The New City Community School

Montgomery County

Regular Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

CAUDILL & ASSOCIATES, CPA's
725 5th Street
Portsmouth, Ohio 45662

Mary Taylor, CPA
Auditor of State

Board of Directors
New City Community School
1516 Salem Avenue
Dayton, Ohio 45406

We have reviewed the *Independent Auditor's Report* of the New City Community School, Montgomery County, prepared by Caudill & Associates, CPA's, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The New City Community School is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 7, 2008

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The New City Community School
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For the Fiscal Year Ended June 30, 2006

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CAUDILL & ASSOCIATES, CPA's
725 5th Street
Portsmouth, Ohio 45662

Member American Institute of Certified Public Accountants
Member Ohio Society of Certified Public Accountants
Member Kentucky Society of Certified Public Accountants

Independent Auditor's Report

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

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the New City Community School, Montgomery County, (the School), as of and for the year ended June 30, 2006, 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 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the 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 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 the School, as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2007, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As discussed in Note 15 to the financial statements, the School has incurred deficit spending and maintains a deficit balance that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 15. The financials statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3 to the basic financial statements, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets for Insurance Recoveries*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
December 31, 2007

The management's discussion and analysis of the New City School's financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2006. 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 notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for the period from July 1, 2005 through June 30, 2006 are as follows:

In total, the accumulated deficit was ($319,936) at June 30, 2006.

The School had operating revenues of $501,937 and operating expenses of $978,683. The School also received $142,478 in gifts and contribution. The total change in the accumulated deficit for the period was ($209,104).

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net assets and the statement of revenues, expenses, and change in net assets reflect how the School did financially during fiscal year 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the School's net assets and change in those assets. This change in net assets is important because it tells the reader whether the financial position of the School has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

Table 1 provides a summary of the School's net assets for fiscal years 2005 and 2006.

(Table 1)
Net Assets

	2005	2006	Change
Assets			
Current Assets	$8,459	$3,672	($4,787)
Capital Assets, Net	3,861	27,337	23,476
Total Assets	12,320	31,009	18,689
Liabilities			
Current Liabilities	123,152	350,945	227,793
Total Liabilities	123,152	350,945	227,793
Net Assets			
Invested in Capital Assets	3,861	27,337	23,476
Restricted	4,598	0	(4,598)
Unrestricted (Deficit)	(119,291)	(347,273)	(227,982)
Total Net Assets (Deficit)	($110,832)	($319,936)	($209,104)

Total assets increased $18,689, as capital assets increased by $23,476 due to the acquisition of computer equipment during fiscal year 2006. An increase in enrollment resulted in an increase in revenue, which allowed the School to purchase additional capital assets. Total liabilities increased $227,793 mainly due to the timing of when invoices were due, which resulted in an increase in accounts payable and the decrease in accrued wages and benefits from fiscal year 2005. Total net assets decreased $209,104. Unrestricted net assets decreased by $227,982 due to increased operating expenses. Invested in Capital Assets increased from fiscal year 2005 due to the capital assets additions mentioned above.

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Table 2 shows the changes in net assets for fiscal years 2005 and 2006.

(Table 2)
Change in Net Assets

	2005	2006	Change
Operating Revenues			
State Foundation	$218,106	$501,937	$283,831
Sales	5,850	0	(5,850)
Total Operating Revenues	223,956	501,937	277,981
Non-Operating Revenues:			
Federal Grants	34,220	69,564	35,344
State Grants	3,000	55,600	52,600
Gifts and Contributions	20,286	142,478	122,192
Total Non-Operating Revenues	57,506	267,642	210,136
Total Revenues	281,462	769,579	488,117
Operating Expenses			
Salaries	230,538	594,935	364,397
Fringe Benefits	42,849	129,497	86,648
Purchased Services	87,062	193,827	106,765
Materials and Supplies	28,524	42,311	13,787
Depreciation	115	4,599	4,484
Other	3,206	13,514	10,308
Total Expenses	392,294	978,683	$586,389
Change in Net Assets	(110,832)	(209,104)	(98,272)
Net Assets (Deficit) at Beginning of Year	0	(110,832)	(110,832)
Net Assets (Deficit) at End of Year	($110,832)	($319,936)	(209,104)

There was an increase in revenues of $488,117 and an increase in expenses of $586,389 from fiscal year 2005. Of the increase in revenues, State foundation money increased by $283,831. This increase was due to an increase in enrollment in fiscal year 2006.

