NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2004

Auditor of State
Betty Montgomery

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Governance:

We have audited the accompanying basic financial statements of the New Choices Community School, Montgomery County, (the School), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the School, as of June 30, 2004, 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.

As described in Note 3, during the year ended June 30, 2004, the School implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2005, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery
Auditor of State

November 14, 2005

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

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

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for fiscal year 2004 are as follows:

- Total net assets increased $379,158 during fiscal year 2004, which represents an 87% increase from fiscal year 2003. This increase is primarily due to the increase in operating revenues.

- Total assets increased $107,455, which represents a 36% increase from the prior year. The increase is primarily due to increase in cash held by the School.

- The operating income reported for fiscal year 2004 in the amount of $146,835 was $853,127 more than the operating loss of ($706,292) reported for fiscal year 2003 or a 121% increase in operating revenue.

Using this Financial Report

This financial report contains the basic financial statements of the School, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets/accumulated deficit, and a statement of cash flows. As the School reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the fiscal year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid. This statement reports the School's net assets, however, in evaluating the overall position and financial viability of the School, non-financial information such as the condition of the School building and potential changes in the laws governing charter schools in the State of Ohio will also need to be evaluated.

Table 1 provides a summary of the School's net assets for fiscal year 2004 compared with fiscal year 2003.

Table 1
Net Assets

	2004	2003
Assets:		
Cash	$218,081	$54,267
Intergovernmental Receivables	129,268	165,046
Capital assets, net	55,863	76,444
Total Assets	403,212	295,757
Liabilities:		
Accounts Payable	369,957	686,869
Intergovernmental Payable	69,725	28,253
Accrued Wages and Benefits	17,055	0
Compensated Absences	1,682	15,000
Total Liabilities	458,419	730,122
Net Capital Assets:		
Investment in Capital Assets	55,863	0
Unrestricted/(Accumulated Deficit)	(111,070)	(434,365)
Total Net Capital Assets	($55,207)	($434,365)

Total net capital assets of the School increased by $379,158, or 87%. The increase in total net assets from fiscal year 2003 resulted from an increase in funding amounts from the State of Ohio (which is based on student enrollment), as well as management's efforts to ensure that all resources were properly recorded.

As noted in Table 1 above, total assets of the School increased by $107,455 at June 30, 2004. Increases in intergovernmental grants, private grants receivable and cash maintained on hand are the reasons for this increase.

Total liabilities of the School decreased over those reported in June 30, 2003. In the prior year Eastway Corporation, Inc. managed operations for the School. During December 2003, the School reverted to managing its own operations. The fiscal year 2003 financial audit reported accounts payable in the amount of $686,869 which was due to Eastway Corporation. The July 1, 2003 beginning balance was adjusted to $498,259, during the 2004 fiscal year audit. At June 30, 2004, this liability was reduced to $345,051, a net decrease of $153,208 or 31% (See Note 6).

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, as well as revenue and expense comparisons to fiscal year 2003.

Table 2
Changes in Net Assets

	2004	2003
Operating revenues:		
Foundation payments	$948,413	$411,991
Disadvantaged Pupil Impact Aid	16,876	0
Special Education Weighted Funding	11,420	0
Non-operating revenues:		
State and federal grants	210,360	190,454
Miscellaneous revenues	21,963	27,270
Total revenues	1,209,032	629,715
Operating Expenses:		
Salaries	339,631	453,411
Fringe Benefits	96,056	141,601
Purchased Services	299,762	304,182
Materials and Supplies	5,157	22,115
Depreciation	20,581	20,292
Capital Outlay	0	144,633
Other Expenses	68,687	32,049
Total Expenses	829,874	1,118,283
Change in Net Assets	379,158	(488,568)
Net Assets, beginning of year	(434,365)	54,203
Net Assets, end of year	($55,207)	($434,365)

The increase in revenue totaled $579,317 or 92%. The increase in State foundation payments noted for fiscal year 2004 is the result of an increase in the number of students enrolled in the School, as well as increases in the per pupil funding amount for fiscal year 2004.

Additionally, total operating expenses for FY 04 decreased by $288,409. This decrease is primarily due to a decrease in expenditures for capital outlays of $144,633 between years.

