

The New City Community School

Montgomery County

Regular Audit

July 1, 2008 through June 30, 2009

Fiscal Year Audited Under GAGAS: 2009

Caudill & Associates, CPA's

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Dave Yost • Auditor of State

Board of Directors
New City Community School
1516 Salem Place
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, 2008 through June 30, 2009. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

May 15, 2012

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The New City Community School

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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 were engaged to audit the accompanying financial statements of the business-type activities of the New City Community School, Montgomery County, Ohio (the School), as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management.

We were not able to obtain sufficient documentation during testing of capital assets, intergovernmental payables, long term debt, non-payroll expenses, payroll expenses, and Federal grant receipts and expenditures. Also, we did not obtain a representation letter and attorney letters from the school's management.

Because of the significance of the matters stated in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph for the year ended June 30, 2009.

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 financial 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 is 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
New City Community School
Independent Auditor's Report

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2010, 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. 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.

Caudill & Associates, CPA's

Caudill & Associates, CPA's

March 31, 2010 except for Note 15, as to which the date is July 12, 2010

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

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, 2009. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the basic financial statements and 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, 2008 through June 30, 2009 are as follows:

In total, the accumulated deficit was (\$228,955) at June 30, 2009.

The School had operating revenues of \$819,161 and operating expenses of \$1,252,572. The total change in net assets for the period was (\$130,126).

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 2009. 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.

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

Table 1 provides a summary of the School's net assets for fiscal years 2008 and 2009.

(Table 1)			
Net Assets			
	<u>2008</u>	<u>2009</u>	<u>Change</u>
Assets			
Current Assets	\$37,399	\$11,464	(\$25,935)
Capital Assets, Net	<u>21,118</u>	<u>30,218</u>	<u>9,100</u>
Total Assets	<u>58,517</u>	<u>41,682</u>	<u>(16,835)</u>
Liabilities			
Current Liabilities	<u>157,346</u>	<u>270,637</u>	<u>113,291</u>
Total Liabilities	<u>157,346</u>	<u>270,637</u>	<u>113,291</u>
Net Assets			
Invested in Capital Assets	21,118	30,218	9,100
Unrestricted (Deficit)	<u>(119,947)</u>	<u>(259,173)</u>	<u>(139,226)</u>
Total Net Assets (Deficit)	<u><u>(\$98,829)</u></u>	<u><u>(\$228,955)</u></u>	<u><u>(\$130,126)</u></u>

Total assets decreased \$16,835, as capital assets increased by \$9,100. Total liabilities increased \$113,291, due to payments to outstanding vendors remaining unpaid. Total net assets decreased \$130,126 increasing the prior year deficit. Unrestricted net assets decreased by \$139,226.

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

Table 2 shows the changes in net assets for fiscal years 2008 and 2009.

(Table 2)
Change in Net Assets

	2008	2009	Change
Operating Revenues			
State Foundation	\$798,181	\$819,161	\$20,980
Total Operating Revenues	798,181	819,161	20,980
Non-Operating Revenues:			
Federal Grants	318,898	277,732	(41,166)
State Grants	12,324	19,563	7,239
Gifts and Contributions	94,636	560	(94,076)
Miscellaneous	2,806	5,430	2,624
Total Non-Operating Revenues	428,664	303,285	(125,379)
Total Revenues	1,226,845	1,122,446	(104,399)
Operating Expenses			
Salaries	528,450	576,727	48,277
Fringe Benefits	156,805	186,968	30,163
Purchased Services	280,623	322,550	41,927
Materials and Supplies	148,367	157,227	8,860
Depreciation	9,110	9,100	(10)
Total Expenses	1,123,355	1,252,572	\$129,217
Change in Net Assets	103,490	(130,126)	(233,616)
Net Assets (Deficit) at Beginning of Year	(202,319)	(98,829)	103,490
Net Assets (Deficit) at End of Year	(\$98,829)	(\$228,955)	(130,126)

There was a decrease in revenues of \$104,399 and an increase in expenses of \$129,217 from fiscal year 2008. Of the decrease in revenues, State Foundation money increased by \$20,980 from 2008. This was due to an increase in State Foundation payments for increased student enrollment. However, there was a decrease of \$94,076 for Gifts and Contribution, which offset the increase in tuition income.

Salaries increased by \$48,277 from fiscal year 2008. This was due to the increased number of personnel staff raises. This increase was primarily due to the fact that the School had an increase in enrollment which demanded more services to students.