Salaries increased by $364,937 from fiscal year 2005. This was due to the increased number of personnel and staff raises.

Capital Assets

At the end of fiscal year 2006 the School had $32,051, invested in furniture and equipment and vehicles. Table 3 shows fiscal year 2006.

(Table 3)
Capital Assets at June 30,
(Net of Depreciation)

	2006
Machinery and Equipment	$27,337
Totals	$27,337

Debt Administration

At June 30, 2006, the School had several promissory notes outstanding in the amount of $145,600 to First United Methodist Church, Henry Brooks, Miami Valley Hospital, Howard Kidder, Ed Hest, and Mary Pryor.

For more information on the School's debt, see Note 12 of the Basic Financial Statements.

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 and private donations to provide the monies necessary to carry on the activities of the School.

The School has continued to rely on loans from the First United Methodist Church and Mr. Henry Brooks to meet its operational needs. Management of the School has made changes in its operations and works to reduce overall operating costs, without negatively impacting educational results. The School has revised its charter with the Lucas County Educational Service Center to concentrate on grades K through 8 and has decided to eliminate the program for teenage mothers. Moreover, a well planned effort will be made to increase enrollment. Projected enrollment for the forthcoming school year is expected to be approximately 100 students.

Contacting the School's Financial Management

This financial report is designed to provide our citizens 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 information contact Carl Shye, Treasurer at New City Community School, 1516 Salem Avenue, Dayton, Ohio 45406.

THE NEW CITY COMMUNITY SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2006

Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$3,672
Total Current Assets	3,672
Non-Current Assets	
Capital Assets, Net	27,337
Total Assets	31,009
Liabilities	
Current Liabilities:	
Intergovernmental Payable	119,782
Accounts Payable	85,563
Note Payable	145,600
Total Current Liabilities	350,945
Accumulated Deficit	
Invested in Capital Assets	27,337
Unrestricted	(347,273)
Total Accumulated Deficit	($319,936)

See accompanying notes to the basic financial statements

THE NEW CITY COMMUNITY SCHOOL
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Operating Revenues:	
State Foundation	$501,937
Total Operating Revenues	501,937
Operating Expenses	
Salaries	594,935
Fringe Benefits	129,497
Purchased Services	193,827
Materials and Supplies	42,311
Depreciation	4,599
Other	13,514
Total Operating Expenses	978,683
Operating Loss	(476,746)
Non-Operating Revenues	
Federal Grants	69,564
State Grants	55,600
Gifts and Contributions	142,478
Total Non-Operating Revenues	267,642
Change in Accumulated Deficit	(209,104)
Accumulated Deficit - July 1, 2005	(110,832)
Accumulated Deficit - June 30, 2006	($319,936)

See accompanying notes to the basic financial statements

THE NEW CITY COMMUNITY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from State foundation	$434,332
Cash Payments for Employee Services and Benefits	(482,016)
Cash Payments for Goods and Services	(317,829)
Cash Payments for Other Operating Expenses	(5,384)
Net Cash Used For Operating Activities	(370,897)
Cash Flows from Noncapital Financing Activities:	
Federal Grants	69,564
State Grants	55,600
Gifts and Contributions	136,228
Loan Proceeds	184,400
Loan Payments	(51,300)
Net Cash Provided by Noncapital Financing Activities	394,492
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Asset	(28,075)
Net Cash Used for Capital and Related Financing Activities	(28,075)
Net Increase in Cash and Cash Equivalents	(4,480)
Cash and Cash Equivalents - July 1, 2005	8,152
Cash and Cash Equivalents - June 30, 2006	3,672
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:	
Operating Loss	($476,746)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	$4,599
Changes in Assets and Liabilities:	
Decrease in Prepaid Items	52
Decrease in Accounts Receivable	255
Decrease in Accrued Wages and Benefits Payable	(27,040)
Decrease in Compensated Absences Payable	(2,386)
Increase in Intergovernmental Payable	108,882
Increase in Accounts Payable	21,487
Net Cash Used For Operating Activities	($370,897)

See accompanying notes to the basic financial statements

NOTE 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 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.