Capital Assets

At June 30, 2004 the capital assets of the School consisted of $101,458 of furniture and equipment, offset by $45,595 in accumulated depreciation, resulting in net capital assets of $55,863. There were no current period purchases of fixed asset additions in FY 04. See Note 7 to the basic financial statements for more detailed information on the School's capital assets.

Debt

The School entered into a contract on July 1, 2002, with Eastway Corporation for management services. Under this contract, Eastway is required to provide core management services to include accounting and reporting, financial, payroll, budgeting, quality assurance, program evaluation, information systems management, clinical information system management recruitment and hiring, personnel management, employee relations and employee benefits management. Terms of this contract provides for the receipt of a management fee equal to 10% of the School's total expenses. Amounts due Eastway for expenditures paid on behalf of the School under this contract are shown as accounts payable on the statement of net assets.

During December 2003, the School terminated its contract with Eastway and reverted to the management of its own operations.

At June 30, 2004, the School had debt to Eastway Corporation, Inc. in the amount of $345,051 for services provided for fiscal years 2003 and 2004. See Note 6 of the notes to the basic financial statements for more detailed information on the School's liability under this contract at June 30, 2004.

Contacting the School

This financial report is designed to provide a general overview of the finances of New Choices Community School and to show the School's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to:

New Choices Community School
Attn: Treasurer
601 S. Keowee Street
Dayton, Ohio 45410
(937) 224-8201

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2004

Assets	
Cash	$218,081
Intergovernmental Receivables	129,268
Total Current Assets	347,349
Non-Current Assets	
Capital assets, (Net of Accumulated Depreciation)	55,863
Total Assets	403,212
Liabilities	
Accounts Payable	369,957
Intergovernmental Payable	69,725
Accrued Wages and Benefits	17,055
Compensated Absences	1,682
Total Liabilities	458,419
Net Assets	
Investment in Capital Assets	55,863
Unrestricted	(111,070)
Total Net Assets	($55,207)

The accompanying notes are an integral part of the financial statements.

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS/ACCUMULATED DEFICIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Operating Revenues	
Foundation Revenue	$948,413
Disadvantaged Public Impact Aid	16,876
Special Education Weighted Funding	11,420
Total Operating Revenues	976,709
Operating Expenses	
Salaries	339,631
Fringe Benefits	96,056
Purchased Services	299,762
Materials and Supplies	5,157
Depreciation	20,581
Other Operating Expenses	68,687
Total Operating Expenses	829,874
Operating Income	146,835
Non-Operating Revenues	
Federal Grants	202,956
State Grants	7,404
Other Revenue	21,963
Total Non-Operating Revenues	232,323
Change in Net Assets	379,158
Net Assets/Accumulated Deficit Beginning of Year	(434,365)
Net Assets/Accumulated Deficit End of Year	($55,207)

The accompanying notes are an integral part of the financial statements.

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Decrease in Cash and Cash Equivalents	
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from State of Ohio	$945,117
Cash Payments to Employees for Services and Benefits	(247,916)
Cash Payments to Suppliers for Goods and Services	(250,184)
Cash Payments to Eastway Corporation	(475,034)
Net Cash (Used for) Operating Activities	(28,017)
Cash Flows from Noncapital Financing Activities	
Federal and State Grants	191,831
Net Increase in Cash and Cash Equivalents	163,814
Cash and Cash Equivalents, Beginning of Year	54,267
Cash and Cash Equivalents, End of Year	218,081
Reconciliation of Operating Income to Net Cash (Used for) Operating Activities	
Operating Income	146,835
Adjustments to Reconcile Operating Loss	
to Net Cash (Used for) Operating Activities:	
Depreciation	20,581
Changes in assets and liabilities:	
(Increase) in Intergovernmental Receivable	(87,433)
(Decrease) in Accounts Payable	(153,209)
Increase in Accrued Wages & Benefits Payable	17,055
(Decrease) in Compensated Absences Payable	(13,318)
Increase in Intergovernmental Payable	41,472
Total Adjustments	(174,852)
Net Cash (Used for) Operating Activities	($28,017)

The accompanying notes are an integral part of the financial statements.

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1. DESCRIPTION OF THE ENTITY

New Choices Community School (the School) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702 to maintain and provide a school that promotes excellence in education, character development, and mental health wellness for at-risk youth in Montgomery County Ohio. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and 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. The School qualified as an exempt organization under Section 501(c) (3) of the Internal Revenue Code.