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

Capital Assets

At the end of fiscal year 2009 the School had \$30,218 invested in furniture and equipment. Table 3 shows fiscal year 2009.

(Table 3)
Capital Assets at June 30, 2009
(Net of Depreciation)

	<u>2009</u>
Furnitures and Equipment	\$57,858
Accumulated Depreciation	<u>(27,640)</u>
Totals	<u><u>\$30,218</u></u>

Debt Administration

At June 30, 2009, the School had several promissory notes outstanding in the amount of \$55,100 to First United Methodist Church, Henry Brooks, Miami Valley Hospital, Howard Kidder, Ed Hest, Dr. Scott Nekrosius and Mary Prior.

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.

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 Tracy Jarvis, Treasurer at New City Community School, 1516 Salem Avenue, Dayton, Ohio 45406.

THE NEW CITY COMMUNITY SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2009

Assets

Current Assets:

Equity in Pooled Cash and Cash Equivalents	\$ 510
Grants Receivable	10,954
	<hr/>
Total Current Assets	11,464
	<hr/>

Non-Current Assets:

Capital Assets:

Depreciable Capital Assets, Net	30,218
	<hr/>

Total Assets	41,682
	<hr/>

Liabilities

Current Liabilities:

Accounts Payable	111,725
Intergovernmental Payable	103,812
Note Payable	55,100
	<hr/>
Total Current Liabilities	270,637
	<hr/>

Accumulated Deficit

Invested in Capital Assets	30,218
Unrestricted	(259,173)
	<hr/>
Total Accumulated Deficit	\$ (228,955)
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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, 2009

Operating Revenues:

State Foundation	\$ 819,161
Total Operating Revenues	<u>819,161</u>

Operating Expenses:

Salaries	576,727
Fringe Benefits	186,968
Purchased Services	322,550
Materials and Supplies	157,227
Depreciation	9,100
Total Operating Expenses	<u>1,252,572</u>

Operating Loss	<u>(433,411)</u>
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Non-Operating Revenues:

Federal and State Grants	297,295
Gifts and Donations	560
Miscellaneous	5,430
Total Non-Operating Revenues	<u>303,285</u>

Change in Net Assets	(130,126)
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Accumulated Deficit - July 1, 2008	<u>(98,829)</u>
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Accumulated Deficit - June 30, 2009	<u><u>\$ (228,955)</u></u>
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See accompanying notes to the basic financial statements

THE NEW CITY COMMUNITY SCHOOL
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows Provided by Operating Activities:

Cash Received from State Foundation	\$ 810,251
Cash Payments to Employees for Services and Benefits	(685,213)
Cash Payments to Suppliers for Goods and Services	(386,268)
Net Cash Used for Operating Activities	<u>(261,230)</u>

Cash Flows from Noncapital Financing Activities:

Federal and State Grants	296,396
Other Non-Operating Revenues Received	<u>5,990</u>

Net Cash Provided by Noncapital Financing Activities	<u>302,386</u>
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Cash Flows for Capital and Related Financing Activities:

Aquisition of Capital Assets	(17,301)
Loan Proceeds	1,200
Loan Payments	<u>(59,900)</u>

Net Cash Used for Capital and Related Financing Activities	<u>(76,001)</u>
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Net increase/(decrease) in Cash and Cash Equivalents	(34,845)
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Cash and Cash Equivalents at Beginning of Year	<u>35,355</u>
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Cash and Cash Equivalents at End of Year	<u>\$ 510</u>
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Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Loss	<u>\$ (433,411)</u>
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Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Depreciation	9,100
Changes in Assets and Liabilities:	
Increase in Grant Receivable	(8,910)
Increase in Accounts Payable	93,509
Increase in Intergovernmental Payable	<u>78,482</u>

Total Adjustments	<u>172,181</u>
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<i>Net Cash Used in Operating Activities</i>	<u>\$ (261,230)</u>
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See accompanying notes to the basic financial statements

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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:

<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 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, 2009.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 Grant Programs and the State EMIS Grant. Under these programs, the School was awarded and received \$277,732 and \$19,563 respectively, during fiscal year 2009.

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.

THE NEW CITY COMMUNITY SCHOOL
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 was \$510, and the bank balance totaled \$7,373. Of the bank balance, 100% was covered by federal depository insurance.