NOTE 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. 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.

NOTE 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 positions 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 increase (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 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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgetary Process (continued)

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.

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:

Description	Estimated Lives
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 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, 2006.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Net Assets and Accumulated Deficit (continued)

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.

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 $69,564 and $55,600, respectively, during fiscal year 2006.

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.

NOTE 3 – DEPOSITS

Custodial credit risk for deposits is the risk that in the event of bank failure, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. The carrying value of the School's deposits totaled $3,672, and the bank balance totaled $17,433, all of which was covered by federal depository insurance; therefore there is no custodial credit risk.

The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the period July 1, 2005, through June 30, 2006 was as follows:

	Balance 7/01/05	Additions	Deletions	Balance 6/30/06
Capital Assets Being Depreciated:				
Equipment	$3,976	$0	$0	$3,976
Office Equipment	0	1,442	0	1,442
Instructional Equipment	0	26,633	0	26,633
Total Capital Assets Being Depreciated	3,976	28,075	0	32,051
Less Accumulated Depreciation:				
Equipment	(115)	(663)	0	(778)
Office Equipment	0	(200)	0	(200)
Instructional Equipment	0	(3,736)	0	(3,736)
Total Accumulated Depreciation	(115)	(4,599)	0	(4,714)
Total Capital Assets Being Depreciated, Net	$3,861	$23,476	$0	$27,337

NOTE 5 – 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 omission; injuries to employees and contracted personnel; and natural disasters. During the period July 1, 2005 through June 30, 2006, the School was named on the Sponsor's policy for property insurance and general liability insurance.

NOTE 5 – RISK MANAGEMENT (continued)

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.

NOTE 6 – PURCHASED SERVICES

For the period July 1, 2005 through June 30, 2006, purchased services were as follows:

Professional and Technical Services	$85,308
Property Services	101,109
Communications	5,911
Miscellaneous	1,499
Total Purchased Services	$193,827

NOTE 7 – PERSONNEL AGREEMENT

The School entered into a service contract for Treasurer Services. Total payments for the period July 1, 2005 through June 30, 2006 were $15,000.

NOTE 8 – 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 $7,000 per month. During the period July 1, 2005 through June 30, 2006, the School made total payments of $80,000. The lease has not been negotiated. As of June 30, 2006, the School owes the Development Corporation $14,880 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. Required future payments according to the agreement are as follows:

Fiscal Year	Amount
2007	$1,380
2008	1,380
2009	1,380
	$4,140

NOTE 8 – OPERATING LEASES (continued)

As of June 30, the School owes General Electric Capital Corporation $252 which is included in accounts payable.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org.

For the period July 1, 2005 through June 30, 2006, 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 2006, 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 July 1, 2005 through June 30, 2006 was $5,469.

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, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio (continued)

Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the period July 1, 2005 through June 30, 2006, 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 July 1, 2005 through June 30, 2006 was $78,011. Contributions to the DC and Combined Plans for the period July 1, 2005 through June 30, 2006.

NOTE 10 – POSTEMPLOYEMENT 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 funded 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

NOTE 10 – POSTEMPLOYEMENT BENEFITS (continued)

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, 2006, 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 $5,572 for the period July 1, 2005 through June 30, 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, the balance in the Fund was $3.5 billion. For the fiscal year ended June 30, 2006, net health care costs paid by STRS Ohio were $300,690,000 and STRS Ohio had 119,184 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.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at $35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School, the amount contributed to fund healthcare benefits, including the surcharge, during the 2006 fiscal year equaled $781.