The School was approved for operation under contract with the Ohio State Board of Education (the Sponsor) for a period of five years commencing July 30, 2001. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of an eight-member Board of Directors. The Board is responsible for carrying out the provisions of the contract that include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Directors controls the School's one instructional/support facility staffed by 4 non-certified and 8 certificated teaching personnel who provide services to approximately 129 students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the New Choices Community 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 more significant of the School's accounting policies are described below:

A. Basis of Presentation – Enterprise Accounting

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. With this measurement focus, all assets and all liabilities are included in the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Community Schools must adopt a spending plan under Ohio Rev. Code Section 5705.391 that requires annual appropriations and annual revenue estimates. The contract between the School and its Sponsor does not prescribe an annual budget requirement.

D. Cash and Cash Equivalents

All cash received by the School is maintained in demand deposit accounts.

E. Estimates

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

F. Capital Assets and Depreciation

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School maintains a capitalization threshold of five hundred dollars. The School does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Depreciation of furniture and equipment is computed using the straight-line method over an estimated useful life of five years.

G. Intergovernmental Revenues

The School currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid Program, and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

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

The School also participates in the Federal Charter School Grant Program through the Ohio Department of Education. Under this program, the School was awarded $105,000 in Phase III to offset start-up cost of the School.

H. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly by the primary mission of the School. For the School, operating revenues include foundation payments, disadvantaged pupil impact aid, and special education weighted funding received from the State of Ohio. Operating expenses are necessary costs incurred to support the School's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the School's primary mission. Various state, federal and private grants comprise the non-operating revenues and expenses of the School.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities Payable

The School has recognized certain liabilities on its statement of net assets relating to expenses, which are due but unpaid as of June 30, 2004, including:

1. **Intergovernmental payable** – The liability for this item at June 30, 2004, totaled $69,725. This amount includes an amount due the Auditor of State of $2,183 for audit services. In addition, subsequent to year-end, the Ohio Department of Education determined the School was overpaid during fiscal year 2004 through the Foundation program. Therefore, a $23,545 liability was recognized as of June 30, 2004 representing this overpayment, which will be deducted from the School's fiscal year 2005 payments under the Foundation program. The remaining $43,997 represents payroll related taxes and other liabilities withheld from employees that have not been remitted as of June 30, 2004.

2. **Compensated Absences** – The School records a liability for accumulated unused paid leave time when earned for all employees. This amount totaled $1,682 at June 30, 2004.

3. **Accrued Wages and Benefits** – Amounts representing payroll and related benefits earned but unpaid at June 30, 2004 totaled $17,055.

J. Federal tax exemption status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes (a tax-exempt organization) under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the School's tax-exempt status.

K. Exchange and Non Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non exchange transactions, in which the School receives value without directly giving equal value in return, include grants and entitlements. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

3. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

GASB 34 creates new basic financial statements for reporting on the School financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user's ability to interpret the information within the statements.

4. DEPOSITS

The following information classifies deposits by category or risk as defined in GASB Statement No.3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

At June 30, 2004, the carrying amount of the School's deposits was $218,081, and the bank balance was $220,007. Of the bank balance, $120,007 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized. Non-compliance with federal requirements could potentially subject the School to a successful claim by the Federal Deposit Insurance Corporation.

5. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2004 consisted of amounts due from the Ohio Department of Education for federal grant pass-through and child nutrition credits. These amounts totaled $116,332. In addition to this amount, a receivable in the amount of $12,936 has been recognized for services performed under a grant from Sinclair Community College.

6. ACCOUNTS PAYABLE

The School entered into a contract on July 1, 2002 with Eastway Corporation for management services. Under this contract, Eastway is required to provide core management services to include accounting and reporting, financial, payroll, budgeting, quality assurance, program evaluation, information systems management, clinical information system management recruitment and hiring, personnel management, employee relations and employee benefits management. Terms of this contract provides for the receipt of a management fee equal to 10% of the School's total expenses. Amounts due Eastway for expenditures paid on behalf of the School under this contract are shown as accounts payable on the statement of net assets. A summary of the activity for fiscal year ended June 30, 2004 are as follows:

	Balance 7/1/03 (Restated)	Increase	Decrease	Balance 6/30/04
Accounts Payable (Eastway Corp.)	$498,259	$321,827	$475,035	$345,051

At June 30, 2003, the balance of the payable to Eastway Corporation was $686,869. The inability to obtain supporting documentation for this amount resulted in a qualified opinion for fiscal year 2003. The beginning balance was adjusted during fiscal year 2004 to reflect those amounts that were supported by documentation.