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, 2008, through June 30, 2009 was as follows:

	<u>6/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/08</u>
Capital Assets Being Depreciated:				
Equipment	\$3,976	\$ 878	-	\$4,854
Office Equipment	5,913	4,423	-	10,336
Instructional Equipment	30,668	12,000	-	42,668
Total Capital Assets Being Depreciated	<u>40,557</u>	<u>17,301</u>	<u>-</u>	<u>57,858</u>
Less Accumulated Depreciation:				
Equipment	(2,531)	(736)	-	(3,267)
Office Equipment	(3,934)	(1,354)	-	(5,288)
Instructional Equipment	(12,974)	(6,111)	-	(19,085)
Total Accumulated Depreciation	<u>(19,439)</u>	<u>(8,201)</u>	<u>-</u>	<u>(27,640)</u>
Total Capital Assets Being Depreciated, Net	<u>\$21,118</u>	<u>\$9,100</u>	<u>\$ -</u>	<u>\$30,218</u>

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, 2008 through June 30, 2009, the School used Dussel Insurance Agency.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2008 through June 30, 2009, purchased services were as follows:

Professional and Technical Services	\$296,558
Property Services	13,054
Communications	11,217
Miscellaneous	<u>1,721</u>
Total Purchased Services	<u><u>\$322,550</u></u>

NOTE 7 – PERSONNEL AGREEMENT

The School entered into a service contract for Treasurer Services. Total payments for the period July 1, 2008 through June 30, 2009 were \$18,000.

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 \$7,700 per month. During the period July 1, 2008 through June 30, 2009, the School made total payments of \$92,400. The lease has not been negotiated.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description

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

Funding Policy

Plan members were required to contribute 10% of their annual covered salary and the School was required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09%. The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School's required contributions for pension obligations to SERS for fiscal year 2009, 2008 and 2007 were \$21,788, \$12,209, and \$4,835, 100% was contributed by the School for 2008, and 2007. We could not determine the contributions for 2009.

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 toll free (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System of Ohio (continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years is calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employers contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid services. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2009, plan members were required to contribute the statutory maximum of 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% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School's required contribution for pension obligations to STRS Ohio for fiscal year 2009, 2008 and 2007 were \$87,932, \$76,014 and \$52,068; 42% was contributed by the School for 2009. 100% was contributed by the School for 2008, and 2007.

NOTE 10 – POSTEMPLOYMENT BENEFITS

The School provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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. By Ohio law, health care benefits are not guaranteed.

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefits recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2009, the STRS Board allocated employer contributions equal to 1 percent of covered payroll was allocated to post employment health care for the prior year. For the School, this amount equaled \$6,281 for the period July 1, 2008 through June 30, 2009.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 – POSTEMPLOYMENT BENEFITS (Cont'd)

In additional to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

A. Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40, SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation is .75%.

B. Health Care Plan

ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2009, the health care allocation is 4.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2009, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The school contributions assigned to health care for the year ended June 30, 2009 were \$4,358.

THE NEW CITY COMMUNITY SCHOOL
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 10 – POSTEMPLOYEMENT BENEFITS (Cont’d)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS’ Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS’ website at www.ohsers.org under Employers/Audit Resources.

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 12 – SHORT-TERM OBLIGATIONS

Debt outstanding at June 30, 2009 was as follows:

	Principal at <u>7/01/08</u>	<u>Additions</u>	<u>Payments</u>	Principal at <u>6/30/09</u>
First United Methodist Church #4	4,400		(4,400)	-
First United Methodist Church #5	5,000		(5,000)	-
First United Methodist Church #6	5,000		(5,000)	-
First United Methodist Church #7	3,000		(3,000)	-
First United Methodist Church #8	9,500		(8,500)	1,000
First United Methodist Church #9	12,800		-	12,800
Henry Brooks	45,700		(20,000)	25,700
Miami Valley Hospital	14,000		(14,000)	-
Howard Kidder	8,200		-	8,200
Ed Heft	5,200		-	5,200
Mary Pryor	1,000		-	1,000
Dr. Scott Nekrosius	0	\$1,200	-	1,200
	<u>\$113,800</u>	<u>\$1,200</u>	<u>\$59,900</u>	<u>\$55,100</u>

The School made principle payments on the notes from July 1, 2008 to June 30, 2009, as the School maintained a diligence to reduce debt balances.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 12 – SHORT-TERM OBLIGATIONS (continued)

Total amount outstanding at fiscal year-end for the First United Methodist Church loans was \$13,800.