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 healthcare expenses. Expenses for health care for the fiscal year ended June 30, 2006 were $158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of $295.6 million. SERS has 59,942 participants eligible to receive health care benefits.

NOTE 11 – 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.

NOTE 11 – OTHER EMPLOYEE BENEFITS (continued)

B. Insurance Benefits

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

NOTE 12 – SHORT-TERM OBLIGATIONS

Debt outstanding at June 30, 2006 was as follows:

	Principal at 7/01/05	Additions	Payments	Principal at 6/30/06
First United Methodist Church #1	$18,750		$18,050	$700
First United Methodist Church #2		13,700		13,700
First United Methodist Church #3		5,000		5,000
First United Methodist Church #4		5,000		5,000
First United Methodist Church #5		5,000		5,000
First United Methodist Church #6		5,000		5,000
First United Methodist Church #7		12,500	9,500	3,000
First United Methodist Church #8		9,500		9,500
First United Methodist Church #9		12,800		12,800
Henry Brooks		65,700	20,000	45,700
Miami Valley Hospital		19,000	5,000	14,000
Howard Kidder		20,000		20,000
Ed Heft		10,200	5,000	5,200
Mary Pryor		1,000		1,000
	$18,750	$184,400	$57,550	$145,600

The School received several loans during the audit period to help with cash flow for day to day operations.

The School received several loans from First United Methodist Church during the audit period totaling $68,500. Total amount outstanding at fiscal year end was $59,700.

The School received several loans from Henry Brooks during the audit period totaling $65,700 of which $45,700 was outstanding at fiscal year end.

Miami Valley Hospital granted the School a loan on September 8, 2005 in the amount of $19,000 of which $14,000 was outstanding at fiscal year end.

Howard Kidder granted the School a loan on September 21, 2005 in the amount of $20,000. No payments were made toward the principal of this loan.

Ed Hest granted the School a loan on December 27, 2005 in the amount of $10,200 of which $5,200 was outstanding at fiscal year end.

NOTE 12 – SHORT-TERM OBLIGATIONS (continued)

Mary Pryor granted the School a loan on September 20, 2005 in the amount of $1,000. No payments were made toward the principal of this loan.

All loans were granted at six percent interest except for the loan from Miami Valley Hospital which was granted at ten percent. However, as of June 30, 2006 interest payments had only been made on the loan from Henry Brooks in the amount of $970. The School plans to make all interest payments on the date on which the loans are closed.

All loans have maturity dates as set forth in the debt agreements, however all dates have been extended.

NOTE 13 – RELATED PARTY TRANSACTIONS

During the period July 1, 2005 to June 30, 2006, 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 $52,440 during the period.

The School received a loan from Henry Brooks, a member of the Board of Directors, in the amount of $65,700 at zero percent interest.

During the audit period, the School also received several loans from the First United Methodist Church for a total of $68,500. Tim Forbess is the Pastor of the First United Methodist Church.

The School contracted with the Urban Campaign, a fund development company for which the primary responsibility is to seek & procure gifts and donations for the New City School. Tim Forbess is the President of the Urban Campaign. No payments were made to the Urban Campaign during the audit period.

NOTE 14 – 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 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, 2006.

NOTE 14 – CONTINGENCIES (continued)

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 of the State, upon which State foundation funding is calculated. One review was conducted during the period from July 1, 2005 through June 30, 2006.

C. Litigation

A suit was filed in Franklin County Common Please 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.

NOTE 15 – ACCUMULATED DEFICIT

The School operated with significant deficit spending (disbursements over receipts) during fiscal year 2006. At June 30, 2006 the School's deficit was $319,936.

The School has continued to rely on loans from the First United Methodist Church and Mr. Henry Brooks to meet its operational needs. Management of the School has made changes in its operations and is working to reduce overall operating costs, without negatively impacting educational results. The School has revised its charter with the Lucas County Educational Service Center to concentrate on grades K through 8 and has decided to eliminate the program for teenage mothers. Moreover, a well planned effort will be made to increase enrollment. Projected enrollment for the forthcoming school year is expected to be approximately 100 students.