Based on an agreement dated January 12, 2005, the outstanding amount due Eastway at June 30, 2004 was subsequently settled for $434,365 (See Note 15).

In addition to the amount due Eastway Corporation of $345,051, the accounts payable amount shown on the statement of net assets at June 30, 2004 also includes $24,906 due to other vendors.

7. CAPITAL ASSETS

A summary of the School's net capital assets at June 30, 2004, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and Equipment	$ 101,458	$ -	$ -	$ 101,458
Less: Accumulated Depreciation	(25,014)	(20,581)	-	(45,595)
Net Capital Assets	$ 76,444	$ (20,581)	$ -	$ 55,863

8. RISK MANAGEMENT

A. Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Professional liability is provided by Specialty National Insurance Company with a $1,000,000 single occurrence limit and $3,000,000 aggregate and no deductible. Vehicles are covered by Cincinnati Insurance Company and hold a $100 deductible for comprehensive and a $250 deductible for collision. Automobile liability has a $1,000,000 combined single limit of liability.

B. Workers' Compensation

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

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 State Statute, 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 l00, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School is required to contribute at an actuarially determined rate. The current School rate is 14% 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 2004, 9.09% 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 contributions for pension obligations to SERS for the fiscal years ended June 30, 2004 and 2003 were $9,263 and $7,965, respectively.

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary, multiplied by 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% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one-time, irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years of 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 fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The School was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5%. 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 contributions for pension obligations for the fiscal years ended June 30, 2004 and 2003 were $38,699 and $60,118, respectively.

10. POST-EMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides comprehensive healthcare benefits to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the Ohio Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. The R.C. grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses, and dependents. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, which is currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1.0% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was $3.1 billion on June 30, 2004. For the School, this amount equaled $2,977 during the 2004 fiscal year.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were $268,739,000. There were 111,853 eligible benefit recipients.

For SERS, the Ohio Revised Code gives the discretionary authority to provide post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit and 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% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, the allocation rate is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at $24,500. For the School, the amount to fund health care benefits, including the surcharge, was $5,003 for fiscal year 2004.

The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2004, were $222,443,805 and the target level was $335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits of $300.8 million. The number of benefit recipients currently receiving heath care benefits is approximately 62,000.

11. STATE SCHOOL FUNDING DECISION

A. Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. Such disallowed claims would have a material adverse effect on the overall financial position of the School at June 30, 2004.

11. STATE SCHOOL FUNDING DECISION (Continued)

B. State Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The conclusion of this review has resulted in state funding being adjusted for fiscal year 2004. The adjustment to state funding for the School is a reduction in the amount of $23,545 for fiscal year 2004. This amount is included in the financial statements as an intergovernmental payable.

C. Litigation

A suit was filed in Franklin County Common Pleas Court on May 14, 2001 alleging Ohio's Community (i.e., Charter) school's program violates the state Constitution and state laws. On April 21, 2003, the court dismissed the counts containing constitutional claims and stayed the other counts 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. No oral argument has been set to date. The effect of this suit, if any on New Choices Community School is not presently determinable.

D. State Contract

The School received approximately 100% of its operating income from the State of Ohio. Accordingly, the risk exists that the ability to continue the contract with the state of Ohio could affect the financial status of the School.

E. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed"…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…". The School is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

12. MANAGEMENT SERVICES CONTRACT

The School entered into a one-year contract with Eastway Corporation for management services on July 1, 2002. Under the contract, Eastway was required to provide core management services including accounting and reporting, financial, payroll, budgeting, quality assurance, program evaluation, information systems management, clinical information system management, recruitment and hiring, personnel management, employee relations and employee benefit management. Eastway receives a management fee equal to 10% of the School's total expenses for these services. This agreement continued until December 31, 2003, in which time New Choices took over the management oversight responsibility of the School. On November 25, 2003, the School's Board passed a resolution approving the "Continued Security Agreement" between New Choices Community School and Eastway Corporation. For the year ended June 30, 2004, the School expensed $34,595 under this contract.