Total amount outstanding at fiscal year-end for the Henry Brooks loan was \$25,700.

Total amount outstanding at fiscal year-end for Miami Valley Hospital was \$0. This loan was paid in Full.

Total amount outstanding at fiscal year-end for the Howard Kidder loan was \$8,200. No payments were made toward the principal of this loan.

Total amount outstanding at fiscal year-end for the Ed Heft loan was \$5,200. No payments were made toward the principal of this loan.

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.

Dr. Scott Nekrosius granted the School a loan on June 30, 2009 in the amount of \$1,200. 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 interest. Total amount of interest paid during 2009 was \$5,741. The School plans to make all interest payments on the date on which the loans are closed.

All loans are payable within one year, as set forth in the loan agreements. However, they are extendable by agreement with the lender and the School.

NOTE 13 – RELATED PARTY TRANSACTIONS

During the period July 1, 2008 to June 30, 2009, 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, is the Chairman of the Board of Trustees and President of the First U.M.C. Community Development Corporation. The School made payments of \$7,700 per month for rent of the facility.

The School received a loan from Henry Brooks, a member of the Board of Directors, in the amount of \$100,000 at variable interest rates. Amount outstanding as of June 30, 2009 was \$25,700.

During the audit period, the School maintained several loans from the First United Methodist Church with an outstanding balance of \$13,800. Tim Forbess is the Pastor of the First United Methodist Church.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 13 – RELATED PARTY TRANSACTIONS (Cont'd)

The School reimbursed Henry Brooks, a member of the Board of Directors, in the amount of \$2,207 for interest due on a personal line of credit in Henry Brook's name. This was made as a verbal arrangement to substitute for interest payments due on the loan made to the school by Henry Brooks.

During 2009 fiscal year, the Treasurer, Carl Shye made personal loans to the school in the form of payments to vendors on the School's behalf. At June 30, 2009, the personal loans were paid in full.

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, 2009.

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, 2008 through June 30, 2009. The review identified an overpayment of \$29,913 to the School for fiscal year 2009.

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.

THE NEW CITY COMMUNITY SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NOTE 15 – ACCUMULATED DEFICIT/SUBSEQUENT EVENTS

The School operated with significant deficit spending (disbursements over receipts) during fiscal year 2009. At June 30, 2009, the School's deficit was \$228,955.

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.

As of June 30, 2010, the School sponsor officially closed the School for non-renewal of contract.

NOTE 16 – COMPLIANCE

Contrary to Title 26: Internal Revenue Code; Subtitle C: Employment Taxes; Chapter 24: Collection of Income Tax at Source on Wages; Sections 3403 and 3404, the School did not provide documentation of payment of federal withholdings.

Contrary to Ohio Rev. Code Section 117.38 the School's Fiscal Year 2009 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 121.22, the School did not provide board minutes.

Contrary to Ohio Rev. Code Section 3313.64(J) The School did not provide documentation of student listing

Contrary to Ohio Rev. Code Sections 5747.06 & 5747.07, The School failed to submit documentation of payment of State withholdings.

Contrary to Ohio Rev. Code Section 149.351, the School failed to provide supporting documentation

Contrary to Ohio Admin. Code Section 117-2-02(D)(4)(c), the School did not properly maintain capital asset listings.

Contrary to Ohio Rev. Code Section 4123.25, the School failed to present documentation for Bureau of Worker's Compensation.



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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 45406

To the Board of Directors:

We were engaged to audit the financial statements of The New City Community School, Montgomery, Ohio (the School) as of and for the year ended June 30, 2009, and have issued our report thereon dated March 31, 2010, which was disclaimed for lack of evidential matter regarding capital assets, intergovernmental payables, long term debt, non-payroll expenses, payroll expenses, and Federal grant receipts and expenditures. Also, we did not receive a written representation letter or attorney letters. We also 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the School's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assume that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control over financial reporting, that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the school's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-006, 2009-014 through 2009-016 described in the accompanying schedule of findings and responses to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2009-007 through 2009-013 and 2009-017 to be significant deficiencies.

The New City Community School
Montgomery County

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*

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 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 such an opinion. The results of our tests disclosed 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 2009-001 through 2009-006, 2009-014, 2009-016 and 2009-017.