NOTE 16 – COMPLIANCE

Contrary to Ohio Rev. Code Section 117.38 the School's Fiscal Year 2006 report was not filed with the Auditor of State on time, and no notice of availability of the financial report was published.

Contrary to Ohio Rev. Code Section 3314.02(E) Ann Rubin was employed with New City School and served as a board member on council. In July and August 2005, only five members served on the board, of which Ann Rubin was included. Therefore, the School did not meet the

NOTE 16 – COMPLIANCE (continued)

minimum requirement of having not less than five individuals who are not owners or employees of the School.

Contrary to Ohio Rev. Code Section 3314.03(A)(10) only one tutor at New City School was certified by the Ohio Dept. of Education.

Contrary to Ohio Rev. Code Section 149.351, 5% or $4,702 of the disbursements tested were not supported by adequate supporting documentation (invoice, receipts of payments or contractual agreements). In addition, 63% of the expenditures tested, or $92,265 in expenditures did not have purchase orders approved by the Chief Executive Officer, as stipulated by the School's unofficial purchasing procedures. Furthermore, during our test of receipts, it was noted that several deposits were unable to be traced to supporting documentation (i.e. bank statements, deposit slips, receipt vouchers, etc.)

CAUDILL & ASSOCIATES, CPA's
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The New City Community School
Montgomery County
1516 Salem Place
Dayton, Ohio 45408

To the Board of Directors:

We have audited the financial statements of the business-type activities of The New City Community School (the School) , as of and for the year ended June 30, 2006, which comprise the School's basic financial statements and have issued our report thereon dated December 31, 2007, in which we indicated the School implemented GASB Statements No. 42 and 47. We noted that there was 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. The results of our tests disclosed eight instances of significant internal control deficiencies that are required to be reported under *Government Auditing Standards,* which are described in the accompanying schedule of findings and responses as items 2006-004, 2006-005, 2006-006, 2006-007, 2006-008, 2006-009, 2006-010, and 2006-011.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal controls over financial reporting as items 2006-004, 2006-005, 2006-010 and 2006-011.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as items 2006-001, 2006-002, 2006-003, and 2006-004.

We noted certain matters which we have reported to management of the School in a separate letter dated December 31, 2007.

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

This report is intended solely for the information and use of management, Board members, School's sponsor and the Ohio Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPA's

Caudill & Associates, CPA's
December 31, 2007

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

Finding No.2006-001
Noncompliance Citation – Failure to file report in accordance with ORC Section 117.38

Financial information is vital to an organization's management in its continual effort to effectively make decisions to guide the organization. It is also important for management to receive timely feedback on the reliability of financial information summarized in the financial statements, notes to the financial statements, and the schedules used to make these management decisions.

The Ohio Revised Code Section 117.38 mandates that GAAP-basis entities must file their reports with the Auditor of State within 150 days of the entity's end of the year. In addition, the public office must publish a notice in a local newspaper stating that the financial report is available for public inspection at the office of the chief fiscal officer.

The School's Fiscal Year 2006 report was not filed with the Auditor of State on time, and no notice of availability of the financial report was published.

The School should ensure that its financial reports are timely filed with the Auditor of State. In addition, the School should ensure that notice of availability of the financial reports is published in the newspapers as required by the Ohio Revised Code.

Client Response:

The School will make efforts to ensure compliance will be met.

Finding No.2006-002
Noncompliance Citation– Ohio Rev. Code Section 3314.02(E)

Ohio Rev. Code Section 3314.02(E) states that each new start-up community school established shall be under the direction of a governing authority which shall consist of a board of not less than five individuals who are not owners or employees, or immediate relatives of owners or employees, of any for-profit firm that operates or manages a school for the governing authority.

In fiscal year 2006, Ann Rubin was employed with New City School and served as a board member on council. In July and August 2005, only five members served on the board of which Ann Rubin was included. Therefore, the School did not meet the minimum requirement of having not less than five individuals who are not owners or employees of the School.