12. MANAGEMENT SERVICES CONTRACT (Continued)

Additionally, Eastway Corporation contracted with itself to provide lawn care and janitorial services for the School. The total amount expensed for these items for the year ended June 30, 2004 totaled $5,285.

13. PURCHASED SERVICES

For the period ended June 30, 2004, purchased services expenses were payments for services rendered by various vendors as follows:

Contract Services	$ 117,193
Occupancy Costs	48,985
Educational Supplies	6,550
Advertising	26,133
Building Maintenance	52,230
Other	48,671
	$ 299,762

14. OPERATING LEASES

The School leases its facilities from the Dayton Boys and Girls Club under an initial lease agreement beginning September 23, 2002 and ending June 30, 2005. The monthly lease payments during fiscal year 2003 were $2,000. Total rental payments for fiscal year 2003 were $20,000 with an additional $2,000 security deposit required. Rent payments in fiscal year 2004 increased to $2,916. Total payments for rent in fiscal year 2004 totaled $24,881.

15. SUBSEQUENT EVENTS

A. Purchase of the Boys and Girls Club

The School is in the process of negotiating for the purchase of the Boys and Girls Club, which it is currently leasing. The School officials are working with Fifth Third Bank to obtain a 25-year loan for this purchase.

The School has expanded to offering a ninth (9^{th}) grade class. It is anticipated that this change will occur in FY 05. This change will provide additional revenues for the School.

Included in the accounts payable balance of $369,957 at June 30, 2004 is a payable to Eastway Corporation in the amount of $345,051. By agreement dated January 12, 2005, between Eastway Corporation and New Choices Community School (School) a settlement was reached for the liquidation of this debt. This agreement contained provisions for a payment of $50,000 by the School and the execution of a promissory note in the amount of $384,365 for a total of $435,365 as settlement of this debt. Terms of the promissory note provide for eighteen monthly installments of $21,353.61, commencing on January 31, 2005 and continuing until June 30, 2006 when the last monthly installment payment shall be due and payable. This note shall be unsecured and interest-free.

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

B. New Sponsor

For fiscal year 2005, the School obtained Saint Aloysius of Cincinnati as a sponsor.

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Auditor of State
Betty Montgomery

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

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

To the Board of Governance:

We have audited the financial statements of the business-type activities of the New Choices Community School (the School) as of and for the year ended June 30, 2004, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-003 and 2004-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the School's management dated November 14, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2004-001 through 2004-002. In a separate letter to the School's management dated November 14, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

Betty Montgomery

Betty Montgomery
Auditor of State

November 14, 2005

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

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

FINDING NUMBER 2004-001

Ohio Rev. Code Section 149.43 states in pertinent part that "all public records shall be promptly prepared and made available to any member of the general public at all reasonable times during regular business hours for inspection." "Record" for purposes of the public records law, means any jurisdiction of any public office which serves to document the organization, functions, policies, decisions, procedures, operations, or other activities of the public office.

The School failed to maintain underlying support documentation for expenditures of public funds. We identified $84,971 or 19.8% of 2004 nonpayroll expenditures that lacked underlying support documentation. Further, revenue source documentation for foundation revenue totaling $4,404 could not be located. The School also failed to maintain underlying support documentation for payroll remittances, time cards for hourly employees, and time cards for employees who worked overtime. Lack of retaining adequate supporting documents could result in payment of unauthorized expenditures or overpayments.

The School should adopt policies and procedures for retention of proper supporting documents for all expenditures of public monies. This will help to provide that only authorized obligations are paid, and lessen the likelihood of overpayments to employees and vendors.

FINDING NUMBER 2004-002

Internal Revenue Code Chapter 26 [26 U.S.C.] – Collection of Income Tax at Source on Wages; 26 U.S.C. 3401 through 3406 also (26 C.F.R.) 1.6041-2 and ORC 5747.06 indicate that the employees' wages of the School, should be reported under an Employer Identification Number (EIN) assigned to New Choices Community School, in accordance with the Collection of Ohio Income Tax at source.

The School did not file IRS forms 941 Quarterly Payroll Tax Form and form W-2 for calendar year 2003. Wages of the employees of the School were reported as Eastway Corporation's wages and not the School's. The School did not report wages to federal agencies or the State of Ohio under the entity name and identification number of New Choices Community School. The School's employees' 2003 W-2 forms had the entity identification number and employer's information in boxes (b) and (c) of Eastway Corporation.