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

March 31, 2010

New City Community School
Montgomery County
Schedule of Findings & Responses
June 30, 2009

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

Finding No.2009-001

Noncompliance Citation – Failure to file employee withholdings pursuant to Title 26: Internal Revenue Code; Subtitle C: Employment Taxes; Chapter 24: Collection of Income Tax at Source on Wages; Sections 3403 and 3404.

Section 3403, Liability for Tax, states that the employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter and shall not be liable to any person for the amount of any such payment.

Section 3404, Return and Payment by Governmental Employer, states that if the employer is in the United States, or a State, or a political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, the return of the amount deducted and withheld upon any wages may be made by any officer or employee of the United States, or of such State, or political subdivision, or the District of Columbia, or of such agency or instrumentality, as they case may be, having control of the payment of such wages, or appropriately designated for the purpose.

New City School could not provide documentation that withheld federal income taxes were remitted. Bank Statements were reviewed, but did not disclose any electronic payments made.

Failure to remit withholdings federal income taxes may result in the assessment of fines, penalties, and interest by the IRS.

We recommend the School remit taxes on a timely basis to avoid the unnecessary expenditure of public funds for fines, penalties, and interest.

Client Response:

The School remitted the payments electronically, but can't find the support.

Finding No.2009-002

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 2009 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 made no response

New City Community School
Montgomery County
Schedule of Findings & Responses
June 30, 2009

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

Finding No.2009-003

Non-Compliance Citation – Failure to provide minutes in accordance to ORC Section 121.22

Ohio Rev. Code Section 121.22 states all meetings of any public body are declared to be public meetings open to the public at all times. A member of a public body must be present at a meeting open to the public to be considered present or to vote and for determining whether a quorum is present. The minutes of regular or special meetings of any public body shall be promptly recorded and open to public inspection. The minutes need only to reflect the general subject matter of discussions in executive sessions.

Board minutes were not presented for audit for two months of the audit period.

Failing to provide all of the School's minutes could result in confusion and doubt of the actions approved and not approved by the officials at meetings held to conduct school business. The School should promptly record and make all minutes available for public inspection.

Client Response:

The School made no response

Finding No.2009-004

Noncompliance Citation – Failure to provide documentation for student listing.

Ohio Rev. Code Section 3313.64(J) states that the Treasurer of each school district shall, by the fifteenth day of January and July, furnish the superintendent of public instruction a report listing the names of each child in the permanent or legal custody of a government agency or person other than the child's parent and each child who resides in a home, who attended the district's schools during the preceding six calendar months. For each child, the report shall state the duration of attendance of that child, the school responsible for tuition on behalf of the child, and any other information that the superintendent requires. Upon receipt of this report, the superintendent shall deduct each district's tuition obligations and pay to the district of attendance that amount plus any amount requires to be paid by the state.

The School presented no documentation to support the student listing as required by Ohio Rev. Code Section 3313.64(J).

The School failing to present the adequate reports to substantiate the student listing results in being non-compliant with Ohio Rev. Code Section 3313.64(J).

The School should ensure that the required documents are prepared and filed timely and presented to the auditors and Federal and State Regulatory bodies upon request.

Client Response:

The School made no response.

New City Community School
Montgomery County
Schedule of Findings & Responses
June 30, 2009

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

Finding No.2009-005

Noncompliance Citation - Ohio Rev. Code Sections 5747.06 and 5747.07

The Ohio Revised Code Section 5747.06 requires every employer to deduct and withhold from employees' compensation, a state income tax. Ohio Revised Code Section 5747.07 requires an employer to make the payment of un-deposited taxes each quarter of the year.

No documentation was provided that indicated that the School remitted its State Income Taxes each quarter as required.

Failure to remit the state tax withholding will result in the assessment of penalties and interest against the School.

The Treasurer should submit payments on a timely basis to avoid the unnecessary expenditure of public funds for late fees.

Client Response:

The School made payments electronically, but can't locate the support.

Finding No.2009-006

Noncompliance Citation/Material Weakness – Failure to maintain adequate supporting documentation of capital assets ,intergovernmental payables, long term debt, non-payroll expenses, payroll expenses, and federal grant receipts and expenditures.

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.

In 2009, the School failed to provide the following documentation, resulting in an inability to properly audit these areas:

- Capital Assets
- Intergovernmental payables
- Long Term Debt
- Non-payroll expenses
- Payroll Expenses

In addition, \$89,541 or 33% of Federal Revenue could not be traced to the accounting system and/or supporting documentation. Funds were co-mingled and federal disbursements could not be traced to specific programs. In addition, inadequate supporting documentation was provided for capital assets, long term debt, intergovernmental payables, non-payroll expenses, payroll expenses, and could not be adequately tested.