The School should establish direction of the governing authority consisting of at least five individuals that are not employees, or relatives to the governing body.

Client Response:

The School will ensure that compliance of Ohio Rev. Code Section 3314. 02(E) is met.

Finding No.2006-003
Noncompliance Citation– Ohio Rev. Code Section 3314.03(A)(10)

All community school classroom teachers are to be licensed in accordance with Ohio Revised Code Section 3319.22 to 3319.31, except that a community school may engage noncertified

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Finding No.2006-003
Noncompliance Citation– Ohio Rev. Code Section 3314.03(A)(10) (Continued)

persons to teach up to twelve hours per week pursuant to Ohio Revised Code Section 3319.301. A permit must be issued by the Ohio Dept. of Education to these "noncertified" persons in order to teach.

Only one tutor at New City School was certified by the Ohio Dept. of Education.

The School should take steps to ensure that all tutors working more than twelve hours per week are properly certified in accordance with Ohio Rev. Code Section 3314.03(A)(10).

Client Response:

The School will ensure that all tutors working more than twelve hours per week are properly certified in accordance with Ohio Rev. Code Section 3314.03(A)(10).

Finding No.2006-004
Noncompliance Citation/Significant Internal Control Deficiency/Material Weakness – Failure to maintain adequate supporting documentation for expenditures and receipts

Ohio Rev. Code Section 149.351 states all records are property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under the Ohio Rev. Code Section 149.41. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

Adequate supporting documentation is a key control in the disbursement process to determine if expenditures are for their intended use. 5% or $4,702 of the disbursements tested were not supported by adequate supporting documentation (invoice, receipts of payments or contractual agreements). In addition, 63% of the expenditures tested, or $92,265 in expenditures did not have purchase orders approved by the Chief Executive Officer, as stipulated by the School's unofficial purchasing procedures.

During our test of receipts, it was noted that several deposits were unable to be traced to supporting documentation (i.e. bank statements, deposit slips, receipt vouchers, etc.)

All deposits recorded on the books of the School should be easily traceable to supporting documentation.

The lack of adequate supporting documentation could result in funds being spent on unauthorized purchases, incorrect amounts being paid, duplication of payments and payments made to fictitious vendors. The School should require that original invoices or contractual agreements be submitted and attached to the voucher before payment is made. In addition, the School should ensure that purchase orders and properly issued and approved prior to contracting or acquiring goods and services as required by the School's purchasing policy.

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Finding No.2006-004
Noncompliance Citation/Significant Internal Control Deficiency/Material Weakness – Failure to maintain adequate supporting documentation for expenditures and receipts (Continued)

The School should also take steps to insure that all receipts have supporting documentation. All bank statements and deposit slips should be maintained to serve as supporting documentation for the financial transactions of the School.

Client Response:

The School will make efforts to ensure that adequate supporting documentation exists for all disbursements and receipts.

Finding No.2006-005
Significant Internal Control Deficiency/Material Weakness – Cash Reconciliation

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditor during a financial statements audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses.

During fiscal year 2006, the School erroneously posted receipts, disbursements, and debt payments. This required reclassifications to properly present the activity of the School. The School should implement control procedures related to financial reporting that enable management to identify, prevent, detect, and correct potential misstatements in the financial statements and footnotes.

Client Response:

The School will ensure all transactions are properly recorded to the books.

Finding No.2006-006
Significant Internal Control Deficiency – Failure to obtain and maintain employee contracts

Seven of the School's employees did not have contracts.

All employees of the School should be approved by the governing board and the hiring should be recorded in the board minutes including the salary rate and period of employment. Additionally, employment contracts should be prepared and signed by the employee and the appropriate school officials. Procedures should be developed and implemented to provide that all potential employees are approved by the Board prior to beginning work and that formal contracts, including salary rates and other expectations, are prepared and signed by both employee and school officials.

Client Response:

The School will ensure that employee contracts are obtained and maintained as appropriate in the future.

