENEFIT PENSION PLANS (Continued)

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the period December 1, 2004 through June 30, 2005, 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. 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 contribution for pension obligations to the DB Plan for the period December 1, 2004 through June 30, 2005 was \$29,412; 84 percent has been contributed. Contributions to the DC and Combined Plans for the period December 1, 2004 through June 30, 2005 were \$1,840 made by the School and \$1,932 made by the plan members.

11. POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School, this amount equaled \$2,262 for the period December 1, 2004 through June 30, 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, (the latest information available) the balance in the Fund was \$3.1 billion. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

11. POSTEMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School, the amount contributed to fund health care benefits, including the surcharge, during the period from December 1, 2004 through June 30, 2005 equaled \$1,104.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, (the latest information available) were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation, personal leave and sick leave benefits are derived from employee contracts. Support staff, teachers and tutors earn five sick days and one personal day during a contract year. Support staff employees also earn ten vacation days during a contract year. For all employees, only five surplus days can be carried over to succeeding years.

B. Insurance Benefits

The School provides medical benefits to all employees through Anthem and Medical Mutual.

13. SHORT-TERM OBLIGATIONS

On December 21, 2004, the School received a loan from the First United Methodist Church to help with cash flow for day to day operations. A promissory note of \$18,750 at zero percent interest was issued. The loan has no scheduled repayment date.

14. JOINTLY GOVERNED ORGANIZATION

The School is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except the Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School made payments of \$1,132 to MDECA during the period December 1, 2004 to June 30, 2005. Financial information can be obtained from Jerry Woodyard, who serves as director, at 225 Linwood Street, Dayton, Ohio 45405.

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

15. RELATED PARTY TRANSACTIONS

During the period December 1, 2004 to June 30, 2005, the School contracted with the First U.M.C. Community Development Corporation for rent of classrooms and office space. Henry Brooks and Tim Forbess, both members of the Board of Directors of New City School, are Chairman of the Board of Trustees and President of the First U.M.C. Community Development Corporation. The total amount of payments was \$5,000 during the period, with \$16,000 outstanding at June 30, 2005.

During the period December 1, 2004 to June 30, 2005, the School also contracted with the Urban Campaign, a fund development company for which the primary responsibility is to seek and procure gifts and donations for the New City School. Tim Forbess is the President of the Urban Campaign. The total amount of payments to the Urban Campaign was \$2,500 during the period, with \$15,000 outstanding at June 30, 2005.

During the period, the School also received a loan of \$18,750 from the First United Methodist Church. Tim Forbess is the Pastor of the First United Methodist Church.

16. 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2005.

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. One review was conducted during the period from December 1, 2004 through June 30, 2005.

C. Litigation

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

**THE NEW CITY SCHOOL
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE PERIOD DECEMBER 1, 2004 THROUGH JUNE 30, 2005
(Continued)**

17. SUBSEQUENT EVENTS

On August 1, 2005, the School signed a promissory note with First United Methodist Church for \$13,700, for the costs of salaries. This was an interest-free six month loan that is to be repaid no later than February 28, 2006. On August 20, the School signed another promissory note with the First United Methodist Church for \$5,000 and on September 29, 2005 they signed an additional promissory note with the First United Methodist Church for \$5,000 for covering salaries. These are also interest-free loans and are to be repaid by March 28, 2006.

On September 8, 2005, the School signed a promissory note with Miami Valley Hospital for \$19,000 for the purpose of meeting operational costs. The loan is an interest-free loan that must be repaid on or before December 6, 2005. If not repaid in full by December 6, 2005, ten percent interest will be applied to the outstanding balance.

On September 21, 2005, the School signed a promissory note with Howard Kidder for \$20,000 for the purpose of covering salaries. This was an interest-free six month loan that is to be repaid no later than March 28, 2006.

Total notes outstanding to all parties as of December 1, 2005 are \$81,450.

Due to a mistake in entering ADM data, enrollment figures in the system dropped to below 25 students, so the School did not receive any State Foundation money in September and had to borrow additional money to cover operational expenses. The mistake was corrected and the School did start receiving their foundation money in October.

18. ACCUMULATED DEFICIT

At June 30, 2005, the School had an accumulated deficit of \$110,832. In the first year of operation the School experienced a lot of start-up costs. The majority of these costs were funded by notes and existing payables to the First United Methodist Church and the First United Methodist Development Corporation. Management of the School will watch closely as the second year of operations unfold and work to get the school into a more positive spending pattern. The School has revised the charter with Lucas County Educational Service Center to add grade levels 7-12 for the 2005-2006 school year. This will help increase student enrollment, decrease the student-teacher ratio, and decrease per student costs, which will help eliminate the accumulated deficit. Student enrollment for the 2005 – 2006 school year has increased from 24 to 54 students.



**Auditor of State
Betty Montgomery**

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

The New City Community School
Montgomery County
1516 Salem Avenue
Dayton, Ohio 45406

To the Board of Directors:

We have audited the financial statements of the business-type activities of The New City Community School, Montgomery County, (the School), as of and for the period ended June 30, 2005, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 14, 2005, wherein we noted the School has an accumulated deficit and has incurred additional debt subsequent to June 30 to meet operational expenses. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School's management dated November 14, 2005, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

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 that we must report under *Government Auditing Standards*. In a separate letter to the School's management dated November 14, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

The New City Community School
Montgomery County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

November 14, 2005



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**NEW CITY 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 20, 2005**