New City Community School
Montgomery County
Schedule of Findings & Responses
June 30, 2009

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

Finding No.2009-006(Cont'd)

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 and employees. 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 are properly issued and approved prior to contracting or acquiring goods and services as required by the School's purchasing policy.

The School should also take steps to insure that all transactions and journal entries have adequate supporting documentation. As well, 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 made no response.

Finding No.2009-007

Significant Internal Control Deficiency – Failure to obtain and maintain employee contracts

No employee contracts were provided for testing purpose.

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 made no response

Finding No.2009-008

Significant Internal Control Deficiency – Excessive Overdraft Charges

The School disbursed numerous charges 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 made no response

**New City Community School
Montgomery County**
*Schedule of Findings & Responses
June 30, 2009*

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

Finding No. 2009-009

Significant Deficiency – Reconciliation between School ledgers and Submitted Financial Statements to the Ohio State Auditor’s Office

It was noted during testing, that the school’s accounting ledgers did not agree to the financial reports submitted to the Auditor of State at year end.

Reconciliation of all accounts between the financial reports and school ledgers, should take place on a consistent basis throughout the year and at year end, to assure that all accounts are updated and agree. Failure to reconcile could result in the financial statements being materially misstated.

We recommend that procedures be implemented to determine that the school ledgers and financial reports are reconciled on a consistent basis to assure proper presentation of the activities of the School.

Client Response:

The School made no response

Finding No. 2009-010

Significant Deficiency – Related Party Agreements without Board approval

During the audit period, the School reimbursed to a board member, the full amount of interest due on a personal line of credit. This was a result of a verbal loan agreement between the Treasurer and the Board member, in which the school pays all interest due on the personal line of credit, for the interest due to the board member. The interest due on the personal line of credit is not the same rate, or on the same amount outstanding as the school, causing excessive or underpaid amounts according to the amount outstanding and current interest rates. This agreement was not presented or approved by the Board. No written contract or support was provided to the auditor’s of this agreement.

Related party agreements should be written to clearly define the terms and amounts of loan agreements to prevent mishandling of funds, fraud, or other unethical or illegal acts. As well, these agreements should be approved and closely monitored by the Board for fraudulent or unethical arrangements.

Client Response:

The School made no response

New City Community School
Montgomery County
Schedule of Findings & Responses
June 30, 2009

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

Finding No.2009-011

Significant Internal Control Deficiency – Segregation of Duties

In an entity the size of the School, it is usually 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 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 School made no response.

Finding No.2009-012

Significant Internal Control Deficiency – Going Concern

During the audit period, the school failed to make timely payments to vendors, Federal Taxing Agencies, and State Taxing Agencies. Also, the School paid excessive overdraft charges, and maintained a negative fund balance periodically throughout the year.

These actions indicate that the school is in distress and going concern may be doubtful. By these actions the school risks late charges, penalties and possible litigation issues.

We recommend that the school make timely payments, restructure debt properly, and create an effective plan to strengthen the ability of the school to operate.

Client Response:

The School made no response.

New City Community School
Montgomery County
Schedule of Findings & Responses
June 30, 2009

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

Finding No.2009-013

Significant Internal Control Deficiency – Confirmable Revenue

All revenue should be posted in accordance with the Auditor of State account codes and properly reflect the correct amount of revenue.

During 2009, there were numerous errors in the posting of intergovernmental revenue, including federal program receipts, that were improperly coded, including improper account coding, and entries that were not received or earned.

Failure to accurately post receipts to the correct funds could result in a material misstatement of the financial statements.

The School should implement procedures to ensure that all receipts are posted to the correct fund and maintain supporting documentation on all entries according to the amounts on the settlement sheets.

Client Response:

The School made no response.

Finding No.2009-014

Noncompliance/Material Weakness – Failure to maintain capital asset records

Capital assets were not properly recorded in the School's financial system and, therefore, were not accounted for correctly on the School's financial statements. As well, the asset records maintained by the school did not agree to the accounting system. The asset records did not contain voucher numbers, location or tag number. Additionally, depreciation expenses were not recorded per School policy.

Ohio Admin. Code Section 117-2-02(D)(4)(c) states, that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

Capital asset records including such information as the original cost, acquisition date, voucher number, the asset type, (land, building, vehicle, etc.), asset description, location, and tag number.

Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

Without the proper classification and recording of assets and depreciation expense, the School's financial statements may be misstated.

The School should review all equipment purchases, equipment lease agreements, and substantial improvements to the physical building to determine the proper classification. Properly accounting for, and reporting on, capital assets provides accountability as well as information for making key decisions related to asset maintenance and replacement.

**New City Community School
Montgomery County**
*Schedule of Findings & Responses
June 30, 2009*

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

Finding No.2009-014(Cont'd)

Depreciation expense should be recorded on the financial statements, based on the useful life of the asset.

Client Response:

The School made no response.

Finding No.2009-015

Material Weakness – Failure to adequately document Federal Expenditures

OMB Circular A-87, Attachment A, Section 8(h)(3), states, in part, to be allowable under Federal awards, costs must be adequately documented. In addition, the School did not maintain effective internal control over compliance with cash management and period of availability requirements.

During our sampling of Federal Revenues and Expenditures, we noted that \$14,230 of disbursements under the Federal Awards did not have supporting documentation, such as invoice from the vendor or purchase requisitions.

Without documentation supporting expenditures, such as vendor invoice, or documentation of advance approval of the expenditure, the risk is greatly increased that expenditures could be inappropriately charged to a federal grant program.

We recommend that the School's management implement policies and procedures to ensure that the School's accounting expenditures are properly supported. Also, the School should assign a supervisory official having the requisite knowledge of grant requirements to monitor and approve grant expenditures to assure compliance with grant requirements.

Client Response:

The School made no response.

New City Community School
Montgomery County
Schedule of Findings & Responses
June 30, 2009

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

Finding No.2009-016

Non-Compliance/Material Weakness – Failure to properly administer Federal Funds

2 C.F.R. Part 225 (formally known as OMB Circular A-87), Appendix A, Section A(2)(a)(2) states that governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

OMB Circular No. A-133, Section .300 states that the Auditee shall:

- a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with OMB Circular A-133, Section .310.

For 2009, the following deficiency of Federal awards was noted:

- The School co-mingled Federal Disbursements with General Disbursements.

Also, we were unable to determine if the School limited cash requests to the actual amounts needed, or if the School reported the total award expenditure amounts on a cash basis because the School did not maintain a running balance of the funds available. The School did not segregate the federal funds on their financial records, thus the federal funds were commingled.

We recommend that the School segregate their federal funds on their financial records by utilizing the Uniform School Accounting System. We also recommend providing and maintaining adequate supporting documentation in support of all federal expenditures and comply with all requirements of the grant agreements. Finally, we recommend that the School establish and maintain effective internal controls over Federal programs.

Client Response:

The School made no response.

New City Community School
Montgomery County
Schedule of Findings & Responses
June 30, 2009

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

Finding No.2009-017

Non-Compliance/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 made no response.

**New City Community School
Montgomery County**
*Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 3009*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-001	ORC Section – 117.38	No	Repeated as Finding 2009-002
2008-002	ORC Section – 121.22	No	Repeated as Finding 2009-003
2008-003	Segregation of Duties	No	Repeated as Finding 2009-011
2008-004	Failure to Obtain and Maintain Employee Contracts	No	Repeated as Finding 2009-007
2008-005	Payroll Records	No	Repeated as Finding 2009-017



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Kentucky Society of Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Education
New City Community School
1516 Salem Avenue
Dayton, Ohio 45406

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

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

1. We noted the Board adopted an anti-harassment policy at its meeting on September 15, 2009.
2. We read the policy, noting it included the following requirements from Ohio Revised Code Section 3313.666(B):
 - 1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
 - 2) A definition of harassment, intimidation, or bullying that shall include the definition in division (A) of Ohio Revised Code Section 3313.666;
 - 3) A procedure for reporting prohibited incidents;
 - 4) A requirement that the school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
 - 5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
 - 6) A procedure for documenting any prohibited incident that is reported;
 - 7) A procedure for responding to and investigating any reported incident;
 - 8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;



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New City Community School
Montgomery County
Independent Accountant's Report on Applying Agreed Upon Procedures

- 9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student's rights under the first amendment of the Constitution of the United States;
- 10) A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

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

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

Caudill & Associates, CPAs

Caudill & Associates, CPA's
March 31, 2010



Mary Taylor, CPA
Auditor of State

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
MAY 31, 2012**