New Choices Community School should file all applicable federal and state forms for wages earned for the period correctly identifying wages earned as the School's expenditures under a separate EIN. This will help to provide compliance with applicable federal and state laws and requirements, and help reduce the possibility of additional expenditures to the school for fines imposed for improper tax filings.

FINDING NUMBER 2004-003

Internal Control Procedures

Auditor of State Bulletin 2000-005 states the management of each community school is responsible for the design and implementation of an internal control process that provides reasonable assurance of the integrity of its financial reporting, the safeguarding of its assets, the efficiency of effectiveness of its operation, and its compliance with applicable laws, regulations, and contracts.

FINDING NUMBER 2004-003
(Continued)

In designing its internal control process, management should consider policies and procedures that provide for the following:

- Appropriate authorization and approval of transactions;
- Adequately design records to facilitate classification and summarization of transactions;
- Security of assets and records;
- Segregation of incompatible duties;
- Periodic reconciliations of account balances;
- Periodic verification of assets.

The School did not have adequate controls over cash reconciliations, record retention of accounts payable, and cash disbursements. The School should design and implement control procedures based on the abovementioned auditor of state bulletin.

FINDING NUMBER 2004-004

Capital Assets Policy

The Community School has not developed and implemented a Board approved capital asset policy to address asset capitalization issues, and procedures to account for additions and deletions of capital assets throughout the year. In addition, the School did not have a capital asset accounting system which maintains a total capital asset listing and other supplemental information for the School's asset inventory, nor did the School perform periodic physical inventories of the capital assets. Failure to obtain timely records or employ adequate controls over the acquisition and disposal of capital assets could result in misappropriation of assets and misstatements of recorded assets.

To assist the School in maintaining adequate controls over their capital assets, and reduce the risk that the School's capital assets will be materially misstated, the Board of Directors should develop and implement appropriate capital asset policies and procedures to be performed throughout the year for the timely maintenance of capital asset records. At a minimum, these policies and procedures should address capitalization issues and establishing a capitalization threshold; tagging and recording of purchased assets meeting the School's established capitalization threshold; accounting for asset additions and deletions; performance of an annual physical inventory of capital assets and reconciliation to asset records; computing of periodic depreciation; and asset disposal procedures. Capital asset records should include such information as a description of the item, the cost, the acquisition date, location, tag number, and any other supporting information. Reasonable estimated lives for assets should also be developed and used in the periodic depreciation of assets.

The School should also develop and maintain a capital asset accounting system which accurately represents all capital assets owned by the School. The system should be capable of maintaining a complete asset inventory indicating asset tag number; location; date acquired, cost, manufacture, model and serial number, and useful life.

Implementation of a comprehensive capital asset policy and procedure will allow the Board to use accurate information in decision making procedures, including replacement of items, and give an accurate accounting for annual depreciation and maintenance expenses. Further, accurate records will increase the School's ability to secure recovery in the event of the loss of assets.

NEW CHOICES COMMUNITY SCHOOL
MONTGOMERY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2003-001	OAC Sec. 117-6-01 (B) - School failed to employ USAS for recording of revenues and expenditures.	No	Repeated in Management Letter
2003-002	ORC Sec. 149.43 - School failed to maintain support documentation for 21% of expenditures tested.	No	Repeat as Finding 2004-001
2003-003	IRS Code Chapter 26, USC 3401 through 3406 and ORC 5747.06 - Failure to file IRS forms 941 and W-2 under assigned EIN.	No	Repeat as Finding 2004-002
2003-004	ORC Sec. 117.38 - Failure to file GAAP report for FY 2003.	Yes	
2003-005	AOS Bulletin 2000-005 – School failed to implement controls over cash reconciliation, recording financial transactions, documentation of cash disbursement, and record retention.	No	Repeat as Finding 2004-003
2003-006	School failed to prepare monthly bank-to-book reconciliations.	No	Repeated in Management Letter
2003-007	School overpayment of employees.	No	Repeated in Management Letter
2003-008	School failed to develop and maintain a fixed asset accounting system.	No	Repeat as Finding 2004-005
2003-009	School failed to establish GAAP policies and procedures.	No	Repeated in Management Letter

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NEW CHOICES COMMUNITY SCHOOL

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 27, 2005