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Finding No.2006-007
Significant Internal Control Deficiency – Excessive Overdraft Charges

The School disbursed $1,707 during the audit period for overdraft and NSF bank charges.

The School should not disburse payments without proper funding in place to support the disbursement.

By disbursing checks without proper funds to cover them, the School is expending unnecessary and excessive amounts of money in the form of bank charges.

The School should ensure that disbursements are only made when funding is available.

Client Response:

The School will make efforts to ensure overdraft charges are avoided.

Finding No.2006-008
Significant Internal Control Deficiency – Payroll Records

Documentation of coverage under the Bureau of Worker's Compensation was not presented for audit.

Ohio Revised Code 4123.25 states that no employer shall knowingly misrepresent to the Bureau of Worker's Compensation the amount of classification of payroll upon which the premium under this chapter is based. Whoever violates this division shall be liable to the state in an amount determined by the administrator of worker's compensation for not more than ten times the amount of the difference between the premium paid and the amount the employer should have paid. The liability to the state under this division may be enforced in a civil action in the name of the state, and all sums collected under this division shall be paid into the state insurance fund.

The School should process the Bureau of Worker's Compensation reports in an accurate and timely manner based on the payroll expenditures and proper job classifications.

Client Response:

The School will make efforts to ensure all Bureau of Worker's Compensation reports are accurately completed and maintained.

Finding No.2006-009
Significant Internal Control Deficiency – Segregation of Duties

In an entity the size of the School, it is usually not cost effective to employ the basic internal accounting controls necessary to provide management with a reasonable assurance that all related procedures are functioning properly. The Treasurer is responsible for all functions relating to the accounting records.

Without the proper separation of duties, there is the possibility that errors or irregularities could occur

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Finding No.2006-009
Significant Internal Control Deficiency – Segregation of Duties (Continued)

and not be detected in a timely period.

To strengthen internal accounting and administrative controls, we recommend that a finance committee be appointed, comprised of members of the Board, to periodically review monthly financial statements to determine; whether proper accounting procedures are being followed; and that the bank reconciliations, cash journal and ledgers support the statements submitted.

In addition to performing such a review, officials' signatures or initials should be affixed to the documents reviewed, and a notation of such review and the results thereof should be noted in the School minutes.

Client Response:

The Board will develop internal control procedures that make, to the best extent possible, the segregation of duties for the receipting, expenditure, and cycles, and for the reconciliation of records.

Finding No.2006-010
Significant Internal Control Deficiency/Material Weakness – Bank Reconciliation Discrepancy

Monthly bank reconciliations should be performed accurately and consistently presented to the Board of Directors and documented in the minutes. Also, the corresponding ledgers should be updated to reflect the reconciliation. Inaccurate monthly reconciliations could lead to unauthorized or inaccurate transactions occurring and going undetected.

The end of fiscal year bank reconciliation did not agree to the general ledger or balance sheet.

The School's inability to get the books in balance with the bank resulted in a misstatement of the balance sheet.

Client Response:

The School will make efforts to ensure all bank reconciliations are performed accurately and all discrepancies between the reconciliation and ledgers are addressed in a timely manner.

Finding No.2006-011
Significant Internal Control Deficiency/Material Weakness – Failure to maintain a capital assets listing

Adequate capital assets inventory and listing is a key control in the School's ability to determine if capital assets are purchased and maintained for their intended use. A complete capital asset listing should be maintained at all times, updated by additions to and disposals of capital assets.

Without a proper capital assets listing, the School's capital assets will be difficult to monitor, and this could lead to the misappropriation of the School's fixed assets.

The School should take steps to insure that a complete listing of capital assets is in place and is

1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (CONTINUED)

Finding No.2006-011
Significant Internal Control Deficiency/Material Weakness – Failure to maintain a capital assets listing (Continued)

monitored by appropriate personnel.

Client Response:

The School will ensure that a capital assets inventory is performed and that a listing of capital assets is maintained.

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
MARCH 6, 2008